

SME DIGEST

ADVICE FOR SMALL & MEDIUM SIZED ENTERPRISES



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SELLING YOUR BUSINESS

THE DIY APPROACH TO SELLING UP

Coronavirus aside, there will come a point when every business owner will want to move on by selling the business to another. The question is how? Should they use a broker?

By Adam Bernstein

While a broker might make the job easier – most certainly so for the larger or more complex concern (say a turnover of £1m or more and significant profits), they will charge for their service – from 5% to 12% and with minimum fees of £12,000 too. For many small businesses a broker might not be a worthwhile proposition for either party considering the amount of time that they'll need to put into marketing the business.

The problem is that brokers have many other clients and just a handful of staff to service the process (possibly fewer at the present time too). Worryingly, the conversion rate (the number of businesses that sell through brokers) can be as low as 20% and possibly even just 4%.

The reality is that you will know your business far better than any dispassionate broker; you have skin in the game while they don't. On top of this is your ability to instantly respond to any enquires that potential buyers unlike the extra layer of bureaucracy that a broker may apply. Other added benefits are that as there are no fees that the sale will bring in more and

also, it's possible to change your mind on the sale without worrying about any contractual issues with the broker.

Do it yourself

Again, most owners of small businesses know their market well and by extension, who might be a likely buyer whether that is a rival or someone they sell to or buy from already. It's also possible that owners will know who is active in buying businesses. It's quite likely that most 'good' small firms will probably have been receiving contact from potential buyers already.

So – the first step is jot down a list of the likely candidates while having a chat with your lawyer or accountant to see if they would consider making a discrete approach on your behalf.

A natural question that both you and any prospective buyer will want to know is... what is the business worth?

While values vary there is only one that counts and that's what someone is willing to pay for it at any given point in time. Coronavirus



won't have helped values but that should pass once the world gets back to 'normal' and the firm involved is ordinarily in rude health.

The reality is that most valuations are based on multiples of past profits and these rise according to perceived value. For small firms this could range from less than one to three times. But equally, it could rise to six or more times depending on the size, profitability and the assets that the business possesses. In the first instance though, your accountant should be able to give you a basic valuation.

One way to gauge the market is to do your own research on the websites that list businesses for sale and compile your own list of similar firms to see how they're priced against turnover and profit. Remember to not over inflate the

worth of your business – anyone who's watched BBC's Dragons' Den will have seen how the dragons shred valuations put before them. Don't just think of the upsides, look to the downsides too for that's what an investor will do. Be honest and consider if the business is one that's run as a 'lifestyle' where there's no real prospect of growth and therefore a sale.

Take good advice

Selling or buying a business is a complex matter riddled with mantraps waiting to snap. You need good accounting and legal advice to cover off contracts and negotiations as well as tax matters, the production of financial information necessary for the sale.

One thing that a lawyer will help with is a non-disclosure agreement which protects your confidential information against misuse by those with no interest in buying the business, only an interest in gathering competitive information.



Information is key

Any interested party is going to want plenty of information to make an informed decision. They're going to want at least three years' worth of accounts, a non-disclosure agreement, and current year management accounts. On top of this, expect to be asked for the company registration and VAT certificates, and VAT and corporation tax returns. Not having this information is a turnoff and will slow the process down.

Next will come an outline agreement, with heads of terms which will be fleshed out later on. Buyers tend to set these out.

Due diligence follows where claims are checked for accuracy so that the buyer has a true picture of what they could be buying into.

Also, an inventory of business assets will be needed. Here it's important to not hide anything, especially something that may arouse suspicions. Mistakes here can lead to deals failing with unrecoverable legal and accounting costs on either side.

The end game

While it's not an easy process to sell a business, those that garner interest can see the process complete between three and six months or longer. Set your expectations – it's not an instant process. Just bear in mind that buyers don't want to rush while sellers seek to increase the pace.



Sell online instead?

It's entirely clear that the world has moved online and that almost anything can be bought that way, including a business via a number of online platforms. Naturally, selling a business online could well save on the fees charged by a broker while also increasing visibility of the sale. However, as can be seen on the likes of eBay and Autotrader, many of the items up for sale never actually sell because they're either marketed poorly or overpriced. It's also possible to end up dealing with those with no real intention of buying anything let alone your business.

Put simply, if it doesn't sell quickly – in the first few weeks of a listing – it's not likely to sell at all and you'll just end up in a vicious spiral of price cutting to no avail. Price carefully.

Which websites list businesses for sale?

There are a number of online platforms that offer business listing services.

BusinessesForSale www.uk.businessesforsale.com/uk

This website claims 1.01m monthly viewers, 61,700 businesses up for sale, 526,000 UK registered buyers and 1.12m business buyers globally.

Costs: It normally charges £999+VAT but has halved the price to £449+VAT for the moment.

BusinessTradeCentre www.businesstradecentre.co.uk

BusinessTradeCentre offers no data on monthly users or registered buyers. At the time of writing (early July) it had 180 or so firms being advertised on its pages from a wide range of sectors from service, to retail, manufacturing and commercial.

Costs: £49.99+VAT to advertise.

Daltons Business www.daltonsbusiness.com

A brand that has been running since the 1870s in one form or another, it claims that more than 30,000 businesses and 200 franchise opportunities are listed, that over 100,000 business buyers visit the website every week and it generates an average of 29,600 buyer enquiries to business and franchise sellers every month.

Costs: Fees range from 1 month: £129 + VAT, 3 months: £199+VAT, to 6 months: £269 + VAT.

RightBiz: www.rightbiz.co.uk

RightBiz claims to be "UK's largest business for sale marketplace" which, at the time of writing had 21,600 businesses listed, 7.2m page views, 266,600 enquiries with a combined market value of £10.3bn.

Costs: Prices start at £49+VAT per month.