



## The guide to buying or selling a business

They're two sides of the same coin. Alberta Venture brings you some advice from the pros to help both sides walk away happy

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by Alberta Venture Staff

Doug Welsh is the perfect person to ask about buying a business. Not only is he an accountant with more than 20 years of experience as a business valuator, he and his wife, Yvette, bought Zest Kitchenware – in northwest Calgary – six years ago. “I’d been exposed to a lot of small and mid-sized businesses,” he says. “I’d seen a lot of people running a good business and then I got the itch as well.”

Zest had been around since 1993, and the Welshs thought it had a good location (a crucial consideration, particularly for retail) and the right target market – well-heeled foodies. The couple also had some inside information: Yvette had worked in the business under a previous owner. She left the business for a while, but the pair kept their eyes on it. After two years, they asked the owner if she wanted to sell. Before long, they reached a price.

Through his years as a valuator and now as a business owner, Welsh has learned a few things. First, a business is going to take up a lot of your time. “Do not expect a regular, 40-hour week,” he says. “It’s 50 or 60 at least.” And no matter how much due diligence you do before buying, there will be surprises. For these reasons, Welsh says you need a passion for what you’re buying, both the business and the product.

But despite the challenges, Welsh says he and his wife would do it all over again. “We’re all a little entrepreneurial in spirit,” he says. Ain’t that the truth.

With that in mind, we get to the advice.

### **Can you find the right combo these days?**

**There are not as many sales happening as there normally would be**

“Generally, when the market slides, private business owners tend to believe their businesses are worth more than the cash flow dictates,” says Brian McGill, a partner with Calgary-based business consultancy Stawowski McGill. “It generally takes a year or two before they find out that there are no buyers out there who will pay what they’re asking.” But he says that tide is

starting to turn. “Businesses have had a year or a year and a half with real decreases in their cash flows and their profits,” he says. “They tend to become a little more realistic.”

### **How to Calculate Goodwill**

Welsh says that, particularly when the economy is doing poorly, asset-based valuations become more important and any goodwill can erode quickly. He tells the story of one client who sold a discretionary product to downtown-Calgary offices. “As soon as oil prices went down, this guy’s business dried up by two-thirds,” he says. “That business eroded to nothing very quickly.”

Ultimately, goodwill will be based on cash flow. “Is there a value for the cash flow that is greater than the value of the assets?” he asks. “That’s goodwill.”

### **What about the financing?**

Like so many things, this will depend on the circumstances, but don’t count on the banks to help you buy or operate your business. Not without taking their pound of flesh. The Welshs had a good credit rating and were buying an established business with considerable inventory and pretty good cash flow. Still, the banks wanted to finance the purchase – and the \$300,000-plus of inventory they now keep on hand – against their house. The Welshs were OK with that. “The kids were in their early 20s and we’d paid off the mortgage,” Doug says. “The banks aren’t going to give it to you.”

### **Things to do before buying**

- Check the numbers. Cash flow is the big one, with revenues and profitability next. Are they going up or down?
- Go beyond the numbers. Talk to clients and understand what can happen that might upset the boat.
- Survey the competitive landscape. “Who can push you out?” Welsh asks. “If you become successful, can someone else copy what you’re doing and flood the market?”
- Consider the location. This is important for any mid-sized business, and crucial for retail.



## Have you Been Prepping?

### **If you are thinking about selling, start now**

Generally, people don't do a good job of prepping their business for sale. It's not that you need to be thinking about selling from the moment you buy, but do give yourself somewhere between three and five years to get ready, and understand that there will be a liquidity event: It could be a sale to employees, management, family or a third party, but whatever it is, to get the maximum value you need to have a plan and focus on a number of areas of the business. "The buyer will want to do their due diligence, to open the hood and check inside," McGill says. "You need your financials in order, a great culture, leadership, second and third levels of knowledgeable management. As a buyer, that creates less risk for them, so they should theoretically be paying more." So, some tips to raise the selling price.

### **Have you created a vision and gotten your staff to buy in?**

Vision is crucial to a business, and it goes way beyond a mission statement. McGill says several years ago he asked a client who owned a huge flooring business what type of business he was in. "He said he was in the flooring business," McGill says. "So we talked for a while. We ended up concluding that he was in the business of making people happy, of helping them build their nests."

So come up with your vision, get buy-in from staff, practice it every day and watch the value of your business grow.

### **How to identify potential buyers**

For the most part, you'll want as many potential suitors as you can get. At the same time, you don't want to loudly proclaim that you want to retire for fear that it will weaken your negotiating position. There are business brokers out there, but Welsh says a lot of it happens through word of mouth. "You casually make it known that you're interested in selling," he says. "Give hints to friends, potential customers, suppliers, key employees and competitors."

And McGill recommends letting any of your banking friends know. "That's one of my first calls," he says. "They may have clients interested."

## 6 Tips for Selling High

- Clean up your financial statement. "If you have a car in the business you use personally, get it out of there," Welsh says. "Do you need that loan to your son or daughter? If you have excess cash sitting in the business, deal with it."
- Clean up your receivables. Either collect on them or write them off.
- Clean up your inventory. Do you have stuff gathering dust? Get rid of it.
- Are all tax returns filed and up to date?

- Know who your top clients are and what percentage of revenue they make up. “You need to have all that at your fingertips and that will show that you’re a serious seller and it builds a relationship with the potential buyer,” Welsh says. “You want a situation where the buyer feels you’re competent and they’ll be willing to pay a bit more for that comfort.”
- And, probably most importantly, who’s the next in command if you’re not here? Can you go away for a while and will your business run by itself? If not, you need to identify and begin to groom some mentees to take over. “If everything is in your mind, then you don’t have a very valuable business,” McGill says.