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**10 Secrets to  
Successfully Selling Your Business**

by

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## **10 Secrets to a successful sale**

In reality these shouldn't be secrets at all but so few businesses adopt them that they must be hard to figure out. Perhaps it comes down to the old adage that the best place to hide something valuable is in plain view. Even if you see these as good old common sense, you'll find you'll benefit from reminding yourself.

If you apply these 10 secrets then you'll be much more likely to achieve the sale value you want for your business. If you ignore them then you'll be destroying the value in your business. And all of these will work to your advantage even if you're not thinking of selling your business yet. They'll make your business run more smoothly, be more effective, grow faster and you'll get more free time.

Here are the ten secrets. I'll explain them in more detail later in this report.

- 1. Package your business**
- 2. Get yourself known**
- 3. Make profits**
- 4. Find the value in your company**
- 5. Create a repeatable system**
- 6. Build an excellent team**
- 7. Incentivise your employees**
- 8. Identify your exit options**
- 9. Plan your tax strategy**
- 10. Keep the business running**

These secrets need to be applied before you even start the process of selling your business. Some of them, especially the tax planning element, can take two years or more to be effective. So start today, whether you're thinking of selling your business or not.

## **10 Secrets to a successful sale**

Here are the 10 secrets in more detail.

### **1. Package your business**

You need to look at your business as if it was a product or service in its own right. What does it do? How will the buyer benefit from it? What's the Unique Selling Proposition?

Confused buyers don't buy. If your business is disjointed or has a confusing sales message then you won't sell it. You need a streamlined, packaged business. This may mean that certain of your business lines need to be dropped so that you get a clear focus on the core business. Of course, you'll need to look at your overall business and understand the impact and contribution of each of your products and services. But if you have elements that are not complementing or supporting the main business then there are some tough decisions to be made. It may be that you have a separate business that can be spun off and sold on its own.

Most buyers have a limited view of what they want from a product, service or business and if you have too many elements then they'll see themselves as having to pay for parts they don't want. If you want to buy a car, you don't necessarily want it to have coffee making facilities, a hand-dryer attachment and a surf-board cleaning mechanism. You just want something that you can drive.

Keep the core business simple, so that you can explain it to someone in a 30 second elevator ride, and package it cleanly.

### **2. Get yourself known**

If you want to sell anything, you have to get it in front of the potential customers first. You may have done plenty of marketing to win your business customers but if you want to get bought out by a larger company then they have to know you exist.

This is why many companies enter award competitions (or even set them up themselves) as it raises their profile. It's also why press releases and trade exposure are important.

When a company is considering making an acquisition, they may have an idea of the kind of company they want to buy but it's often very difficult to find out who's in the market without going through expensive brokers. If they've seen your company in the press or on the internet then it's much easier for them to identify you as a potential acquisition.

Some companies view an IPO as a mechanism to get more exposure and publicity but it's an expensive and potentially complicated route.

Think about who your potential acquirers could be (we'll cover this in more detail in number 8) and where they would be looking. Think about who you would have to be in front of to pitch your company. In many companies this will be the CEO or CFO, in larger organisations there may be a dedicated Mergers and Acquisitions Team. Sometimes it falls to Business Development.

The key with all of these alternatives is to get out into the market and network. Get yourself known through articles, presentations, trade exhibitions and conferences. And remember that each of these can also help to grow and develop your underlying business on the way. If no-one knows you exist then no-one is going to buy your business.

### **3. Make profits**

This may sound obvious but it's one of the fundamentals that acquirers will look for. It also puts you in a much stronger negotiating position.

When a company is looking to buy another business it will often seek out those who look like they have some economic threat which will force the sale. If you have a business that's losing money then it can only last a limited time unless you invest more money or turn it to profit through increasing sales or cutting costs. If a buyer sees a company is heading for a challenge with its cashflow then the buyer will have a stronger negotiating position because the target company has limited options.

In the days of the dotcom boom loss making companies were being bought for massive amounts of money on the basis of their projected future sales and profits. And of course their future projections always looked like a hockey stick, suddenly kicking into exponential growth in around 6 months time. These days, unless you're in a very hot sector, most buyers will be looking for evidence of a good business model and a sound management team. And profit is seen as an indicator of both of these.

If you've shown consistent growth over the last few years and you're in profit then it's much easier for the buyer to believe your future growth forecasts (unless they're too fanciful). This makes their decision easier. It also gives them more financial markers to use to calculate a valuation and gives you more support to justify what you want.

### **4. Find the value in your company**

What's the real value in your business for a buyer? Look at your business in the same way as you'd look at your products or services and identify the benefits for the customer.

Does your company have a loyal customer base that a buyer would have to spend money developing from scratch? Do you have long term contracts with your customers that will lock in future revenues for your company? Do you have recurring revenue streams from customers buying a consumable service from you? Do you have valuable Intellectual

Property (ideas and inventions) that can be used for the buyer's customers? Do you have special technology or systems that set you apart from the competition? Do you have first mover advantage in a market or other barriers to competitors in the market? How much time and money has been usefully invested in your company?

Look at all of these elements and consider what sets your company apart. What would the buyer be getting that they couldn't make or buy somewhere else. And if they could make or buy it somewhere else, consider what it would cost them in terms of time and money.

All these factors help to enhance the value of your company and make it more attractive to a potential buyer. Make sure you highlight them as you progress any discussions with potential buyers. They will probably have identified them for themselves but it does no harm to let them know that you know too.

## **5. Create a repeatable system**

Some of the most valuable and fastest growing companies in the world have simple repeatable systems that can be applied in new markets quickly and easily. Companies like Macdonalds and Starbucks have systems that are documented and can be easily followed to grow the business.

When you create a system in your business you build a much stronger operation because it allows you to step away from the day to day running and let someone else operate the company. The system allows your customers to get reliability and consistency (even with bespoke businesses) and having a documented system allows you to identify where it can be improved.

For a buyer, seeing a repeatable system in a business adds significantly to its value because it provides a platform for further growth. It indicates scalability in the business. It also means that the buyer will not be wholly dependent on the existing management team. If a company is bought and the management team all leave soon after with the business in their heads then the value of that business disappears. If it's documented and clear then the buyer can have more confidence that they're not buying a perishable asset. The buyer will still want to keep the management team, if they're good, as they will bring many other elements to the business. Having a system also helps with the due diligence process where the buyer investigates your company.

So, start today and identify where you can create systems in your business and get them written down.

**6. Build an excellent team**

If you have a company where everything depends on you, then you don't have a business. If you can't take a day off or a week's vacation without the business grinding to a halt then you don't have a business. If you are the chief, cook and bottle washer for the company, then you don't have a business, you have a JOB.

If you want to create a real business that you can sell then you need to build an excellent team that can run that business for you. Then you have a saleable asset that someone else can buy from you, allowing you to retire gracefully and sip martinis by the pool for a few years (or bag yourself a tasty consulting contract to help with the transition).

When you're building a team, you must avoid the classic mistake made by many executives in the corporate world. You must employ people who are smarter than you. In large corporations many senior managers fall into the paranoid trap of thinking that if they employ someone smarter than them then they might take their job and by employing someone less intelligent, they'll get to look good.

You're not trying to make yourself look good by employing robots and yes men to do your every bidding. You want to build a team that you can trust to look after your company, your investment, your baby, your future. So with this in mind you want to get the best team you can.

An excellent team will add even more value to your company, and you should make sure the team get rewarded for that. Four out of five investments by Venture Capital (VC) firms falter because the VC does not have sufficient confidence in the Management Team. The same goes for acquisitions. Over 70% of acquisitions fail and buyers know this so they are looking for a good team to help integrate the company into their business.

**7. Incentivise your employees**

Any project, venture, or company works best when those involved are working towards a common goal.

If your aim is to grow your company and then sell it, you need to be upfront and honest with your employees and allow them to help you achieve it. They'll have some worries and uncertainty about what a sale could mean to them and their job security but many of these concerns are overcome if there is a monetary reward when the goal is reached.

Many companies use share option schemes which can be quite tax efficient if they have been implemented in enough time. Alternatively, some form of exit bonus can be built in.

Often buyers are keen to include an "earn-out" option in the purchase price which requires certain operational milestones (customer growth, turnover, profit) to be achieved

after the purchase. These earn-outs can often be used to reward staff as they will play a key role in making sure their goals are achieved.

Buyers may be wary of reward schemes that are too generous, as they will fear that the employees may all decide to leave the company once they receive a generous handout. In reality, most people like the security of employment so even if they've paid off their mortgage they still like to keep their job. And if you've built a company where they enjoy working then they're less likely to leave.

Make sure your employees are rewarded and motivated to achieve the same objectives that you and your shareholders want.

## 8. Identify your exit options

This is worth doing very early in your business development even though it may change as you grow. An exit is the method by which you sell your shares in the company (or a proportion of them) and realise some value in cash or other shares.

You can look at your exit options in a number of ways. Firstly you can consider the type of exit you desire. The different types of exit fall into three main categories:-

**IPO** – this is where you float your company on the public markets. It can be expensive and your company will need to be a certain type and size to qualify. You will initially sell some of the shares in the company to raise finance and then your company will have publicly traded shares with a value determined by the market. It's possible for business owners to take out some money at the IPO stage but investors prefer to see the owners and management showing their faith and commitment to the company.

**Trade Sale** – this is where your company is purchased by another organisation, usually in your market. They may be a competitor or a similar type of business and generally they will want to get hold of your customer base, your revenue streams and your products or services. The way you get paid for this sort of exit will depend on the size of your company and the size of the company buying you. It may be in cash, it may be in shares (with or without restrictions on sale), it may be an earn-out where the payment is delayed until certain targets are achieved or it may be a mix of all three. This is the most common exit strategy for most business owners.

**Leveraged Buyout** – This is a broad description for any sort of buyout financed through debt. These can often be Management Buyouts with the Management Team raising finance through a Private Equity firm or bank. This will usually provide a cash payment for the business owner in return for their shares in the business.

Each of these options has its own variations.

The IPO option will provide a choice of markets (there are different requirements and regulations attached to each) depending on your size and track record. For many business

owners an IPO means staying wedded to the business for many more years to show confidence in the business.

The Trade Sale will depend on your business and the market it's in. You can start early in identifying the potential buyers that you would like to sell to. And this can be beneficial as you can tailor your business to make sure it complements their requirements (although as there is no guarantee on the sale you might want to keep this as a loose fit). It may help you make decisions on the direction you take your business. Also remember that potential trade sale exit routes may come from overseas companies or from young companies who have yet to grow. So keep your options open and stay aware.

The leveraged buyout tends to be driven by a management decision or a private equity enquiry and can happen quite fast once the decision is taken.

## **9. Plan your tax strategy**

Now this is really an early stage requirement. Good tax planning can make a huge difference to your eventual exit and the amount you actually get to keep. If you leave this until too late then you can end up losing a large proportion of the value of your business to the tax man.

The best way to plan your tax strategy is to take good advice from a tax expert early in the development of your company. This may be as simple as finding out what sort of corporate or capital structure suits you best. It can be much more cost efficient to do this early as your business will be a lot less complicated.

You do need to take into consideration your exit strategies and what sort of share structure you expect because actions such as issuing large amounts of shares close to a sale can be very detrimental to your tax position.

Often the maximum tax advantage is gained by holding shares and options for as long as possible, although you'll need to check this for your own circumstances.

When you are close to a sale you definitely need to involve a very good tax specialist and have them assist in structuring the deal. If you don't do this then you can sometimes be put in a position where you have to pay tax but you haven't been given any money due to the vagaries of the tax legislation.

Plan early and take good advice because tax can have the biggest single impact on what you receive for your company.

**10. Keep the business running**

It's easy to get excited and carried away with all the plans and ideas about exits and selling your business. However you must remember that there is still a business to run and all the planning and strategising in the world won't make a bit of difference if your business has gone bust.

The essential in your business, no matter what stage it's at or what size it is will be your cashflow. This is the lifeblood of your business and if it runs out you're in big trouble.

You must make sure your systems, especially your financial ones, take account of this and monitor and forecast it carefully. You also need to ensure your employees and your excellent team are fully aware of the importance of cashflow and maintain it as a priority.

In addition you need to ensure your business keeps growing and your customers are looked after. Your customers will be where much of the value of your business lays. And if you start losing them because you're distracted then you're losing the value in your business.

Lastly, make sure you keep your balance sheet strong. A good balance sheet, with positive net assets, helps if you want to raise finance and can be important at the point of sale to avoid complications with the way a sale is financed.

Above all else, keep the business running and you'll succeed because ultimately any exit strategy is just a matter of time and with your business running smoothly and profitably you'll have plenty of it.

**Start your Exit Strategy today, and apply these 10 secrets for success.**

*If you want to discover more about achieving a successful sale or exit from your business then contact Marshall Keen at [admin@marshallkeen.com](mailto:admin@marshallkeen.com) or visit the <http://www.marshallkeen.com> website.*

*Andy Warren is the Managing Director of Marshall Keen Ltd. He is a qualified chartered accountant, successful CFO and entrepreneur with extensive experience in Mergers & Acquisitions, Corporate Finance, Business Growth and Exit Strategies. Marshall Keen <http://www.marshallkeen.com> specialises in providing Flexible Finance Functions and CFO services to early and mid stage businesses, particularly in the tech and telecom sector.*

*Andy has successfully bought, sold and managed companies ranging in value from £75,000 to £400,000,000 and raised significant private equity funding for successful start-up ventures. He has also built companies from start-up to multi-million revenues and profits.*

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