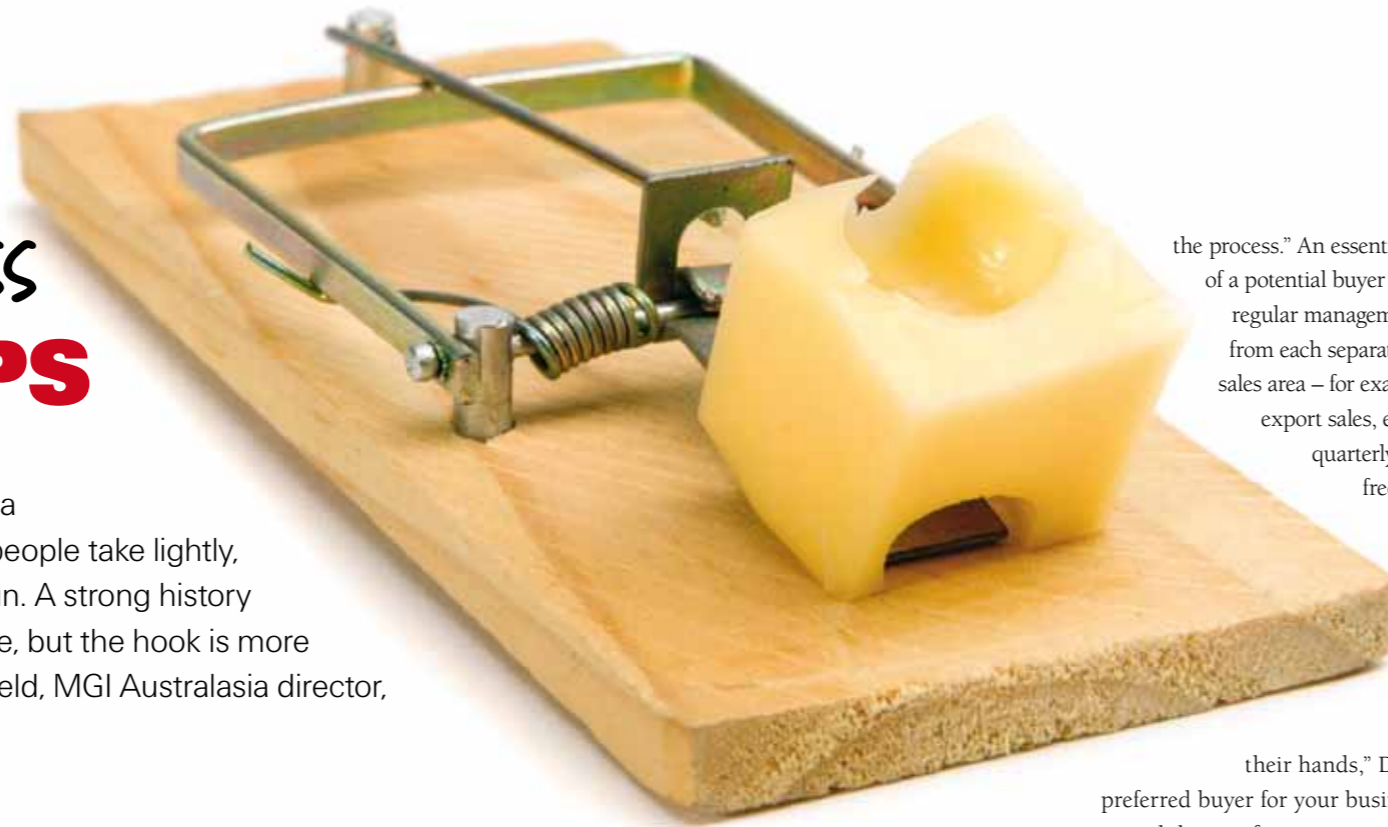


WORDS DES CAULFIELD

selling your business TIPS AND TRAPS



Preparation is everything when it comes time to sell a business. The decision to sell is not something that people take lightly, but once that choice is made the work has just begun. A strong history might attract buyers and even enhance the sale price, but the hook is more likely to be predictions of a healthy future. Des Caulfield, MGI Australasia director, offers his experience and advice.

Making the decision to sell your business is perhaps the easiest part of the whole process. For most people selling the business represents a one-off opportunity to reap the rewards for a lifetime of effort. Des Caulfield, MGI Australasia director, points out you only have one chance to get it right.

“You will greatly enhance the value of your business if you plan the sale in the longer term so that you have your business in shape for the potential buyer,” Des said.

Buyers are interested in past returns, but that alone is just history. The future profits that can be derived will attract buyers. Of course, a lengthy history of good profits, consistent growth and consistent margins will form the basis of convincing a buyer of the future prospects of a business. Des warns that people need to prepare for a sale well in advance.

“Making sure that you remove any products or processes that adversely affect profitability or absorb inordinately large amounts of working capital will enhance the value of the business,” he said. “Getting rid of these just before offering your business for sale is too late. It may indicate to a buyer that you are window dressing.”

Business owners often have ‘pet’ projects or products and while these pets are sometimes a vital part of the overall business there are many examples of how they can actually devalue the business.

“That may be because the margins and profits are poor,” Des said. “Or, these pets may use up substantially more capital and human resources than their returns can justify. The sales value of the business will be improved when you eliminate under-achieving pets.”

Often businesses have unprofitable products or divisions, but the owner is not fully aware of this because the accounting systems and management processes do not sufficiently isolate sales and costs. Owners may want to justify low margins or a lack

of profit altogether because customers are attracted to the business by these products. But while these so-called ‘loss leaders’ are sometimes good for business, Des stresses people must be able to fully assess their impact and what sales can be directly attributed.

“Consider having a system that enquires of the buyer the reason for them purchasing a product from your business,” he said. “You might only ask the question when a ‘loss leader’ is purchased. However, because you are actually losing on these sales, it is vital that you can be absolutely confident of their overall positive contribution to profitability. If you are not convinced, eliminate the product from the range.”

In family businesses there is temptation to employ family members or associates at unrealistic salaries. Des said this might be done to reduce overall tax liabilities or it could just simply be to assist the person financially and while both these ideals may be noble ones, they could result in a lower price for the business.

“Generally, lower profitability means lower business value,” Des said. “You should seek appropriate advice to determine if the ultimate price of such practice is worth it. Good advisers can usually find an alternative. In any case such practice should cease in the years immediately preceding the intended sale.”

It is important to be brutal and remove anything from the business that reduces its profitability or puts unnecessary stresses on working capital and it is wise to enhance profitability for a number of years prior to offering the business for sale.

“You may well say ‘I am not sure when I might sell, and so how can I know when to start getting the business investor ready,’” Des said. “Unforeseen circumstances may mean that the business needs to be sold quickly. Ill health is a very good example of this.

“Always having your business investor ready eliminates such a problem. And you will be more profitable along the way. But, if you are not investor ready, today would be a great day to start

the process.” An essential part of boosting the confidence of a potential buyer is to be able to provide a history of regular management reporting showing profits earned from each separate part of the business, each different sales area – for example, sales via agents, direct sales, export sales, etc. Regular is not annual – it is at least quarterly and preferably monthly or even more frequently. You should be prepared to provide financial and sales records and be confident that they tell the true story. A word of caution, however, certain information can be useful to competitors and you would not necessarily want it falling into their hands,” Des said. “In many instances the preferred buyer for your business may be a competitor because consolidation of two competing businesses often enhances overall profitability. You are therefore walking a fine line here.”

Des also points out that unnecessary assets could be investigated before the ‘for sale’ sign goes up. The first step is ensuring that inventory is not held for unnecessarily long periods of time, but consideration could also be given to rental agreements for equipment and even senior staff vehicle allowances – which

could be preferable to owning a fleet of vehicles.

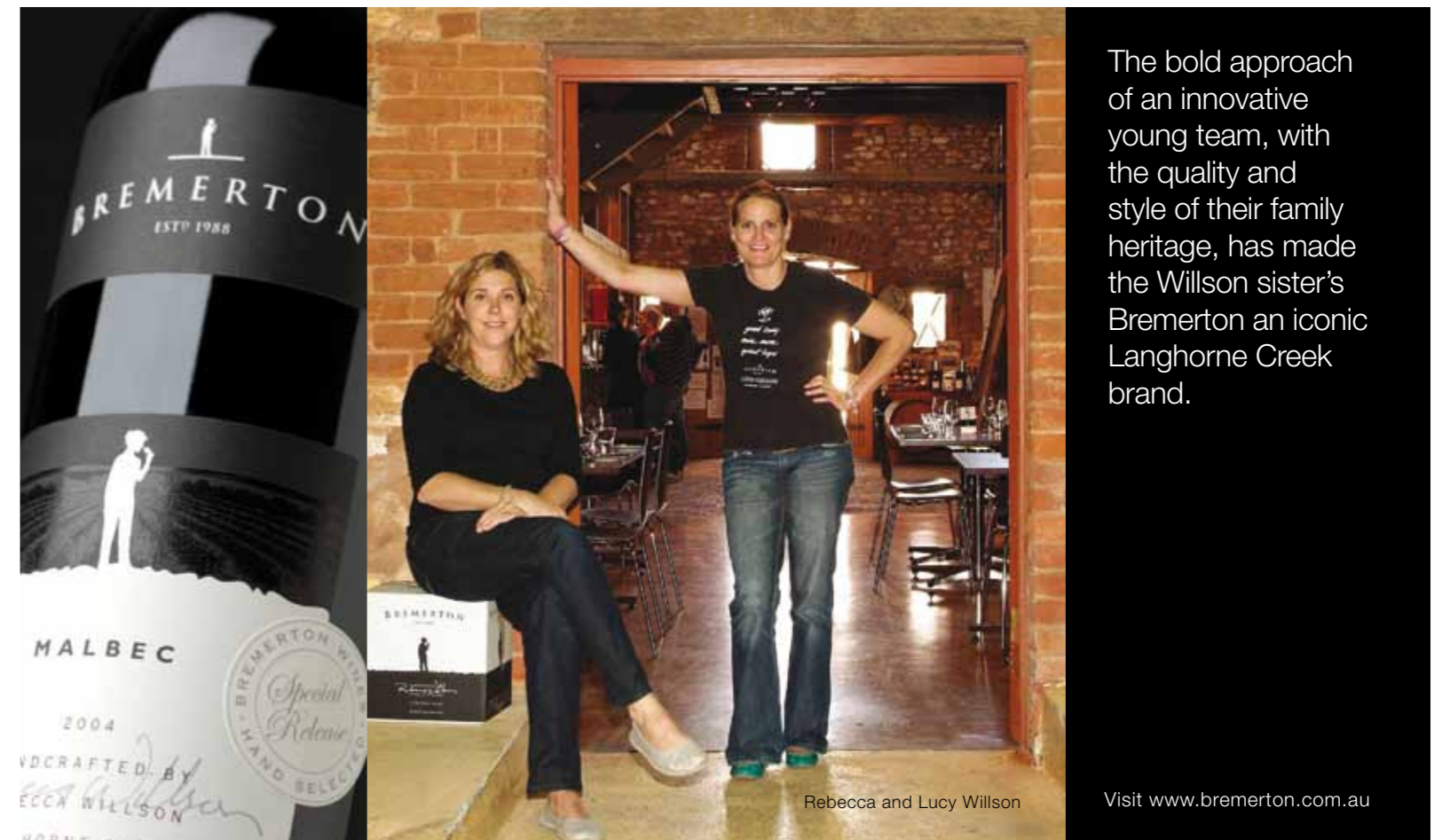
“Likewise, keep your debtors under strict control,” Des said. “You will use much valuable working capital the longer your debtors remain unpaid. The potential buyer will certainly be assessing the history of debtors.”

The structure being offered for the sale could also enhance the price for the business. In most states the rates of stamp duty on business sales are considerably greater than the rates that apply to transfers of shares in corporations. Des points out that many businesses do not operate through corporate structures, but being able to offer your business in this form can save the buyer many thousands of dollars. Another important consideration when selling your business is the impact of capital gains tax. There are substantial capital gains tax benefits available to businesses defined as ‘small’ by the *Income Tax Assessment Act*.

“This is very complex legislation, but the benefit is available to many businesses, if structured appropriately,” Des said. “Part of the process of preparing for sale should include a review of your structures by your advisers.

“And so to summarise – what is the best advice? Be prepared.” ●

Des Caulfield is a director of MGI Australia, Accountants and Business Growth Advisers. www.mgiaust.com.au



The bold approach of an innovative young team, with the quality and style of their family heritage, has made the Willson sister’s Bremerton an iconic Langhorne Creek brand.

Rebecca and Lucy Willson

Visit www.bremerton.com.au