



# Business Sale Guidelines

January 2018

## Introduction

When placing a business on the market for sale, preparation is essential. The better your preparation, the more time you save later and the more confidence you instil in potential purchasers.

To maintain your confidentiality and present your business in the best possible way, it is essential that the following recommendations are completed professionally and diligently.

Although selling a business can take some time, attention to detail and accuracy are critical.

Documents and information should be clear and have impeccable credentials. Any information made in the documents or made to the purchaser must be true and be supported by evidence.

Uncertain, ambiguous or limited information could put a question mark against the desirability of ownership of the business and make it very hard to sell at its true value.

## Succession Plan

Before you proceed to the sale process we strongly recommend you take the time to develop a succession plan with assistance from Ideology Consulting.

A plan will ensure you consider and develop objectives for many important aspects of the business sale process including:

1. Evaluating current position
2. Succession strategy
3. Potential buyers
4. Sale process and project management

This can take a little while to develop so plan ahead.

## Information Required

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### FINANCIAL STATEMENTS

Fundamentally the main purpose of most businesses is to provide an income and economic return for the owner.

To accurately assess the true return to the owner and consequently the value of a business, financial statements for the last three (3) years including Profit and Loss Statements and Balance Sheets are required. This minimum of three years allows us, and prospective buyers, to observe trends in the business as well as assess current performance.

It is also prudent to ensure that 3 years of data and reports from financial software is available to substantiate the stated income in the event of a detailed audit.

Occasionally the owners' personal and family financial arrangements are intertwined to varying degrees with the business financials and that the business is run in such a manner as to minimise taxation. When these situations exist, the 'on paper' profitability of the business may not reflect the actual economic return to the owner and an adjusted statement may be required from the business's accountant.

These statements can be prepared by yourself, but ideally, they must be prepared and certified by your accountant.

From this information Ideology or your accountant or broker can assist you to establish a market value and list price for your business. Ideology Consulting does not provide official valuations and does not act as a broker. We strongly advise you to seek at least one other opinion from a suitable qualified person such as your accountant.

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### EQUIPMENT, ASSET & STOCK LISTS

A complete list of assets and equipment that is to be sold with the business and an estimate of its market value (what price you would like to sell it for) is also required.

A room by room inventory of every item that you have bought / installed since taking over the premises and are intending to sell with the business is essential. If you are leasing, don't include fittings and chattels included with the lease.

You should also find, if possible, all guarantees, warranties and service histories for that equipment, along with original prices paid and have your depreciation schedule available if needed.

If you own your business premises and the freehold is to be part of the sale then the fittings and chattels of the premises will be dealt with on a separate document.

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## STOCK HELD BY THE BUSINESS

Potential purchasers will want to know what stock and how much stock your business holds and what its market value might be.

Most businesses today have their stock lists and quantities recorded on the business computer. This makes life so much easier to be able to log stock in and stock out, particularly if you have a barcode reader connected to the computer.

We need to establish an accurate figure for the market value of the business stock. There is normally a value stated on the Balance Sheet under “Current Assets”, but this may not be the market value.

Also be aware that usually immediately before settlement a stock take is conducted and the stock value is adjusted to reflect any trading that has taken place since signing the contract of sale.

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## PHOTOGRAPHS

You may wish to include some photographs of your business. Visual images of your business in a prospectus can significantly increase interest.

Images are particularly important if you have a business in the country or might attract interstate interest.

We suggest that you get these taken by a professional photographer so the business is presented in its best possible light. We live in a visual world and a picture is worth a thousand words.

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## BENEFITS

When it comes to negotiations for the business, you will be in a better position if all of the features and benefits of the business are clearly outlined and prominent in the mind of the purchaser.

Produce a list of what you think are the good points and benefits of owning this business.

List as many points as you can, what attracted you to start or buy this business yourself in the first place?

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## BUSINESS CONDITION

Is your business well presented? Make sure all of the business equipment and facilities are working well and the business is clean and tidy. Remove clutter and rubbish from desks and work areas and consider some fresh decorations or flowers.

Replace failed light globes, clean up kitchen areas and make sure the place smells nice and fresh.

Get a friendly supplier to put in an attractive window display and make first impressions count.

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## PROSPECTUS

We recommend you allow Ideology to assist you by developing a professionally prepared document that provides prospective purchasers with all of the above information. This should only be provided to serious buyers, but it present your business in the best possible way and speed the sale process.

Documents like this also instil a lot of confidence in buyers and may result in a higher price.

## The Time Factor

Do not expect the sale process to go through quickly. Occasionally it does but your business is probably not cheap if it is good and buyers will want to be sure of its value.

Some of the legal and accounting matters involved simply take time to work through. It is not uncommon for a business sale to take 3 months in the best circumstances. Six to twelve months is common.

The key is to prepare and plan ahead. Be ready for requests for information and have documents printed and their provenance clearly stated.

## Checklist

The following items are required for:

- Providing an estimate of market valuation
- Producing a prospectus
- Assist with listing a business for sale

Potential buyers will also need this information at some point in the purchase process.

- 1 Profit & Loss Statements for last 3 years (I recommend having your accountant prepare these)
- 2 Balance Sheets for the last 3 years (have accountant prepare)
- 3 KPI Reports for each month of the last 2 years
- 4 Equipment List and estimate of value – each room in the business
- 5 Equipment depreciation schedule

- 6 Financial Software Reports for last 3 years
- 7 Tax returns related to the last 3 financial years
- 8 Business Summary reports
- 9 Floor Plan of premises including dimensions
- 10 A biography of the business
- 11 Your current lease terms and a copy of the lease
- 12 A list of staff positions and effective full-time status
- 13 Compilation of client records or contracts and agreements
- 14 Photographs of your business
- 15 Stock List and estimate of value

Not all of this information will be provided initially but we need to have it ready.

## Where to Get Assistance

### IDEOLOGY CONSULTING

Ideology has considerable experience in assisting businesses with succession planning and preparing for sale. We do not act as a business broker but if you chose to use a broker we can source reputable professionals with appropriate experience for your approval.

Occasionally in areas of particular expertise we will provide clients with estimates of the value of business for sale based on information you provide to us.

Ideology will work with you to create a comprehensive succession plan and prepare your business for sale.

We can assist with:

- Estimates of value
- Assembling information for buyers
- Developing and placing of ads
- Recommending improvements to add value
- Undertaking essential relationship management
- Developing a prospectus
- Referring buyers
- Liaising with accountants and other advisors
- Strategic advice regarding timing and soundness of sale decision
- Coordinating other advisors and persons or relevance.

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## ACCOUNTANTS

Your accountant is a very important person in the sale process. They will provide advice on the value of the business. They will also consider the tax implications of the sale and in particular equipment and assets, and should advise you on the best way to handle the proceeds of the sale.

Your accountant is also important for establishing the final price on settlement.

Be sure to keep your accountant informed of progress with the sale. If you are using ProVision for assistance you may wish to give your accountant permission to discuss the matter with us.

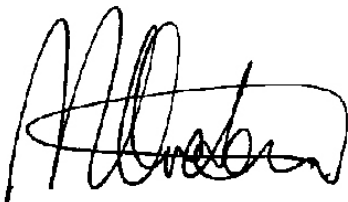
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## LEGAL ADVISOR

Your legal advisor will provide the contract of sale and take care of any partnership issues and other contractual arrangements. They should protect your interests and ensure the sale terms and conditions meet your requirements.

Please do not hesitate to contact us if there is any information you need, or if we can assist in any way.

We look forward to helping you with your business.



Mark Overton