THE LAW CONNECTION

Lawyers & Notary Public

Preparing your business for sale

Ask the right questions. Get the right price.

While the questions below may not apply in all situations, they can help you create a customised plan to improve the value of your business and the price you get for it. We can help you to prepare your business for an effective sale. But you need to start early.

We are happy to discuss any aspect of the brochure with you.

Contact: Rosemary Sharp (rosemary@lawconnect.co.nz) or
Peter Corin (peter@lawconnect.co.nz)

Questions to ask yourself before starting your sale process

Does the business have a diversified customer base?

If one customer accounts for more than 10% of the total base, a buyer often gets nervous. In almost every deal, this question appears.

Are you and your customers "too close"

A close personal relationship with your customers can spell trouble to a buyer. What happens when you exit the business and the buyer does not have this relationship?

Does your revenue model revolve around a repeatable income stream?

Repeatable income streams create value. However not all businesses have repeatable income sources. Still, it's a question worth considering. They're more applicable in a relatively small market. Examples include your dentist (every six months) or the insurance business.

Do you have multiple products that you can sell or develop? Or are dependant on a single product line?

Businesses that have a more diverse line of products or services often sell for more.

Are your gross margins increasing or decreasing?

A decreasing gross margin may indicate competitive pressure on pricing. If gross margins are decreasing, perhaps you can shift revenue to a more profitable product line.

Do you have standardised processes and procedures which can easily be followed?

Buyers are looking for an established system to reduce their management time.

Is your business a turnkey operation?

Businesses that can be purchased "turnkey" often bring in strategic buyers who may pay more than a financial buyer. If a business "runs itself" without you, this can translate into a higher price. Stay away from the business and see what tasks could be assumed so that you can work on the business rather than in the business.

Are your financial records presentable?

Sloppiness or the lack of clear financial information and records can be a turn off when selling a business. Do you have records that are clear, presentable, and consistent? If so, your chances of a successful sale will improve considerably.

Do you have a management succession plan?

The lack of a management succession plan can be a major negative for the buyer.

Do you have a roadmap for growth?

You don't necessarily need a formal business plan but you do need a roadmap for growth. You should address this in your Offering Memorandum.

Are there any proceedings against the company?

If you have pending litigation, especially in small to middle market companies, buyers often are extremely nervous and may demand holdbacks to address settlement amounts.

What type of growth has your company been experiencing?

Many buyers study financial ratios of an entire industry and will criticise your business using these ratios. Check to see how you compare with others in your industry.

How often do you "clean house" in your business?

It may sound trivial, but poor housekeeping shows possible deferred maintenance, safety considerations and other concerns. A little paint and organisation goes a long way. Remember, sloppiness brings down value. You could leave a lot of cash on the table by ignoring cleanliness.

Do you have an offering or information memorandum?

When you make the decision to sell your company a poor Offering Memorandum doesn't place you in a position of strength. You have spent years building your business and doing a poor job of presenting it is a disservice to you and to your stakeholders.

Do you have a diversified supplier base?

You do not want a key supplier to hold you hostage. This is a very common question from buyers.

Are your employee salaries over market level?

This can be a problem to a potential buyer. Profit sharing programs are fine but when the base is out of line with market salaries many buyers will look elsewhere.

Do you have contracts and clear job descriptions for all employees?

Clearly defined roles and responsibilities are essential in an effectively run organisation. Loosely defined positions can create ambiguity in the mind of a buyer.

How are your customer satisfaction ratings?

Companies that can show quantifiable data from surveys from customers may receive a much higher value.

Are you able to break down your costs?

Showing percentage of costs devoted to employment and other items shows you have a handle on the business for comparisons from year to year.

How have you dealt with your intellectual property?

This can be a real bonus especially if it adds significant barriers to competition. Do you have a solid patentable position that may lock out competitors?

Are there barriers to entry in your industry?

A great location, proprietary products or stable customer base all pose significant barriers to entry. When presenting your business for sale, all these items help to create value in the eyes of the buyer.

Have you looked at your family compensation?

Buyers often look at several items in this category. An owner may have a very low salary to suggest that the company is profitable. He may also be using business assets for personal use. These issues are quickly picked up by buyers. There are also cases where family members are on the payroll but not active in the business. Non-operating assets are common, but do nothing to motivate a buyer.

Do you have many new products?

A constant flow of new product offerings brings excitement and opportunity to the business. Leaders in specific niches usually are active in new product launches, new ways of adding services and many other positive additions.

How do your financial ratios look?

Buyers often look at financial ratios and compare them to leaders in your segment. A strength/ weakness/opportunities/threats (SWOT) assessment is often performed, have you done one? Typically, current ratio, inventory turns, total asset turnover, sales/fixed assets are all carefully scrutinised.

Do you have geographic diversification?

Buyers look both at regional and nation trends. Employment rates and other factors differ from region to region. If your business is located across several geographic areas, you may have a value enhancement factor.

How are you doing with your advertising and marketing budgets?

Buyers like to see advertising budgets maintained prior to the sale of a business. Maintain all of your advertising and marketing.

Do you have a passion for quality?

Clear, strict, repeatable built in quality controls bring confidence and value to a buyer.

Have you recently increased prices?

A price increase often falls right to the bottom line and rarely results in the loss of customers. Strong pricing and margins are very attractive to buyers. Buyers do not like to be in the discount business.

How visible are you in the industry?

Buyers like to purchase companies that have a good reputation and industry visibility. What are you doing to increase your reputation and profile?

How current is your accounts receivable ledger?

Ageing accounts make buyers very cautious. Write off old accounts and stay on top of current paying customers.

Do you have agreements with your key personnel?

Buyers typically like to be assured that key employees will stay after the sale. Employment agreements with key personnel can increase the value of your company in the eyes of the buyer.

How old are your projections?

Buyers like to see reasonable projections outlining strategies for growth. Prepare credible projections with variable growth rates for your company.

Is the business scalable?

Scalability refers to your ability to rapidly grow your customer base without significantly increasing your fixed costs. It can create high leverages in terms of value.

19 Raumati Road - PO Box 2079, Raumati 5255 - DXRP60303 | 5 Ngaio Road - PO Box 206, Waikanae 5250
P: 04 299 3192 - F: 04 299 7686 - E: thefirm@lawconnect.co.nz | P: 04 902 5020 - F: 04 902 5021 - E: waikanae@lawconnect.co.nz
www.thelawconnection.co.nz