

Success to succession

How to plan a successful business exit strategy



McCabe Ford Williams



Many of our clients have spent years building successful businesses. Inevitably though thoughts do turn to the future, and succession planning becomes a critical part of business strategy. How to exit from your business is a key part of your retirement planning and so it is vital that you consider this difficult topic as far in advance of your proposed exit date as possible.

First things first!

You will need to have a clearly defined goal. Decide if you want a clean break or, if you are prepared to continue working to support your successor, what level of support you want to give and over what period of time? Your aspirations here will influence the type of buyer you want to target, the value you will realise for your business, the way in which you structure the deal and the time line of your exit.

Get your house in order

Be warned - potential buyers will spot last minute attempts to window-dress your business and if they don't then the professional advisors they employ to perform due diligence on your business will.

The most important thing to remember when selling a business is that investors are often looking for long-term benefits, so run your business looking for the same. You might only be a few years away from retirement, but don't let your business look tired.

There are four main areas that potential buyers will be interested in:

- the accounts
- business strategy
- staff and systems
- contractual arrangements with customers and suppliers

So what can you do to make these areas more attractive to buyers?

- **Instead of focusing the accounts on minimising your tax liability, focus them on highlighting earnings and earning potential.** Highlight any one-off costs incurred to give a clearer indication of the future profitability of your business. Use your accounts as a marketing tool!

- **Ensure your business strategy is clear and concise.** You must be convinced by your business strategy; otherwise you will sell it short. Are there ways that you can improve efficiency or reduce costs without sacrificing quality? To obtain the best price for your business it should be marketed when it shows the greatest potential
- **The most valuable assets that a business can have is its staff.** If your most valuable member of staff is you then things have got to change. You have to show potential buyers that your participation is not essential to the success of the business.
- **A potential buyer may be looking for synergies with an existing business in which they have an interest.** They will be looking for ways in which they can achieve savings through economies of scale or improved terms with suppliers. Make sure that the business is not tied into long-term contracts with suppliers and ensure that your legal housekeeping is up to date.

Valuation, Valuation, Valuation

You need to be realistic about the value you might get for your business. There is no single formula that can be used to value a private business and the value will depend upon a number of factors such as the industry sector, earnings, future potential, asset base and risk. A business is, of course, only worth what someone is willing to pay for it, but you need a starting point for negotiations so obtaining a valuation is a step in the right direction.

Identify a purchaser

Consider family members - many private businesses are family owned and this may be your opportunity to pass your business to the next generation.

Don't forget your colleagues - if they have worked alongside you whilst you have built up your business they will understand its potential and may wish to consider a management buy out.

In the above circumstances you will need to consider if the purchaser is willing to, and capable of taking on the business. Do they have the financial backing and acumen required to facilitate the retirement you want? Remember consideration for a purchase can be phased over a number of years and, if appropriate, you could consider the possibility of a company buy back of own shares where finance is more difficult to secure.

Alternatively, you could of course consider selling to a third party. This would involve identifying and approaching a potential purchaser and/or advertising your business for sale. There are a number of organisations that can approach businesses on a confidential basis and so broaden the field of potential purchasers.

For simplicity's sake

Most businesses can be sold. However, in some circumstances business owners want a quicker, easier solution. In company situations an MVL might be an option worth considering. An MVL is a members' voluntary liquidation and involves the winding up of a solvent company. More details on what an MVL is can be found on our website <http://www.mfw.co.uk/services/insolvency-solutions/members-voluntary-liquidations>.

Getting the right advice

It is essential when considering a disposal of your business that you get the right advice. At McCabe Ford Williams we are able to assist you with a range of services to support you with your exit plans including business valuation, tax implications of a disposal, business plans and forecasts and members voluntary liquidations. For further advice and information simply contact your local **MFW office** <http://www.mfw.co.uk/contact>.