

Selling your business

As baby boomers start to think about the next stage of their lives, some will be confronted by some harsh facts:

- ┌ there will be a glut of businesses in the market; and
- ┌ there are fewer willing buyers among the baby boom tail-enders and people born in the 1960s.

Suddenly, the retirement nest egg feels hollow. Many people ploughed their profits back into the business expecting that they would recoup it (with interest) when they retired. The simple law of supply and demand means the sale price will go down.

This is not an issue for the distant future: it is happening now. We work with a number of people who have experienced this reality. For many, the disappointment has been even greater because the attempted sale process has forced them to confront the fact that they really have nothing to sell as the business fundamentally depends on them as the owner. In other words, there is no leverage in the business.

If your business is not leveraged, it is worth very little without you in it. When you sell your business you will either have to drop the price or stay on as an employee or part owner for an agreed period of years, so the new owners can learn what you know. Neither of these are attractive options. Just when you want to start doing something else, you will have to go back to basics and show new people how the business works.

What's the solution? In my view, every business owner should have an exit strategy, even if (especially if) they aren't going anywhere. An exit strategy forces you to think about the fundamentals of your business. The starting point with an exit strategy is to think about what the business will look like when you decide to sell. You're then thinking of it in terms of an entity that is separate from yourself, and that paradigm shift is the first and fundamental step. You then work on how to create that entity out of today's business.

The exit strategy makes you think about exactly what you are selling, which is primarily the goodwill in the business. Increasing the goodwill means leveraging:

- ┌ Your customers' relationship with your brand, product or service, rather than you personally. Ideally, customers will deal with your business whether you or someone else owns it, meaning that there is greater certainty of revenue for the new owner.
- ┌ Reliable production processes that others can perform rather than your personal technical expertise. The product or service will continue to be produced to the same standard when you have gone, which creates greater revenue and cost certainty for the new owner.

- 7 Documented marketing systems and processes as opposed to your experience of what works in the industry. The new owner doesn't have to re-invent the wheel, and can tweak business strategies with confidence.
- 7 Formal performance management systems for your team rather than your personal knowledge about how to get the best out of your individual staff. The new owners can have confidence that the staff will continue to do their job to the same standard as when you were there.
- 7 A definable, positive organisational culture rather than a reflection of your personality. Culture is how people behave when you're not there, and it is a product of a clear vision, a strong business model and values that fit the company.

Does this sound like too much fuss and paperwork for what is really a simple business? Perhaps it is, but there are a couple of things to remember. First, lots of complicated things look simple when you have worked them out. It doesn't mean they're simple to someone from the outside. Second, you don't have to spend the time to organise your business now, as long as you accept you won't get as much money from its sale. In this case, you would be well advised to take as much out as you can while you can, and invest it in different wealth creation vehicles, for example property, other business, etc.

The first step is to set a timeframe for transferring the goodwill from yourself to the business. Generally it takes two to three years but the good news is that very often process reviews lead to immediate efficiency gains and cost savings.

The next step is to identify the high priority areas, i.e. those that have the most impact on the value of the business. For many that will be the marketing and/or production processes. These processes have to be identified, reviewed and documented.

Along the way, there will be technical areas to clean up, such as ownership structure, tax structures and issues, historical "deals" with key customers and suppliers (you will probably need help from your accountant and your lawyer with these). Many of these issues get put in the "too hard" basket. Take them out of there and put them on your "to do" list, as these make up the right state of affairs that at worst deter a buyer completely and at best cause them to reduce their offer.

Planning is the easy part. The real rewards come from implementing the plan in a steady, focused way that gets things done without disrupting business as usual. In our experience to get to the next level most owners need to:

- 7 formulate goals with clarity;
- 7 accept that their role will change

- └ work within a formal structure that provides focus as well as improvement strategies;
- └ be personally accountable for actively improving their processes and outcomes; and
- └ operate a formal planning and review process that helps them see how far they've come and what else needs to be done.

This article first appeared in Westpac's "Good Business" magazine.

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