How to sell your business profitably

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With the baby boomers retiring in droves, it's a buyer's market for SMEs. That makes it all the more important to be on the ball when it comes to exit planning.

Limited data has been collected on the sales of Australian SMEs. But what information is available makes for sobering reading for any business hoping to find a deep-pocketed buyer for the enterprise to which they have devoted years of their lives.

Here are a few figures to keep in mind if you're hoping to fatten your super balance through offloading your enterprise.

- There has been an 800 per cent increase (https://www.smh.com.au/business/small-business/retiring-baby-boomers-struggling-to-sell-businesses-as-values-of-smes-decline-20170425-gvrrzu.html) in the number of SMEs on the market over the last decade. At any one time, there are around 60,000 Australian businesses for sale.
- The average 'multiple' business owners make from selling their business had declined to 1.55 (https://www.smh.com.au/business/small-business/retiring-baby-boomers-struggling-to-sell-businesses-as-values-of-smes-decline-20170425-gvrrzu.html) by early 2017. So, if your business makes a before-tax profit of $100,000 a year, you'll struggle to sell it for more than $155,000.
- Over 5,000 baby boomers are currently retiring (https://www.macrobusiness.com.au/2011/02/the-baby-boomer-bust/) every week. That figure will continue to climb over the next decade, peaking at over 6,000 boomers retiring every week by 2027-2028.

How to beat the odds

Most SME owners take the same less-than-professional approach to selling their business that they have to starting and running it. So, while the overall picture may be dispiriting, it's still the case that smart operators can pocket a tidy sum on the way out the door.

Koos Kruger is a chartered accountant and founder of Business Companion (https://www.businesscompanion.com.au/about/). Below, he shares what he has learned from providing exit-planning advice to hundreds of SME owners.

Tip one: Make the decision to sell. Today

The best time to come up with an exit plan (https://www.mybusiness.com.au/sales/2155-4-myths-about-selling-a-business-debunked) is before you launch a business. The second-best time is as soon as possible after that.

"Owners assume that they'll be able to orchestrate the timing of a sale," Kruger says. "But on the basis of my experience and the data I've seen, slightly over half of all businesses are put on the market due to one of the 4Ds (https://www.bluemts.com.au/businessinfo.asp?pid=65&bid=17&id=57). That is, divorce, disease, disputes or death."

Let's assume you're lucky enough not to have to worry about such misfortunes. Kruger points out that you may still want to sell your business sooner than planned.

"Individual lives, businesses, industries and economies all go through cycles," Kruger notes. "It's rare that all those cycles line up neatly. An owner might have to sell earlier – or later – than planned to take advantage of an industry upswing or avoid an economic downturn. You want to sell when your business is growing and your industry is booming. Hoping conditions will be favourable when you hit retirement age is risky."

Tip two: Do due diligence… on yourself

All but the most flinty-hearted business owners are prone to overestimating the value of their creation. What's more, many owners have little understanding of what makes a business attractive to potential buyers (spoiler alert – profitability is a necessary but not sufficient condition).

That's why Kruger always recommends would-be sellers get a professional valuation done. "This will cost around $1,000 - $5,000," Kruger says. "The report will lay out what's a realistic asking price. It will also make clear what improvements need to be made to raise that asking price."

(Two of the major factors (http://www.valuemybusiness.com.au/valuation-issues/factors-affecting-value) that will allow you to sell your business for top dollar are (1) having a stable and growing income stream and (2) having systems in place that mean the business won't be overly disrupted by your departure).

Tip three: Get out of no man's land

"It's straightforward to find buyers for small SMEs, such as a hairdressing salon, which an individual or couple can get a business loan to buy," Kruger says. "Or for larger SMEs, such as a nationwide chain of hairdressing salons, which can be snapped up by a similarly sized or larger competitor," says Kruger. "What's difficult is when you own three hairdressing salons. Then you're in no-man's land, too expensive for individual buyers and too small to be of interest to the big players."

A transfer in the ownership of a SME should involve a review of all insurance policies (think business interruption, professional indemnity, property, public liability, theft and burglary, motor vehicle and workers' compensation insurance). If you're buying or selling a business, a Steadfast insurance broker (https://www.steadfast.com.au/find-an-insurance-broker.aspx) can provide the advice you need.

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A buyer's perspective

At the tender age of 34, Jamie Davison has started one business and acquired or merged with nine more. Here, the co-owner of Carbon Group (https://carbongroup.com.au/our-story/) lists the things he looks for in a potential acquisition.

Solid top-line figures: "The business has to have encouraging revenue and profit margin figures. The costs side of the equation isn't as important because that will change once it's under new management."

A reliable revenue stream and adjustable costs: "If the initial impression is positive, you dig a little deeper. Are the business's clients on contract? Do those clients pay through direct debits or are they invoiced? Is the business locked into significant outgoings, such as a five-year lease?"

Size: "As a rule of thumb, the bigger the business, the higher the multiple we'll pay for it. That's because bigger businesses have systems and managers in place and aren't so dependent on the owner. When the owner exits a small business, often the business's clients will disappear as well."

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