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**SALE
READY?**

**DOES YOUR BUSINESS
STAND OUT FROM
THE CROWD?**

WORDS DOM DEL BORRELLO

As Baby Boomer business owners approach retirement, many are dealing with the sobering fact that their children simply don't want to run the family business. Thousands of Australian businesses will be put up for sale in the next five to 10 years, and it will be a real struggle to make your business stand out from the crowd.

The RMIT University MGI Australian Family & Private Business Survey 2010 surveyed 5,000 businesses across Australia and found just under half of family business owner/managers see themselves working in the business beyond 65 years of age. The survey indicated that 45 percent of family business owners are actively planning the future sale of their business.

This is clearly going to lead to many businesses coming onto the market. The trouble is, this will create a buyer's market and make it difficult for business owners to get the price they would like.

Another problem the survey identified was that 44 percent of businesses were not sale ready. This will make it even more difficult to gain the desired sale price.

4. Owners who do lose their business are losing everything at the end of their working life and have no ability to recover – they face the daunting possibility of being on a pension for life.

These are sobering thoughts, but the good news is that decisive action can lead to a more positive outcome.

Owners need to sort out *today* if the kids are taking over or not – they can't delay. Have a clear and early conversation about transition: if the kids want to follow their own career paths, parents need to formulate an alternative exit plan and implement a strategy to get the business sale ready.

TOP FIVE WAYS TO GET YOUR FAMILY BUSINESS SALE READY

1. Make your business stand out

You need to prepare accurate monthly accounts, documentation of key processes, an appropriate business plan and cash flow and financial forecasts including historical financials.

This process, known as 'vendor due diligence', ensures things are

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As a result of our work with family businesses facing these issues, we believe the key challenges for existing owners considering selling their business include:

1. The emergence of an oversupply of SME businesses, which will significantly depress sale prices and leave owners with less super than planned;
2. By the time a family accepts that the kids are not taking over, and decide to sell, the business will be in worse shape and the parents will have stopped reinvesting in the business during this two to three year period leading up to the sale. This will make it harder to sell and they will get less for it;
3. Owners don't have the energy to put back into the business – if they can't achieve a sale the business starts to underperform and many will simply collapse. Insolvency statistics will rise and personal bankruptcies among parents – and heirs – are a real possibility. There is also the risk of fragmented family relationships; and

in good shape and obvious risks are mitigated for potential buyers.

Having KPIs, dashboards and measurement tools in place increases investor confidence, reduces risk and should significantly increase the price you get for your business, by up to 15 to 20 percent – for example if the business might have sold for \$5 million, making your business sale ready could add another \$1 million to the sale price.

In the SME space, there is a bigger risk factor to the buyer evaluation process – the more you can take out the perceived risks by getting your business sale ready, the higher the value you will achieve.

Understanding the tax consequences of a sale is also critical. Too many times we have come across businesses with complex company structures that create not only hurdles for buyers but also tax leakage for the family, resulting in a breakdown in closing the deal. Getting this in order ahead of a sale process is crucial.

Having a skilled and independent adviser with no prior connections to stakeholders is crucial. The real issue is getting to the business early enough to assist in a successful outcome.

2. Review business performance

Understanding the drivers of your business, including the relevant industry KPIs and how they relate to your competitors, is key to driving enterprise value.

Are there opportunities for performance improvement to actively drive the top and bottom lines of a business – delivering EBITDA improvement, and improvements to cash flow and working capital?

Performance improvement in preparation for a sale process can release locked-up value, driving earnings and cash to the bottom line. You can achieve increased or sustainable sales, and align products, offerings and customers to maximise growth opportunities.

This process also enables the SME to focus on driving tight control of direct costs, improving the value and supply chain of the business, while optimising general and administrative costs and other overheads.

Far too many times we see businesses that have not understood their customer mix or identified unprofitable product lines. Fixing this presents the client with quick wins in increased EBITDA, through consolidating product offerings and shedding unprofitable customers and products. These quick wins lead to an increased enterprise value – and a better sale price.

Using a skilled, independent performance improvement adviser who is hands-on and has demonstrated experience can act as a catalyst for positive change to people, processes and operations.

3. Secure your management team

As part of the exit strategy, key management are significant stakeholders in the business. Ensure that you have in place retention strategies to secure the services of your key management, as this will drive value in the sale price. Is there an identified executive able to take over and lead the business? Prospective investors and owners will pay more if there is an established and performing management team in place, particularly in businesses where there is a know-how element.

In a number of businesses it is not unusual for the senior leadership team to consider a management buyout. Consider this as an alternative and understand the potential structure that might work for you, including vendor finance over a period of time.

4. Identify your closest competitors

Most family owned businesses understand the activities of their closest competitors and in most cases have had some contact at industry events. If the competitors are public companies or large enterprises, there will be public financial information available to understand their performance, activities and growth plans. Also, common suppliers to your competitors will know how they are performing or if they are interested in acquiring.

Gathering this information can give you an understanding of whether your business may be a good fit for them and an approach can be made at an appropriate time.

5. Use your contacts

Your accounting, legal or strategic adviser will most likely have clients including investors or related industries that are looking for growth and acquisition opportunities, including buying into your business. Ensure that you maintain contact with them and include your advisers in your exit plans. ●

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SOLD WITH A SMILE

Vantage Performance was asked to work with a fast growing plant hire business with sites in Adelaide, Sydney and North Queensland. It had received an indicative offer from a third party to purchase the business assets for \$10 million. The business was in the midst of Queensland's mining boom and had very loyal staff.

The business had expanded too quickly using debt, and the GFC had caused immediate revenue decline. The directors were stressed, relationships had become strained and their personal properties were on the line. The business had been considered for sale, but no planning or exit strategy was in place.

There was under-utilised, but highly leveraged equipment which gave rise to the cash flow variability. Management reporting was poorly understood and not utilised. In addition to this, one of the interstate branches was incurring monthly trading losses and draining cash from the business.

Vantage Performance assessed strategic options and developed a profit improvement plan that included a robust stakeholder management strategy to regain support. Vantage helped the client to reduce debt, strengthen the internal control environment (rolling 13 week cash flow, three way forecast, KPI reporting, robust management accounts), and to close the non-performing interstate branch, relocate equipment and refocus the business around North Queensland where it was undergoing significant growth.

There was a revenue increase of 60% in a 15 month period and EBITDA increased from \$189,000 per month to \$391,000 per month.

Once the performance improvement plan started to work, the client started to obtain indicative offers from key competitors and investors. The family business secured an offer of \$11 million, \$1 million higher than the original offer.