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SME business owners - things to consider when selling your business

Having led many M&A projects from both the buyer side and the seller side, I have seen at first-hand that selling an owner-managed SME business is hard for SME business owners and can involve a huge amount of effort and focus to complete the deal. Unless you have sold a business before, not only is the SME owner involved in a process which is wholly unfamiliar, but you will also have to deal along the way with the emotional strains about selling the business that you have worked hard to build, often over many years.

Here are a few things to consider:

- A proactive decision to sell shouldn't be a "knee jerk" reaction. Ideally it should have been planned several years ahead. Things to think about include: why you are selling; when to sell; who to sell to; and what you want to achieve from the sale. That said, you may still get an unsolicited approach at any time from a prospective buyer with an offer that's opportunistic and just too good to turn away;
- You definitely need to get good advice. Assemble a team of experienced external professional M&A advisors to guide you. You'll probably need to use a combination of advisors to cover all of finance, legal and tax. The best advisors will have done this many times before and can help you arrive at a realistic valuation; market the business effectively; control and manage the sale process; minimise your tax liabilities; and protect your interests in the sale contract. Having on board a specialist to manage the project and do the "leg-work" will also allow you to run the business whilst the sale process proceeds. A process led by inexperienced people will be inefficient and will only frustrate and put off potential buyers;
- To achieve the best sale price, the business should be shown in the best light. An attractive business should show a good financial record with complete, accurate and sustainable financial results. Growth projections in the business plan should also be realistic – "hockey stick" future sales projections are easily discounted by buyers. In preparation for sale try to make the business less risky from a buyer's point of view and tie up obvious "loose ends" which might prevent a new owner realising the same level of results in the future;
- Ensure the business is marketed positively and explore all possible buyers. A corporate finance specialist will take care of this for you including preparing and issuing a Sale Memorandum document, but be prepared to spend a lot of time on this yourself, not least as the source of hard information and to lead the Management presentations to prospective buyers.
- Be realistic on the value of your business and be prepared for different forms of offer – again your professional advisors should guide you on this;
- Whilst all this is going on, make sure that you keep your focus on the day-to-day activities of the business. Performance can often drop off during a sale process if you are too distracted by the deal and don't keep on top of things;
- The sale process will likely be long and hard. You will face a mountain of seemingly intrusive questions and requests for information from the buyer and their advisors during due diligence. It may feel as if you are riding a rollercoaster, so be prepared.

Ensure that you have in your possession signed original documents such as key supplier agreements, property leases and key customer contracts. Missing or unsatisfactory documents will frustrate the process and cause problems;

- You will probably need to involve certain key members of your staff in the sales process in order to provide the buyer side with the information they require. This knowledge could unsettle people if they think their jobs may be in jeopardy and the last thing you need now is to lose key staff from the business. At this stage you will be concerned about confidentiality and information leaking out to staff and customers and you may want to be careful about who you tell, what you tell and when you tell. However, there are legal requirements under certain circumstances to notify staff about changes likely to affect their jobs and this is an area where again you would need to take specialist legal advice as a failure to comply has consequences;
- Be very clear about your responsibilities and your obligations set out in the sale contract (the “warranties and indemnities”);
- If the terms of the offer mean that you are to stay on in the business after the sale, be ready to accept that the new owner may have different plans for the future than you had. Remember, it’s no longer your “baby”;
- If the seller is contracted to remain in the business after the sale you will most likely be involved in the business integration activities post-completion. For the buyer this is a crucial period of activity to realise the "synergies" that they assumed in deciding to buy your business. Done badly, post-merger integration can erode or destroy value expected to be created from the deal. Post-merger integration planning is best started by the buyer during due diligence, with if possible a dedicated project manager appointed by the buyer to lead integration activities.

About the Author:

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