
White Paper

Four Things
You Need to Know
about Business
Exit Planning



KERR CAPITAL

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Kerr Capital

Level 9, 63 Exhibition Street

Melbourne

VIC 3000

Australia

Email: info@kerrcapital.com.au

Web: www.kerrcapital.com.au

Phone: 1300 KERR CAPITAL (1300 53 77 22)

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Introduction



Current market conditions demand that SME owners and their advisors work a lot harder and for longer to ensure they sell their business.

At the most basic level **Business Exit Planning** is about ensuring you sell your business for the price you want, on terms that suit you and in a timeframe that you control.

But as the **Business Exit Planning** profession continues to emerge and adapt to changing market conditions, and as more and more businesses fail to sell, it will become clearer that there is more to **Business Exit Planning** than what many advisors are currently delivering.

As it stands accountants and lawyers are very active and currently dominate the promotion and delivery of **Business Exit Planning** programs – it's a natural evolution of their existing service offerings and of the relationship they have with their SME client base.

Whilst lawyers and accountants are both key players in certain phases of the **Business Exit Planning** cycle, they usually don't have the expertise and experience to advise on all essential elements of the **Business Exit Planning** cycle, for a range of reasons we will now outline.

It goes without saying that you need competent advice to ensure that you get the basic financial, taxation and legal aspects right. But if you've been involved in the sale or acquisition of an SME before, you'll know that there is a range of other non-financial, operational, personal and emotional factors that need to be addressed to ensure a successful outcome.

These other factors will directly impact the success of the **Business Exit Planning** process and will be key determinants in whether you end up with a cheque in your hand, which is surely the truest measure of success or failure in **Business Exit Planning**! These factors need to be identified and actively managed. There is a lot of work to be done through the **Business Exit Planning** process and you want to ensure that there is a reward for all the effort.

Through our ongoing work in **Business Exit Planning**, as a highly specialised professional service, we have identified a number of common, critical gaps in the process, where the bulk of current advisors really do not have enough experience to be providing the advice in this specific area. The reasons for this may have been driven by any number of factors including one or all of the following:



1. Typically professional advisors are paid by the hour and for some type of activities or advice this billing approach may not be appropriate or may simply make it uneconomic;
2. Professional Indemnity policies for most professionals have become far more prescriptive in recent years and this has meant that some advisors have been forced to drop providing particular types of advice that they may have provided in the past;
3. With increasing specialisation in many areas of law, accounting and tax there are more specialist advisors who lack direct and recent experience across all of the key **Business Exit Planning** areas;

4. Some elements of the ***Business Exit Planning*** process require the exercising of a broader, more commercial level of judgement. And because of the way typical service engagements are structured, lawyers and accountants may find it difficult to apply the required level of independence or impartiality in their advice to the client.

So what are the four things you typically would not be getting from most contemporary ***Business Exit Planning*** advisors?



#1 – Project Management

Overall project management of a complex project involving a large number of parties.

Done properly the ***Business Exit Planning*** could take anywhere between six months and three or more years. During that time there could be six, seven or even more parties involved:



- ❑ The owner
- ❑ The owner's internal accountant
- ❑ The owner's external accountant
- ❑ The owner's management team
- ❑ The owner's lawyer
- ❑ The owner's financial planner
- ❑ The buyer
- ❑ The buyer's accountant
- ❑ The buyer's lawyer
- ❑ The buyer's financiers
- ❑ The buyer's other advisors (management team, trusted advisor)

Requests for information will be ongoing. The follow up questions will continue to flow. The advice will conflict. The motivations and aspirations of the owner and buyer will waiver. It will at times see all too hard and complex.

Complete ***Business Exit Planning*** must include the services of or be driven by an advisor who owns and controls the process end to end.

This project manager may play a number of different roles but must be solely responsible for management of the entire process. This ensures that things get done. More importantly, it means one advisor, at any point in time, has a complete picture of where the process is at – this 'birds eye' perspective is essential and

allows them to better read the situation and advise the owner accordingly.

The ***Business Exit Planning*** process can be very fluid and one advisor needs to keep it on track and ensure that it continues to meet the needs of the business owner.



#2 – Market Knowledge

Contemporary and market based knowledge of the SME sector.

The SME sector faces some significant challenges, which pose complex questions for any owner and their advisors when thinking about selling their business.



- ❏ There are many businesses for sale with a lot more to come so how can you make yours stand out?
- ❏ There is often confusion over how to value SMEs. What are buyers willing to pay and what methodologies will they use to value your business?
- ❏ Financing an SME acquisition is harder than ever, so how does this affect the value of your business and what other options exist to make it easier for a buyer to acquire your business?
- ❏ Qualified, genuine buyers are few and far between, so where do you find them and what do you need to do to make the business attractive to them?
- ❏ A high percentage of business sales eventually fall over. Why does this happen and what can you do to increase the chances of a successful outcome?

An advisor who works in the SME market day to day and who understands how SME buyers and sellers think, will be best placed to help the owner answer these critical questions.

#3 – Experience in Business Exits

Experience of an advisor who has been through the entire process, from the very beginning to the very end, many times.

The preparation and sale of an SME involves a host of complex and challenging business, personal and emotional issues unique to SMEs and their owners. Most owners only go through the **Business Exit Planning** process once. Unplanned things will happen, motivations will change, emotions and ego will get in the way.



Based on our own experience we see a pattern in the types of issues that usually arise and they can span:

- ✘ broader commercial issues;
- ✘ personal and emotional matters;
- ✘ validation of proposed operational changes in the business;
- ✘ dealing with staff;
- ✘ dealing with key suppliers;
- ✘ dealing with industry competitors;
- ✘ working out whether it is necessary to get other specialist advice.

We also know from experience that with a combination of patience, constant communication, balanced judgement and active facilitation all of the issues can usually be dealt with.

A good advisor who been through the process many times will know how to keep the **Business Exit Planning** process moving forward.

The key is to ensure that you obtain a full, open ended commitment from an

advisor who has been through it many times. For this commitment to be effective, it has to be ***completely open ended*** and for that reason many advisors will not be able to give it.

There will be defining moments in each successful ***Business Exit Planning*** process and it is at those points (unexpected and usually slightly outside the area of expertise of most traditional advisors) where that open ended commitment to work with the business owner to find a way forward will prove invaluable.

#4 – Commercial Judgement

Preparedness to offer a commercial judgement when asked by the owner.

Many traditional advisors will, for good reason, be very careful and very specific with their advice. You've seen the long disclaimers that sit up front of the document before the actual advice bit! It is usually comprehensive and lengthy, but difficult to understand because of



the technical and legal language used. It can also be hard to put it into context – your usually trying to absorb what it means late at night or in amongst a very busy day to day workload. It gets even more complicated when you get well-meaning but unprompted advice from people close to you, who know that you are in the ***Business Exit Planning*** process. At some stages of the ***Business Exit Planning*** process you may be even considering multiple pieces of advice at the same time.

Having an advisor with a broad, commercial perspective on the ***Business Exit Planning*** process to help you sift through this advice is essential. You can do this by revisiting and reprioritising what is important (financially and non-financially, personally and for the business) and by talking it through in rational, impartial way.

Conclusion

The **Business Exit Planning** is long and taxing process and as a business owner you need to continuously check that your activities are relevant and your expectations on business value, timing and other key outcomes are realistic. Adaptability and flexibility in dealing with changing buyer moods, financing availability and market sentiments is mandatory - without a trusted advisor this can be a daunting task for an owner to tackle on their own.



If you are considering exiting your business and
you don't know where to start
email us at
info@kerrcapital.com.au
or call
1300 53 77 22
to book an obligation-free consultation*.



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