



GUIDE TO SELLING YOUR BUSINESS

Planning the sale of your business?

Whatever the reason for selling your business it's advisable to seek professional help (e.g. accountant). This guide gives information on preparing your business for sale.

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Introduction

There are many reasons why you might consider selling your business: you may be about to retire, you may have been made an attractive offer of employment or the business may be about to fail. Whether you choose to sell to your employees, partners, shareholders or others, selling your business can be a complex and lengthy process. The way you approach the deal will depend on your reasons for selling, but it's important to get professional support and advice so you arrive at the best conclusion.

This factsheet provides information about preparing your business for sale. It explains the legal and tax issues, how to plan the sale and prepare a business for the event. It also covers the process of finding a buyer and negotiating a sale. It contains hints and tips and sources of further information.

Planning the sale of a business

If you have set up and run your own small business for many years, selling it may be an emotional experience and planning for such a change is never easy. However, it is essential that the decisions you take are rational and objective. If you are about to retire you may be able to choose your timing to maximise the sale price. Selling due to ill health may require a quicker sale, but if the business is in a good state it need not be immediate. If the

business is in crisis a low selling price may be necessary for a quick sale before you lose too much money, although selling it at all may be a challenge in these circumstances.

Other reasons for selling include receivership, bankruptcy, death, divorce and partnership feuds. Some people simply want to sell their business because they have spotted what they think is a better idea and need the money to exploit it. Others recognise that their strength is in starting businesses rather than managing a process that is ticking over steadily or slowly growing a business. On the other hand, there are many people who would like the thrill of owning and running a business but don't feel that they have the skills or the appetite for risk to start from scratch. If you can find them, they will be good potential purchasers.

Issues you should consider in the planning process include:

- Do you intend to sell the business outright or will you retain a minority stake? If you do want to retain a stake, will this be an interim arrangement?
- Do you want to retain involvement in the business in a managerial role? (Again private buyers may not favour this except in the short term during which time they would expect to learn from you everything you know about the business, the sector and the customers.) If so you may agree to take part payment for the business at this stage and the remainder over a period of time after conclusion of the deal.
- How will the sale affect the staff and other stakeholders? How will

you keep morale up? Will there be any implications for staff relating to employment protection rights? You will need to consider the Transfer of Undertakings (Protection of Employment) Regulations 2006.

Professional support is essential

Professional advisers will help you to get the best price, minimise your tax liability, smooth out negotiations and comply with relevant laws. They will provide you with the necessary objective opinion, unaffected by any emotional attachment you may have to your business and will be a buffer between you and the buyer. You need to consider the following professional services:

- A corporate financial adviser can help you consider your options and guide you through the process. Some organisations have considerable experience in disposing of businesses and may even be able to help find potential buyers.
- You will need a solicitor to draft and negotiate legal documents and help you stay within the law. If the sale includes property you should consider a law firm experienced in business conveyancing.
- An accountant will present your business' figures in the best light and explain performance measures, assets and liabilities to potential purchasers. Taxation issues are complex and usually call for specialist professional advice. The accountant can also organise final payments when the deal goes through.

- A Chartered Surveyor can help to ensure that the value of the various assets is fully reflected in the asking price. In a forced sale an accurate valuation is especially important because other factors, such as goodwill, are harder to value.

Legal and tax issues

The legal status of the business for sale is very important as it defines exactly who owns the various assets to be sold. If you are a sole trader you own all the assets of the business and it's up to you how they are sold. Similarly, partners own their share of the business' assets and any sale must be agreed according to the provisions of the partnership agreement. In either of these cases, you will not actually be selling the business as it has no separate legal existence. However, you will be selling the fixed assets such as equipment and property; intangible assets like the business name; intellectual property and goodwill and the stock.

A business that operates as a limited company is a separate legal entity from its owners. In this case, there are two options. You can sell the business in its entirety simply by selling the shares. However, purchasers are always wary of taking on hidden liabilities so they may prefer simply to purchase the assets and goodwill as above. On the other hand if you are selling to your staff, they may be happy to buy the shares because they should have a reasonable idea of how the business works and whether there are any hidden problems.

A host of taxation issues arise from the sale of a sole trader or partnership enterprise. Many of these overlap and different forms of tax relief may be available:

Income tax status will change when the business is sold and you must inform HM Revenue & Customs (HMRC). Go to <https://www.gov.uk/selling-your-business-your-responsibilities> for further information.

- Capital Gains tax may be due on the disposal of the assets. However, you may be entitled to some relief on gains under a scheme called Entrepreneurs' Relief. Go to <https://www.gov.uk/capital-gains-tax-businesses> for further information.
- Depending on why you are selling the business, there may be implications for inheritance tax.
- Stamp duty may be payable by the purchaser.

The timing of tax payments can be critical and you should get professional advice to ensure you stay within the law, get the best possible tax position for your business and present an accurate picture to prospective buyers. Above all, aim for simplicity. A complex tax position makes evaluation time consuming for buyers and unnecessary complications, especially at a late stage, may jeopardise the sale.

Valuing a business for sale

You need to be clear about what you are selling - shares or assets - and then set this out in such a way that serious bidders can quickly understand how much you are seeking. You will also need to provide detailed accounts so they can undertake their own evaluation and be ready to answer detailed questions.

Preparing a business for sale

Preparing the business for sale can enhance the price, though you will have to start early, possibly years in advance. You cannot do this extended preparation in the last few weeks before you put your business on the market. Consider the following points:

- Reduce as far as practicable all discretionary expenditure, for example travel, entertainment and running expensive cars.
- Look carefully at all essential expenditure. Are there ways you can reduce this without cutting back on vital areas? Potential buyers will look for consistent expenditure trends.
- Ensure that customers pay on time, so you can demonstrate a good, credit-worthy client base.
- Property should be well maintained. If you have a leasehold property, look at the arrangements for tenure and rent reviews and consider whether you need to do something to make the premises more attractive. You should also check the terms of your lease to ensure that you can assign it (arrange for a third party to take over the rental agreement). Sometimes the only option is to sub-let, which is risky as you may be left with the liability if the person taking on the lease fails to pay.
- Machinery must be kept in good condition, ideally with ongoing maintenance contracts.
- Aim to improve your working capital position by reducing excess

stock levels and making better use of creditors.

- Many businesses depend on the skill and experience of certain key workers. You should keep your employees fully informed to lessen the unsettling effects the sale will have on them. It may be necessary to secure their loyalty to the business by using incentives.

The loyalty of key customers and suppliers can also be secured with long-term contracts. Buyers will be keen to ensure the continuity of supply. If the business operates under licence, you should ensure the licence is transferable to potential buyers.

The sales memorandum

A sales memorandum is a brief summary and profile of the business. It enables buyers to decide if they want to consider in more detail whether to buy your business. Commercially sensitive information should be excluded while any plus points could be highlighted. Misleading statements, however, should be avoided. You should cover the following areas:

- Business overview.
- Ownership.
- Reasons for sale.
- Management and employees.
- Assets.

- Financial summary.

It is usual to send a disclaimer with the memorandum and any further business details, stating that you do not guarantee the information given.

Finding buyers for a business

While owners need to reach as many potential buyers as possible, discretion is also important in order to maintain customer and employee confidence. You may need to approach buyers directly. Potential buyers may come from a number of sources including competitors, suppliers, customers, new market entrants or unanticipated buyers.

Think about any of your business contacts who may have an interest in buying. Before you provide any information, you may wish to ask a potential buyer for a confidentiality letter or agreement (this usually relates only to information that is not publicly available) after which you would release the sales memorandum with a deadline for their response. If it is necessary to advertise, identify the appropriate sections in the local business press and trade media or get listed in online directories of businesses for sale such as Daltons Business (<http://www.daltonsbusiness.com/>), <http://www.businessesforsale.com/> and Right Biz (<https://www.rightbiz.co.uk/>).

You might consider using a business transfer agent or an estate agent experienced in handling business sales. A business transfer agent can help to locate a buyer in confidence, but they do not usually act as financial or business advisers.

Negotiating the sale of a business

A number of stages are described here, but the way things develop will vary greatly in each case. As in any negotiation, it is important to set objectives. The valuation is the basis for setting price objectives. There will be an upper limit from which negotiations may start and a lower limit which usually depends upon how quickly you need to sell. You should avoid quoting an asking price unless you need a very quick sale.

Potential buyers could be persuaded to make an initial offer. This helps eliminate those not even close to the favoured selling price. You can then give more detailed information on the valuation and hold a series of meetings, views and inspections. Depending on the outcome you may wish to reassess and quote a new price with any supporting rationale. Potential buyers should also clarify any conditions they specify.

A Heads of Agreement document may then be drawn up. This describes the broad areas of agreement but is not a final contract rather a good indication of commitment to the sale for both parties. Many safeguards and checks may be built into the process to protect the interests of both parties.

Hints and tips

- Seek professional advice early in the process and base your decision making on the advice you receive.
- Set a realistic price.
- Start planning for the sale as far ahead as you can.

- Ensure the business

Small Business Resources

Add value to your brand by generating catch business and product names like Amazon, Google, Coca Cola, Yahoo, Blackberry and many more using the same business name generator used by top business and product naming companies: <http://www.businessnameidea.com>

Generate more leads, cash flow and profits for your business and pay only based on results. This web site connects small businesses with top traffic web sites like Google, Facebook, Youtube to generate constant flow of traffic and leads: <http://www.intelwebsolutions.com>

Information and tools for small business to help entrepreneurs develop and market their business and ideas: <http://www.2-small-business.com>