

Why Do You Want To Sell?

The average life cycle for owning a business is between 7 to 14 years, and many people have thoughts of “moving on” around then. There are also many reasons for selling. Maybe you’ve run out of enthusiasm and no longer find it enjoyable, it could be time to retire, or perhaps you’re looking for a new challenge.

How Much Is Your Business Worth?

There are a number of methods for valuing a business, including valuing the goodwill component. To realistically value a business you need a good grasp of the marketplace. A good tip is to find someone who has successfully sold a business and arrange to see their business broker. It is rare for a business to be sold successfully without the help of professional advisers.

The adviser will need to see at least three years of financial data to assess the market value of your enterprise. They will also visit your premises (if applicable) to gain a good understanding of your business and to see what assets you are selling with the business.

In many cases, the asking price for a business is greater than the value of the tangible assets being sold. The difference is known as *goodwill*. Goodwill includes intangible assets such as the business name, an established customer base, trademarks associated with the business, and training during hand-over. Because of its intangible nature, goodwill can be difficult to value, however it, should be based on the overall value and future profitability of the business.

After determining the value, you can then set your asking price and decide how to best market your business for sale. You may choose to do your own marketing (eg, advertising in the “Businesses for Sale” sections in newspapers and trade journals) or have your business broker handle this aspect of the sale.

At this stage, you should also talk to your accountant about any likely income tax and capital gains tax liability on the successful sale. Complete and accurate financial records for the business should be prepared. A solicitor should also be consulted in the early stages to consider any legal issues which may arise, and to make provision for goodwill in the sale contract.

What Does a Buyer Look For?

Most purchasers buy a business, which they hope will generate their major source of income. As such, prospective buyers will have many questions about key areas of your business, such as:

- How long the business has been operating successfully?
- Can the business continue to operate successfully after the take-over?
- Will the seller provide training for the new owner?
- Quality, price and reputation of the business's goods and/or services?
- Are the employees skilled, and will they stay with the business after the sale?
- Is the plant and equipment in good order?
- Are the financial records accurate and well maintained?
- How much money is owed by the business, and will the buyer take on liability for any debts?
- How much work is involved in running the business?
- Is the business worth the asking price?
- Why is the business being sold?

Preparing for the Sale

A good idea is to prepare an information package for prospective buyers summarising the relevant details of your business. In particular, the package should clearly state what the buyer will get for their money. Your business broker should handle all queries, and determine which buyers have serious intentions.

When a genuine buyer arises, meet with them to discuss the business and show them your premises.

It is vitally important, once you have made the decision to sell, you continue to operate the business as usual. Don't allow it to decline while your broker is trying to sell it for you.

The Offer

A prospective buyer may make an offer, and wish to negotiate on matters such as price, training and “hand-over”, restraints on your activities after the sale, and transfer of any leases.

A holding deposit of up to 10% should be taken and held in trust by your legal representative. The buyer’s accountant will then test and verify the information you have provided.

Your solicitor should then prepare a contract for approval by the buyer’s representative.

Finalising the Sale

Most business contracts require settlement within 30 days, at which time the sale is finalised and you will receive full and final payment for your business. After this step, you should introduce the new owner to key customers and suppliers. A period of hand-over and training will then commence.

For more information refer to other Fast Facts in this series or contact the Territory Business Centre on the numbers below or visit the TBC website

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