

## The hardest sell of all

Planning is the key to making sure the sale of your company runs smoothly, writes **Sandra O'Connell**

MARTIN CRILLY set up his first business, a direct mail marketing company, in 1994. By 2001, IDS Direct Marketing was employing 60 people and Crilly wanted out. The problem was figuring out how to go about it.

"Typically, the small business owner waits until they are 60 and has had a heart attack before even thinking of selling up their business, and then they end up passing it on to one of their children," said Crilly. "I was in my twenties and found myself running a large organisation when what I really wanted to do was work with computers, cracking codes."

When you are an employee, you give a few weeks' notice and you are gone. "As a company owner, I discovered it just wasn't that simple. I knew 'I needed to sell the business, but didn't know how to go about it," he said.

In part, his decision to sell was based on an awareness of his limitations: "The business was going well, but it needed real money to take it to the next level and I didn't have it."

Selling proved a wise decision, both for Crilly and the company. "If I hadn't sold it, that

company wouldn't be going today," he said.

The experience also provided him with an unexpected opportunity. "I realised that if I was having difficulty figuring out how to sell my business, others must be too," he said.

After researching the business sales market for two years, he set up BizSales.ie, a brokerage that consults with those looking to buy or sell a business, in many cases helping to bring the two parties together.

There are two main reasons for selling a business, according to Paul Clarkin, the managing director of Focus Business Advisers, a consultancy that helps owners groom their business for sale.

"Typically, either they want to retire or they feel they have taken the business as far as they can and haven't either the money, or the ability to bring it to the next level," he said.

In order to get the best possible deal for the sale of your business, you need to start planning for up to two years before putting it on the market.

"Buyers like a growing business. In order to make it as attractive as possible, do everything you can to improve income levels," said Clarkin. "But you need to achieve this without it appearing as if the figures have been driven up for the sale."

It's a tall order but possible, with proper planning. The first step is to secure your management team, if you have one. "Your people, particularly senior management, are of paramount importance to any trade sale," said Clarkin.

"A business that depends on one personality who does everything is a bad proposition. If that describes your business, you need to start taking a back seat. Build a management structure around you if one doesn't already exist."

Human resource issues, such as pensions and bonuses, must then be sorted. "Offer your top people sweeteners to ensure they are on your side. Once they hear you are selling, they will worry about their jobs so you need to involve them in the process and give them plenty of notice. Don't spring a sale on them," said Clarkin.

On the cash side, look at reducing stock levels and debtors and, if possible, defer capital expenditure programmes, such as investment in IT in the run up to the sale. "Work on the business drivers such as products and product development, your people, your customer base and suppliers," he said. Pay particular attention to how you present your accounts too.

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"Whereas the accounts of public companies are written for shareholders, those of small companies are typically done to minimise tax and can therefore be something of a fog," said Clarkin. "That is not impressive to a buyer."

When it comes to negotiating a deal, the tax implications must be fully thought through.

Capital Gains tax (CGT) is levied at 20% on any profit you make on the sale of your company. However, some money put into the business over the years, such as cash injected by the owner to provide working capital or for investments such as equipment, can be taken into consideration to limit your tax liability.

If the owner is selling to retire, is over 55 years of age and the proceeds of the sale do not exceed €750,000, he or she can benefit from Retirement Relief, which exempts them from having to pay CGT at all.

Pension planning should also play a part in the sale.

"If you are selling a business for 1 €1m, and have €200,000 in cash in the bank, you may be better off selling the business for €800,000 and investing the cash in your pension, where it can take advantage of tax relief and tax-free growth, while your purchaser pays less stamp duty," said Sonia McEntee, the

managing director of tax consultants Astons Wealth Management.

Payment mechanisms must also be fully thought through. Staged or deferred payments, though attractive to buyers, can pose taxation difficulties for the seller.

"A deal may see the seller paid €200,000 each year for five years. But if the documentation is not properly drafted, the seller may be liable for CGT on their €1m sale price up front," said McEntee.

Improperly drafted "earn-out" clauses, where the owner stays on for a set period of time and stands to earn a higher price for his or her company once certain targets are met, can be equally fraught. The idea behind them is that they make for a smooth transition for the buyer, which can help a sale go through. For the seller, however, the problem is that they are no longer in control.

"In the current downturn, for example, this could mean dealing with everything from the new owners letting people go, to the company not meeting its targets and you not getting the 'anticipated sum,'" said McEntee.

"Either way, your working life could potentially get much harder for the year or two following the sale."

Bernie Butler, who co-founded Platter Foods

with her husband and sold it to the Kerry Group in 2001, stayed on in an executive capacity for three years and it proved a positive experience. "I learnt an awful lot about corporate business, and that stood me in good stead when I went on to set up my next business, Good4U Foods," she said. She believes small firm owners should run their business with an eye to selling up at all times. "No matter how small you are, you should run it in a professional manner, and always have an exit strategy in mind," said Butler, whose new firm now turns in excess of £1.4m (€1.75m) a year.

"Too many entrepreneurs have a romantic notion about holding on to a business for decades and building up an empire, but you can't be emotional about it, you have to be commercially minded," she said. If you are considering a sale, do your market research, find out who is a likely fit and then court them, she advised.

"In our case, we did our research well. It took just one phone call to the Kerry Group and, within six months, the business was sold. If I found the right buyer for Good4U Foods, I'd do it again tomorrow."

**Sandra O'Connell**  
**Sunday Times – May '08**