CJA Professional Services

Accounting, Taxation, Business Valuations & General Business Consulting

HOW TO MAXIMIZE VALUE ON THE SALE OF YOUR SMALL BUSINESS

When an owner of a small business is contemplating a sale, they should ensure that the business is in such a condition that will maximize its saleability and the price a purchaser would be willing to pay for it.

There are a number of things that an owner should assess prior to sale, including the following:

Perform an Operational Analysis

While an operational analysis can be time consuming and sometimes costly, presenting a well-run business to a potential purchaser is a valuable tool for the seller to bring to the negotiating table. Chances are that one or more aspects of a business have gone overlooked and should be rectified prior to marketing the business. This could include:

- Are the premises clean, tidy and presentable?
- Are corporate and product brochures up-to-date?
- Is there any obsolete inventory?

Is the equipment in good working condition?

Review the Management Structure of the Business

Depending on the type of purchaser, they may be looking to buy the business with a management team already in place. A weak or incomplete management team may jeopardize a sale. Therefore, it is critical to review the existing management structure and consider where there may be gaps, redundancies or inefficiencies. Furthermore, you must consider how management will react to a change in ownership. Having a capable management team on hand that is willing to work with new owners will result in a higher purchase price.

Review the Business's Information Systems

Information systems play a key role when selling a business. If a seller is able to provide timely and accurate information to a purchaser, the purchaser is likely to feel more comfortable with the acquisition. Key considerations may include:

- Is the system well designed?
- Is it able to generate timely and useful information?
- Is the hardware and software up to date and supported by the manufacturer?

Could the system be adapted to meet a purchaser's needs and integrated with their systems?

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Review the Financial Statements

A review of the financial statements should be done to determine if any restructuring should take place. For example, redundant assets should be identified and either disposed of or excluded from negotiations. Otherwise, a seller may not receive full value for them. A restructuring of the financial position of the company will often result in the seller receiving a higher price than would have otherwise been received.

Perform 'Corporate Housekeeping'

During the due diligence stage, it is critical that the company's corporate records are organized, up-to-date and readily accessible. This would include, but is not limited to, incorporating documents, minute books, share registers, contracts, leases and other significant business documents. Consideration must also be given to contingent liabilities and outstanding legal matters. Adequate preparation will give the seller more control over negotiations. Conversely, if the seller is not prepared, the purchaser may seek additional representations and warranties.

All of the items noted above, if properly addressed prior to putting a business up for sale, will maximize the value received for a business. If you are considering the sale of your business and would like advice regarding any of the above, please contact Chris Alexander at chris@cjaps.ca or 905-334-6674.

About the Author:

Recognized in 2009 as one of the "Top CA's Under 40" in Ontario, Chris is a Chartered Accountant and Chartered Business Valuator with more than nine years of finance and accounting experience working with organizations that have ranged from large publicly listed NYSE and TSX companies to small owner-managed businesses and individuals.

Chris earned his Chartered Accountant designation while working for Deloitte & Touche LLP in Toronto. In 2009, he was recognized by the Institute of Chartered Accountants of Ontario as being one of the "Top CA's Under 40" in Ontario, being a recipient of the ICAO's prestigious Award of Distinction.

Chris earned his Chartered Business Valuator designation while working for a boutique business valuation firm in Toronto. He is recognized by the Canadian Institute of Chartered Accountants as being a specialist in the field of business valuations.

Chris is involved in the training of new CA students as a seminar leader at the ICAO's School of Accountancy. Chris has previously marked the practice and end of school exams for the School of Accountancy.

Chris also teaches part-time at the School of Business and Economics at Wilfrid Laurier University.

Chris is a board member and the Assistant Treasurer of the Oakville Parent-Child Centre, a charitable organization in Oakville focused on supporting, nurturing and empowering families, children and their caregivers.