

## ENTREPRENEURSHIP



## ARE YOU READY TO SELL TODAY?

*A seven-step plan to ensure your company can always fetch top dollar*

IT'S A WONDERFUL DREAM: YOU BUILD a successful business, then sell it for enough to support a comfortable retirement or bankroll a new venture. Sadly, you *are* dreaming if you assume this is what will actually transpire—unless you take the steps required to make it happen.

Most business owners expect to sell their firm some day, if not soon: a 2006 survey by the Ottawa-based Canadian Federation of Independent Business found that two-thirds of Canadian entrepreneurs plan to cash out by 2016. Yet business brokers say many owners wind up selling for much less than they had expected because their affairs are disorganized, their valuation expectations are absurd or their systems to manage key functions such as sales or accounting are in a shambles. After years toiling to build a profitable firm, owners who sell often ride off into the entrepreneurial sunset with half-empty pockets.

Maurice Muise, CEO of Halifax-based Gemma Business Brokers Franchise Systems Inc., says that's mainly because most owners fail to prepare their firm for intense scrutiny from a potential buyer. This neg-

ligence can be costly. In his experience, better organized businesses typically sell for as much as 30% more than their chaotic competitors.

Douglas Nix, Oakville, Ont.-based vice-chairman of Corporate Finance Associates, a global business brokerage, says a critical step such as cleaning up your books will cost thousands in accounting fees, but skipping it will render your firm virtually unsalable. And this step could uncover major cost savings by, say, highlighting unprofitable divisions or expendable managers—savings that will boost your firm's value.

"Let's say you've taken \$100,000 out of your cost structure and it cost you \$50,000 to do that," say Nix. "When you do your

business valuation, if [the company sells for] four times profit, that \$100,000 savings has generated \$400,000 in value on a \$50,000 investment."

It's tempting to delay getting your business into sale-ready condition until

you're actively seeking a purchaser. But if you receive unexpected interest in your firm or are forced by personal circumstances to make a quick sale, you won't be able to whip your company into shape overnight. Besides, preparing your firm for sale now will make it a better business even if you don't sell it anytime soon. Here are the key steps required:

► **Identify and secure your value drivers:**

John Warrillow, who sold his Toronto-based consulting business in 2008 and

recently authored *Built To Sell: Turn Your Business Into One You Can Sell*, says these value drivers can be anything from patents to key personnel. He says a prospective buyer of

a services firm, which derives much of its value from its employees, will look for low staff turnover, highly qualified employees who largely handle day-to-day operations and a hands-off owner to whom the company's value isn't intrinsically tied.

*Keeping your business ready to sell at all times could improve your sale price by up to 30%*

# Managing for Growth

## ► Ensure that your stars stick around:

"Buyers want to see not only historical consistency in staff but also that key employees are incentivized to stay with the company [with] some sort of long-term incentive plan," says Warrillow. So, if your high-performing sales team is grumbling about their lousy bonuses, now's the time to address that issue to keep them happy.

► **Develop systems to run everything:** Having a set of standard procedures or CRM software in place to manage key functions such as sales isn't only good for business; it also demonstrates a sophisticated level of organization to a prospective buyer.

Can't afford to hire more people to develop and run those systems? Not a problem, says Mark Groulx, president of A.I.M. Group Canada Ltd., a Toronto-based business brokerage. He points out that tasks such as accounting or payroll can be automated and managed affordably. The better the systems, data and information organization, the greater the value of the business, stresses Groulx.

► **Bring in the pros:** Going it alone on what will likely be the biggest transaction of your life should be a non-starter. Muise says if you do have a target date for selling your business, you should start assembling a team of professionals to handle the process one or two years before this date. For prospective buyers, dealing with a well-organized owner displays a level of professionalism and hints that other aspects of the business will be just as organized. It also puts potential buyers on alert that you're well represented and won't be duped into selling for less than market value.

Not sure who to draft onto your team? Muise says to look for an experienced business-transactions lawyer, an accountant with a specialty in personal tax planning for high-net-worth individuals (to maximize critical tax advantages), a mergers-and-acquisitions specialist to assist with valuation, a business broker to manage the process and a financial planner to help manage the proceeds from the sale. Expect to shell out 10% to 15% of the sale price in fees and commissions on transactions of less than \$5 million, and 5% to 10% on those above \$5 million.

You should recruit a valuation specialist with expertise in your industry to determine a realistic valuation, then have it updated every two years to account for changes in the business. And accept that it will be based on factors such as your firm's assets

or earnings—not the blood, sweat and tears you've put into the business or your lifestyle goals, says Nix: "I've seen owners say, 'I need \$5 million to retire; therefore, my business is worth \$5 million.'"

► **Clean up your books:** Groulx says you should organize at least three years' worth of financial statements—ideally, audited. As well, he says, you should ensure your taxes are fully paid and organize your notices of assessment from the Canada Revenue Agency to present to a prospective buyer.

You may need to do some housekeeping if you use the sort of clever accounting tactics that can save you money when running your own show but usually raise red flags for a potential acquirer. "Some people run crazy amounts of personal expenses through their business because that means they pay less in taxes," Groulx says of one common bookkeeping misstep. "If you're going to sell your business, let's not have to tell a buyer that you made \$1 million last year, but it was really \$1.5 million" after income-lowering tax deductions. Groulx warns of another red flag: having your spouse on the payroll if he or she has no real involvement in the firm.

► **Eliminate potential deal-breakers:** Muise advises resolving any prickly problems, such as outstanding or pending litigation, that could put a potential sale at risk. Another possible impediment: lacking an up-to-date business plan, complete with current sales projections, a marketing plan and a summary of developments in your industry as they relate to your firm.

► **Craft the ultimate brochure:** Muise says you'll need to prepare an offering memorandum—typically, a document of 15 to 25 pages—outlining for a potential buyer the components of the business, its competitive advantage and its value propositions. Muise says this is, in effect, a detailed brochure explaining why a buyer should seriously consider making an offer or paying your asking price. He says your offer memorandum should include company and industry backgrounders, a detailed outline of your products and services, biographies of key managers and a summary of the firm's finances.

And there's a bonus: Muise says preparing this document isn't only a necessity when selling your business; it is also likely to offer crucial insight into how it can be improved if you don't wind up selling it anytime soon. —CHRIS ATCHISON

The end of the year is an opportune time to take stock of your company and identify where things stand. In turn, this focus presents an early-in-the-year chance to share your outlook for the days and months ahead.

Help gain your employees' commitment to your goals by:

1. **Keeping it Simple** and conveying your message using clear, everyday terms.
2. **Painting a Picture** using metaphors and examples to make your message more vivid and memorable.
3. **Repeating, Repeating, Repeating** it in all forums, large and small, so as to provide more chances for the message to be absorbed properly.
4. **Confronting uncertainty**, and being honest about any glitches that may occur on the path to realizing the vision and reaching the ultimate goal.

For more helpful hints and to attend our next invitation-only seminar, please visit our website.

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MEETING THE NEEDS OF THE ENTREPRENEUR

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