Where's the exit?

Russell Veitch from KWS (www.keywealthsolutions.co.uk), looks at the process of selling your business and the different approaches owners should take to MBOs and outside buyers.

If you are a business owner currently sweating blood and tears to make your venture a success, the thought of later selling up and divorcing yourself from the company might seem an alien concept. Yet, at some point in the future you may want to explore new challenges, move away from a changing market or see a substantial financial return on all of your hard work.

There can be a number of reasons why you would want to sell. Maybe you want to spend more time with your family, have more time to yourself and travel the world or simply to put money in the bank.

Why do you want to sell? What plans do you have for the future? Are you ready to let go? These are all questions that you should be asking yourself long before you start attracting the interest of potential buyers.

The decision to sell your business is not one that can be taken lightly. You only get one chance to sell a business and for this reason, it is vital that you weigh up the different selling options to decide what would work best for you. Carefully planning the process will ensure that you reap the rewards of your venture and it is important that you do this in order to get the best possible result.

Preparing to sell your business

Preparation is key when it comes to selling a business. All too often people rush into the process and do not give themselves enough time to prepare themselves or their business for the sales process. You will need to make a lot of business decisions such as deciding who you want to sell the business to, when you want to sell it and what role you are going to have, if any, in the company after the sale. You will also have to prepare for the sale of your company on a personal level. Sellers often have mixed emotions when it comes to selling their business battling between the desire to capitalise on their hard work versus the difficulty in letting go of their 'baby'. You shouldn't underestimate how hard this might actually be. After spending so much time and effort building the name of your business it can be hard to leave it behind and we often see owner-managers who have a last minute change of heart because they don't think that they are ready to let go of the reins. Making sure that you are prepared for life post sale is as crucial as preparing your business. What can you do that is going to excite you and get you up in the morning? Where do you go from here? Are you ready to let go? These are all important questions that you should be asking yourself and you should find answers to them before you even begin to think about selling your business.

When to sell your business

Deciding when you are going to sell your business is so important. It can't be sold overnight. If you want to generate the most possible value from your venture, or to find a buyer who will continue to lead your company in the right way, you need to start planning years, rather than months in advance. Typically, including preparation, you should give yourself 3-5 years to sell a business – the last 9-12 months of which being the actual marketing/negotiation process.

No matter who you decide to sell to, selling at the right time can have a significant impact on the price you get for your business. If possible, plan ahead so that you can pick the best moment rather than being rushed into a quick sale. For example, if you plan to retire in five year's time, it's a good idea to start planning the sale of your business now. This will give you an opportunity to build value in your company and put into place the systems and structures that will not only attract potential buyers, but also make the transition between owners as smooth as possible.

The general state of the economy and the sector your business is in, can have a particular impact on the price it will be able to command. It's easier for a buyer to fund a purchase when their own business is doing well, interest rates are low and banks are keen to lend. The detailed timing of a sale may also depend on the tax consequences and any forthcoming changes to tax rules.

The state of your business is a more important factor. Aim to sell when profits are increasing and look likely to grow further still. Consider the impact of sales cycles or seasonal fluctuations in your business. If you have a full order book at a particular time of year, it is important that you present this to potential buyers in the right way.

Planning well in advance also allows you to streamline your business operations and groom systems and procedures to ensure it is as attractive as possible to buyers. For example, you can check that equipment is well-maintained, key contracts are in order and that you are complying with all relevant legislation.

Who should you sell to?

Selling your business could be the most important financial deal you'll ever make. For many owners, selling a company they've spent years of their time building can be difficult to deal with emotionally. Many business owners will want to leave their company in a 'safe pair of hands' others will want to generate the most value possible out of their venture. Whilst the future of your company will no longer be your concern, choosing your buyer carefully can make all the difference.

Whether you are thinking from a financial perspective, a personal perspective, or more often than not a little of both, it is important that you evaluate all of your options and consider who the best buyer for your business will be. If you have never sold a business before you will probably have no experience of this, but, simply thinking about what happens to the company after its sale and evaluating how this will make you feel, will be a good guide to help you to decide what type of buyer will work best for you.

In essence, there are two categories of buyers when it comes to selling a business – "insiders" and "outsiders". Insiders are people who are already within the business – the most common of which is a management buyout (or "MBO"), where your existing team of managers raise the capital to buyout your holding in the company. Outsiders, as the name suggests are people who are not already part of the company (i.e. external). This could be a competitor looking to cement their position in the sector, a company that is looking to use your business' name to break into a new market, or an investor looking to for a healthy financial return on their capital.

Of course both categories are different and deciding who you will want to sell your business to will very much depend on your personal situation, mindset and future plans. But, whether you decide to pursue a management buyout or an external buyer you should take the time to plan ahead and if you want to make the most of this opportunity then this is not something that can be done overnight.

What are the options?

Establishing a management buyout or selling to an external buyer are two very different routes and understanding each of the processes is essential if you are going to make the sale of your business a success. Your business is only worth what someone is willing to pay for it so whether it is your existing management team or an outside party, understanding the buyer's point of view is vital.

Consider an MBO

A management buyout (MBO) is an increasingly popular succession option. For those not in the know, it is when a company's existing managers (or key staff in some cases) buy or acquire a large part of the company. The managers become the company's new owners whilst most of its existing business and management structures stay in place. A management buyout can be a good way of ensuring that the future of the business is in safe hands and that a highly motivated workforce will carry it forwards after you have gone.

Why consider a management buyout?

If you want to retire or sell your business, you will need to have an exit strategy in place to ensure that your company is prepared when the time comes for you to back away from its day to day running. Many business owners find that a management buyout is an attractive option in this regard as it means that they will not have to remain in position after the sale to train the new owners and ensure that the takeover runs smoothly.

With a management buyout, ownership of the business passes to the managers, either directly or through a trust. In most cases, the management will buy out all the current shareholders and then take the company forward because they see the potential in the business and have the expertise to grow the business, often in a more dynamic way. Quite often, management will team up with a venture capitalist to acquire the business because it's a complicated process that requires significant investment.

A management buyout can be the best way of preserving the core of the business and ensuring that employees retain their jobs. Completing the buyout helps to ensure that the new owners of the business are highly motivated and will continue to drive the company forward when you are gone. For many owners, safeguarding the future of the business and its staff is an important objective and so management buyouts can be a very attractive option.

A management buyout can be a very effective way of organising your exit. It is usually less disruptive than alternative ways of selling your company, particularly because it avoids the uncertainty of other kinds of sale. A management buyout also has the advantage of remaining in house and so it can be completed without disclosing confidential information to your competitors, protecting your market position. This course of action will also help you to maintain a good relationship with your management team and this means that they will continue to uphold the values and aims that you have instilled in the company.

Planning for a management buyout

Changing from a business controlled by an owner to a business owned by its management team can represent a shift in the company's culture. Managers may never have considered the possibility of becoming owners, or feel that it is too risky for them and although they are involved in the primary decision-making, they may still see that it is your job as the owner to have overall say. You will have to take the time to nurture a management buyout, working with your team to mould the opportunity with them and help them to get their financing in place.

It's essential to involve managers in every stage of the process of moving towards a management buyout. As part of this, you should look for ways to share information with managers, such as newsletters and regular meetings. You should also make sure you consult managers on key issues, particularly where this is a legal requirement. Successful communication and consultation between you and your managers is critical to your business' success and future. The tangible benefits of making managers feel involved and empowered can be higher productivity and reduced recruitment costs, which inevitably generates more value for you when it comes to selling the company.

The more time you have, the easier it is to create a culture of shared ownership where both you and your management team see the benefits in the company's development. You also have more options for the way the buyout is financed and organised, giving your team time to raise the capital to buy you out.

Alternatively, if the management team are struggling to raise the capital required, you can help finance your own buy out by agreeing to accept payment over time rather than all at once. Owners who have faith in their business and support the idea of a management buyout are often willing to go down this route. However, the manager's intentions for buying a company are often to become the direct owner, thus they may not welcome an attachment to the previous proprietor.

The option of a management buyout can not only help you to ensure that your company is left in safe hands but it can also cut back the amount of 'succession planning' you will need to undertake prior to the company's sale. The final planning of a management buyout takes anything from two to 18 months, potentially much less time than a traditional sale.

If you decide that a management buyout is not the best route for your business you will have to work to attract the interest of outside parties. In the same way as a management buyout this requires time and planning and you should be thinking about the potential buyer for your business along every step of the way.

Don't ignore the buyer!

The advantage of an MBO is that your current management team will know the company inside and out so attracting their interest can be a less daunting task than ensuring that outside parties are interested in your company. All too often when it comes to selling their business, people get caught up in profit and turnover and forget who their potential buyers are and what they might be looking for. If you are planning to sell to a buyer outside of the company you should consider the buyer in everything that you do.

Put yourself in their shoes: If you were looking to buy a company what would you want or expect? What would grab your attention and what would put you off? You should consider these questions if you want to make the most out of your business' sale.

Risky Business: One of the key things a buyer will assess is risk. There is no point investing money into a company if the business is likely to lose a significant proportion of its customers, suppliers or staff following the sale. The infrastructure of the business needs to be able to stable throughout the sale, so you have to make sure that your company and its culture are transferable and compatible with the types of company that might buy you.

For example, does your business have contracts or regular orders? Consider turning the relationship with customers who buy from you on a regular basis or long standing agreements with suppliers into a contractual one. Not only will this add stability to your company, but it will also give you something tangible that can be passed on to the buyer. Contracts give the buyer more confidence than ongoing business as this acts as a security net and could add significantly to your company's value.

Make it easy: The purpose of buying a business is a quicker alternative or ‘short cut’ to the years of work and effort that go into building a business from scratch. Therefore the more confidence that you can build in potential buyers, the easier you can make the process, the more attractive your company will become.

A buyer’s agenda: Run your business as if it could be sold at any time, working to what you might see as a buyer’s agenda and not your own. You will need to plan well in advance to generate the most possible value out of your venture.

Whenever you make a decision about your business, consider what impact it might have on its value or its ability to attract buyers above all else. Thinking about the buyer from the start means that you will be much better prepared when the time comes to make the sale.

First impressions count: Never underestimate the importance of your business’ appearance. You wouldn’t sell your car without cleaning it first and the same should be true of your business. You need to make a positive impression, giving any potential buyer the feeling that that your company is a well run and closely managed venture. An untidy appearance could leave them wondering about the state of the rest of the company; should they expect your finances to be in the same shape as your offices?

Selling your business is not a step that can be taken overnight and it will have financial and emotional consequences 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 and looking at your company from the buyer’s perspective, whoever they are, will have a significant impact on the price you will receive for your business and the time it takes to complete its sale.

Is the time right to sell your business?

If you are considering selling your business and are not sure whether the time is right, this simple quiz might help. There are no right or wrong answers, simply ask yourself each one and give an honest response. If you answer a) to 5 or more of the questions, it is likely that you are ready to give serious thought to selling your business.

1) Which drives you more, your

a) Personal goals
b) Business goals

2) You are able to motivate yourself to address uncomfortable personal and financial issues?

a) No
b) Yes

3) Which stimulates you more, your

a) Next holiday
b) Latest business innovation

4) Are you able to stay focussed during business meetings?

a) No
b) Yes

5) How do you feel on a Sunday evening?

a) Wish the weekend was longer
b) Look forward to the week ahead

6) Which do you focus most on?

a) The things you would do if you weren’t working in your business
b) The things you are doing in your business

7) Do you know what you want from life after leaving your business?

a) Yes
b) No

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