

Don't put all your eggs in one basket!

Russell Veitch of KWS warns business owners that putting all your eggs in one basket is a dangerous game to play.

All too often business owners see their company as their pension, believing that the capital raised by its eventual sale will provide financial security in retirement. This a common mistake and could leave business owners with burnt fingers if they discover later on, that their company proves to be difficult or even impossible to sell.

Selling a business is not an exact science and you can never guarantee that it will realise its potential value over time. As a business owner if you intend to use your business as your pension it's important that you consider a number of factors. This will insure that you are fully prepared when the time comes to capitalise on your company's value.

What if the basket breaks?

No matter what the situation is, it's always risky to rely on one source of capital, especially when that source is a business. Although there are a number of methods that can be used to value a business, ultimately it is only worth what you can get for it at the time of sale.

If you are going to use your business as your pension, you need to plan the process carefully. One method you can follow is to extract the money along the way, in the form of pension payments, buying the company premises or taking dividends and investing them.

Whatever option you choose it's important that you use the company to increase your personal wealth outside of it. Taking value out along the way reduces the risk of a poor sale when it comes to retirement and mitigates against any worst case scenarios.

Covering all your bases

As a business owner you should always assume that things might change either in a positive or negative way and plan for any potential consequences. Anticipating changes and responding to them ahead of time can protect your company against decreasing in value and ensuring that it becomes financially secure.

Keeping your ear to the ground and looking outside of your business by monitoring the press and market information, can help you gain information and anticipate changes in your industry.

Try to avoid just focusing on your business and doing what you do, whilst the world around you changes.

Capital idea

For business owners determined to use their company as their pension there can be difficulty in putting a real value on a business making it hard to plan for retirement based upon its sale.

You can use one of a number of “technical valuation methods” to ascertain a potential value for your business. From this you could consider how much income such an amount of capital could provide you with each year after tax. You should also take into account any other sources of income you might have, for example a state pension.

This will help you identify an income gap, which can then be converted into a capital gap and thus an indication of how much you need your company to be worth upon retirement.

Don't get left behind

How do you know that the best time to sell your business will happen to coincide with your planned retirement age?

Deciding to sell your business to finance your retirement could mean that you miss a golden opportunity to sell your company beforehand. It is vital that you consider the importance of timing when it comes to selling your business to ensure that you don't get left behind.

Waiting to sell your business just because it's earlier than you planned is not a sensible step. If you are made an offer which you would otherwise consider to be attractive – don't wait.

Planning ahead

Succession planning is often overlooked by directors who fail to put into place a plan that would enable talented individuals to come into the business and eventually succeed them. It takes time to find the right person and to get them ready to take over the reigns, so start this process well in advance. Grooming your successor from within the company could also give you some much needed security as you will have a buyer in place long before your eventual retirement.

It's important to look inside your own company for potential buyers before looking to the outside world. Not only is it cheaper and easier to do so, but if you don't you could miss the ideal person to step into your shoes.

Selling your business is not a step that should be taken overnight and it will have financial and emotional impacts on your life, long after the sale has been completed. Whether you decide to follow the path of a management buyout or look for buyers outside of your company, the time you take to prepare for this process will be well spent. Additionally, looking at your company from the buyer's perspective, whoever they are, could have a significant impact on the price you will receive for your business and the success of using your company as your pension.