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My business is my super - think again

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For many business operators, being in business provides the opportunity to be "in control of my own destiny" and "provide for me in retirement".

We are sure you have heard it all before, but what happens when the business does not live up to expectations or market changes have a negative impact on the business value?

Other problems for operators include the inability to attract buyers – especially at the expected price.

So how can a business owner prepare for their exit and get the most out of it when they are ready to move on?

There is always going to be many reasons why a business has a particular value, but it is important as an owner/operator to identify in advance how you can maximise its value.

Planning for the Sale or Handover

With any well operated business, planning for your exit must be key part of your strategic outlook.

How you position the business for a sale, handover or closure, will have an impact on your financial return.

We suggest adopting the following steps as part of your strategic review.

1. Develop business and strategic plans – it doesn't matter how simple or complex these are, having them is a huge positive step.
2. Identify the likely timeframe before you want to exit (even if not to retire but simply a change in 'work' life)
3. Determine what your industry is doing in terms of growth or contraction and new developments that create opportunities for diversification.
4. Review the skillset of all people (including yourself) within the business and identify possible future leaders or owners. Confirm with family members as top what their intentions are.
5. Develop good communication with your key personnel and encourage their input to managing the business – either formally or informally.
6. Invest in people training, equipment and technology where appropriate to ensure your business is not being left behind your competitors.
7. Get professional advice on the performance of your business – this reality check on its value (based primarily on its performance) will tell you how close you are to both your needs and expectations.
8. Evaluate your personal needs and capital requirements from the sale of business and compare this to the professional advice received on this business value.

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Executing the Succession Plan

Having taken all the appropriate steps to identify how best you can exit your business, there is going to be three likely outcomes;

1. You exit under agreed terms to your successor who comes from within the business,
2. You sell to a new owner not within the business,
3. You sell separately the business assets and close the business.

The terms of your sale in options 1 and 2 will be based primarily on the strength of the trading results and specific value of the assets being sold with the business – often referred to as the sale of a "going concern".

Some advantages of selling to a person from within the business include;

- They will know the business, its people (internal and external), policies and procedures.
- You may have negotiated terms that represent best value to both the vendor and purchaser.
- The sale occurs at a mutually agreed time given the "inclusion process" that has been adopted.

Conversely, a sale to an external party can create both benefits and challenges;

- Sourcing potential buyers can be difficult and time consuming and may require a marketing plan.
- Valuing the business and attracting buyers, requires time and probably the cost of engaging consultants.
- Negotiating the sale terms can be difficult where the purchasers view on value is very different to the vendor expectations. This is often due to the higher risk perception of the purchaser as they may not know the business as well as the vendor.

In reality there is not always a potential owner in the business waiting to take it over and so most businesses will initially look to sell to the open market. Your decision to involve your own personnel in this process should be thought through very carefully as this could have a negative outcome as word spreads of a potential sale. Consider the use of confidentiality agreements to restrict discussion on the matter to you and those you have interacted with.

The third option of closing up the business and selling the individual assets such as plant, equipment, stock etc. is usually done when there has been no interest in the sale as a going concern and either the cost of continuing is too great or the vendor simply cannot continue.

As the third option is likely to give the vendor the least financial return, it is best to consider this a measure of last resort.

Summary

If you are a business owner who believes they have a business that will fund their future (retirement) then take the time to check that this is actually achievable by;

- Developing a succession plan as part of your strategic outlook,
- Engage your people and analyse your business needs, then implement strategies to improve these, as it will increase business value,
- Determine your exit timeframe and have your business performance assessed,
- If appropriate, identify potential (and suitable) owners of the business – internal or external,
- Continue working with the potential owners to put in place a mutually acceptable sale process.

We would be pleased to help you work through the process of evaluating your business for sale.