VMB

VALUE MY BUSINESS

10 STEPS

TO MAKE YOUR BUSINESS MORE VALUABLE & SALEABLE

www.valuemybusiness.co.uk

STEP 1:
MAKE SURE THE BUSINESS CAN FUNCTION PROPERLY WITHOUT YOU

- If you want to sell the whole of your business, its valuation is based on what's left after you've gone. So, the ideal solution is to transfer your skills and expertise to your management team. Let them deal with your customers, under your guidance.
- Make sure customer loyalty is increasingly with the company, not with you.
- Enable and empower your management team to operate the business without you. If you're not doing this already, start small until everybody is more confident with this process, including you. With the right management and financial information systems, this delegation does not mean loss of control.
- Passing decision-making responsibilities is a cultural change for most owner-managed businesses. Its no quick-fix and often needs some outside guidance to make it work. But it is key to growth whether you are selling your business or not.
- By passing day-to-day responsibility to others, you can concentrate on the direction of the business, and often find a better work/life balance.

STEP 2:
DEMONSTRATE A TRACK RECORD OF GROWING SALES, PROFITS & CASH WITH GOOD PROJECTIONS

- You are selling what you're doing now and what you've done in the past. But a potential acquirer is interested in your future earnings and growth potential.
- It is, therefore, much easier to sell a business which is already growing and can demonstrate a good performance track-record.
- It is important to show sales, profits and cash are growing sustainably. But growing sales by cutting margins is not a good story.
- Obviously, all this is much easier said than done. If it's not possible, do you have a good story about the current resilience of the business, and the means by which a new owner can create growth?
- You have to show confidence in the future of your business, even though you won't be there. So, you need a good explanation for selling.
- Place yourself in the position where selling is an 'option', not a financial necessity.
- Good, ambitious projections are important for a successful sale, but they must be achievable. They may require the capital investment, skills and contacts the acquirers have and you don't, in order to achieve – but if explained clearly, that's okay.

STEP 3:
REDUCE DEPENDENCY ON JUST A FEW CUSTOMERS, SUPPLIERS & STAFF

- An acquirer is looking to build on what you've got, not fill the gap created by the business transfer.
- A change of business ownership will put stress on relationships with customers, suppliers and your staff. Acquirers are reluctant to buy if there is a high risk of losing a major customer, critical supplier or key employee. So, it's important that you are not over-dependent.
- Can you survive if you lose your biggest customer or your best employee? You need to ask that question of yourself, because the acquirer certainly will.
- It is helpful to demonstrate, as far as possible, a broad spread of customers, old and new, some stable, some growing.
- Your largest customer should on average be no more than 10-15% of your sales. It's not uncommon for 80% of sales to come from the top 20% of customers. But do those 20% provide 80% of your profits?
- Look at ways to reduce the chances of losing them: through incentives, contracts, future loyalty bonuses etc. Get key staff to train others to cover for them and transfer those skills and that knowledge.

STEP 4:
MAKE SURE YOUR BUSINESS' BRAND VALUES ARE CLEAR, ATTRACTIVE & RESILIENT

- Your business is your brand. It's a complex mixture of experiences customers have of your products, services, people and attitudes. It includes your premises, website and everything people see, hear and feel.
- Make sure your vision of the value of your brand is properly understood and shared by all your customers, employees and suppliers.
- Why not test to make sure the reasons customers are loyal to you are the same reasons you think they are? If you're not sure, ask them.
- The benefit of your brand is what you are really selling. It's the ongoing revenue stream that your brand promises to deliver.
- So how strong is your brand? Can you explain its unique benefits to an acquirer?
- How easily customers would switch from you to your competitors is an indication of the strength of your brand. Do you command a price premium? How long have your customers been loyal?
- How will customers perceive your company brand if you, the owner, are not there?
- Your 'brand' and what you stand for must be clear, attractive and resilient.

STEP 5:
BUILD & REINFORCE STRONG LOYALTY FROM CUSTOMERS, SUPPLIERS & EMPLOYEES

- We've said that transferring your business to new owners can test the commitment of your customers, employees and suppliers. So how can you increase that commitment?
- You could offer customers incremental rebates for future business (maybe a 2-3 year deal), or long-term contracts with customers and suppliers, for example.
- Look at staff loyalty bonuses that are paid if they stay for the next 2-3 years, linked to success and targets.
- Get your management teams closer to customers. Spend time understanding in depth your customers' worries and their wishes. Lead the process of changes they would like to see.
- Make sure every aspect of your package of products, services, innovations, designs etc. are as strong as your customers want.
- Ensure your customers and suppliers are close to the teams that actually deliver that package.
- Show customers the breadth and depth of the talent in your business that is not just yours. Your employees will be motivated by it because they feel valued, and your customers will like the feeling of being able to get answers from a team of well-informed and committed respondents.

STEP 6:
MAKE YOUR PRODUCTS & SERVICES EASY TO SCALE-UP & DIFFICULT TO COPY

- An acquirer who sees your business as a useful addition to their own range of products and services is bound to ask the question: do we need to buy a whole company or can we buy key assets and poach some good people?
- Your business is worth a lot more if its operations are very difficult to replicate.
- The key is the uniqueness of your expertise, the appeal of your product and service mix versus your competitors, and the level of product and process innovation. Do you have valuable patents and registered designs? Do you have a large capital base that would be expensive to set up in competition?
- If you're happy that you've done everything to make it hard for existing or new competitors to take business from you, how easy is it to expand your business? An acquirer will want to grow what you have.
- A high level of expertise and in-depth knowledge that a bespoke service provider can offer to customers is a good way to command a price premium and keep customers locked in. But scope to expand is restrained by the number of employees with these skill sets.
- If every customer is given its own product or service built around its specific needs, that's very time consuming and resource-hungry, and difficult to roll out.
- Providers of bespoke products and services may benefit from exploring a more uniformed range of packaged services which are then tailored to customers' needs. This can be understood by a sales team with a broader skills base, under careful guidelines for implementation and, therefore, expanded much more rapidly.

STEP 7:
MAKE SURE YOUR MANAGEMENT & FINANCIAL INFORMATION & REPORTING IS GOOD, COMPLETE & RELIABLE

- If you don't delegate many of your management functions already, doing so is a bit scary, but essential for growth or sale. It's less scary if you are still fully aware and informed of everything that's going on.
- The key to that is putting in place management and financial information systems that keep you fed with accurate information when you need it.
- If you have empowered your management teams sufficiently to effectively operate the business on a day-to-day basis, this information is vital for them to make good management decisions.
- A key indicator of the business' dependence on you is to see who is in charge of setting and measuring your company's key performance indicators.
- An acquirer will need to see there is a good history of complete, accurate and reliable information, covering all aspects of the company's performance.
- It would be helpful to make full audited and consolidated company accounts available to prospective acquirers, showing your performance over several years.

STEP 8:
RUN THE BUSINESS AS THOUGH SELLING IS AN OPTION, NOT A NECESSITY

- The ideal selling position is to have numerous potential acquirers bidding for your business. If you haven't, that may show if you don't have ready answers to the questions other bidders would ask.
- Either way, it's preferable if you can show that, for you, selling is an option not a necessity.
- It is vital that you demonstrate your ongoing commitment to the business (particularly as you may have to work with or in the business for a period after the sale has gone through).
- Your enthusiasm – or lack of it – will show.
- The acquirer(s) will look at whether you have continued to invest in your business, replacing capital items when due. Have you continued with new product development, training, process innovation, updated website and promotional material?
- Continued investment shows an acquirer you still believe in the business, so they can too.

STEP 9:

TACKLE PROBLEMS THAT MAY LEAD TO LEGAL DISPUTES OR COMPENSATION CLAIMS LATER. MAKE SURE YOU ARE FULLY COMPLIANT.

- Many business sales fail at a later stage because of lots of seemingly 'minor' details which add together to create a higher overall risk for the acquirer.
- A higher risk for the acquirer means a lower deal price for you.
- The details which come out of the legal and financial due diligence can mean that the deal price you agree in principle early on is lowered later.
- The sorts of items we are talking about here are things left unresolved that could become a compensation claim or legal dispute in future years for the acquirer.
- For example, are all your shareholder agreements as they should be? Are you compliant on all legislation such as health & safety, the environment, data protection, copyrights?
- Have you any employee disputes looming or outstanding, or potential claims from customers or the public? Are all your contracts of employment correct and up-to-date? Are your trading terms and conditions robust?
- Has the business any future pension liabilities or potential claims for unpaid taxes?
- If these can be addressed before putting your business on the market, you are more likely to sell, and less likely to face a warranty claw-back in the future.

STEP 10:

MAKE SURE THE FIRST IMPRESSIONS OF YOUR BUSINESS IS POSITIVE AND APPEALING

- This is step number 10 because ideally you will want to tackle steps 1 to 9 before you meet a potential acquirer.
- The very first impression a potential acquirer has of your business is critical. That may be existing knowledge, an information memorandum sent out by the sale broker, your website, or your first meeting.
- Your website, brochures, office décor, call-handling reception, your operations and your people will all influence that first impression.
- A disorganised and undisciplined operation will show straight away.
- A good atmosphere created by happy and engaged staff will also show straight away.
- 'Window dressing' will not work. An acquirer will study every space of your operation. Everything you state or imply must be verifiable. If your business has structural weaknesses, address them as far as you can but be honest about them and disclose them. This will help to build trust and reduce the chances of warranty claims later.
- Acquirers are more concerned about unknown quantities, and their valuation will reflect the risks they perceive.

ALL OF THE AFOREMENTIONED 10 STEPS ARE EASY TO TALK ABOUT BUT HARDER TO DO. THEY TAKE A LOT OF TIME AND EFFORT, AND YOU MAY WELL NEED SOME OUTSIDE HELP. BUT HERE ARE FIVE REASONS WHY YOU SHOULD TAKE THE 10-STEP PLAN:

1. Everything you can do in these areas will add value to your business.
2. You need to if you are planning to sell, or want the option to sell at some future stage.
3. They will ensure you are in good shape if you are approached unexpectedly by a potential acquirer.
4. They are helpful if you wish to grow by acquiring other businesses.
5. You will also probably discover a shorter working week and less stress, from the reduced dependency of the business on you.