

Which way for a profitable

Selling your business for the best possible return requires forward planning and clever marketing of existing assets. David Parker offers tips to dress your business and what commercial aspects to consider before a sale.

Preparing your business for sale in an intelligent fashion is one of the most profitable pieces of business planning you will ever undertake. Unfortunately, many vendors are either too busy with the day job to pro-actively plan a sale strategy or, however well intentioned, they simply don't get round to it. The goodwill values currently being paid for businesses can also make vendors a little complacent in this respect.

However, the current healthy market should not distract you from the fact that the

sale of a business is a one-off opportunity to crystallise many years of blood, sweat and tears. Very often the capital sum achieved will be the vendors only means of retirement income and every effort should be made to ensure the best possible deal. To put this into perspective, the same business when well prepared and presented can very easily result in a 10% premium over and above the poorly prepared one. For an average business this could mean well over £100,000 difference. When was the last time you spent £100,000

without giving it much thought?

Preparing a business for sale involves many elements including personal planning, corporate planning and financial and tax planning, all of which merit discussion in their own rights. This article covers none of these aspects but instead focuses primarily on the commercial planning required in order that your business sells for the best possible price.

Boot on the other foot

In preparing a business for a sale it is important to put yourself in the position of a buyer and understand what it is that they are looking for. At the most basic level, it can be assumed that most buyers will be looking for an opportunity to either make a living from or generate a profit from the future operation of your pharmacy. The words "profit" and "future" are key to understanding what will drive your business value. Despite common assumptions to the contrary, businesses are not valued based on the turnover that you have achieved in the past, but rather the profit that somebody else can credibly achieve in the future. Although historic turnover serves as a good pointer, it is only future profit that will pay the bank loans, and put bread on the table for the potential buyer.

Although your business may generate a healthy bottom line this year, a sensible buyer should always ask themselves the question, "can I sustain this?" or "is part of this profit vulnerable?" If a buyer considers part of the business to be vulnerable then his valuation should logically reflect this fact. A business that starts with £100k profit and grows with the market has a very different value to one which starts with the same profit but declines gradually over the years. The key to maximum value therefore is to maximise the profit a buyer starts with, whilst minimising the risk, or more specifically, the perceived risk that similar profits will not be forthcoming in the future. Although this planning should start as far in advance as possible, it is never too late to make a difference somewhere.

Maximise starting profit

One might imagine that maximising profit would be an ongoing pre-occupation of all business owners. However, this is not always the case. An owner who has been in comfortable profit for many years, and who is approaching retirement, may have taken his foot of the pedal a little. Where previously he would have screwed down every cost to a minimum, and every discount to a maximum, this may no longer be the case. Take the time to review and if necessary re-negotiate the cost structure of the business. In particular, review branch opening hours. Long opening hours are often histor-



Time is of the essence: So plan your sale well in advance, setting deadlines if necessary

ble sale?

ic or habitual rather than profitable. Where it is possible to shed hours without significantly impacting on turnover this will have a significant impact on a buyer's P&L projections and make the business generally more attractive. You may be happy to work until 10pm, but not many other people will.

A reduced hunger for profits can also manifest itself in a heavy staffing profile. Where you may in your early years have taken on the world with only a smattering of employed assistance, reduced financial pressures and motivation may mean that you now surround yourself with a team of helpers that do everything from unpacking the goods to dropping off the dry cleaning. Although these may be a comfort you can now afford yourself, they do not flatter the P&L and are costs that will reduce the business value for a buyer. Although I would not propose a mass cull of loyal staff the week before sale, I would suggest that caution is exercised when recruiting or replacing staff, authorising overtime or awarding pay rises in the year or two before sale.

Of similar detriment to the P&L is the fact that business owners will often put as many



Right turn: To make the maximum profit from a sale put yourself in the position of the buyer and prepare a business plan answering all the questions a potential buyer will have before purchasing your business

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costs as possible through the P&L with the aim of reducing profits and thus their tax burden. Putting to one side the legality of some of these costs, once again the result is a bottom line that does not flatter the business. A well advised buyer should be able to sort the wheat from the chaff, but a well ordered, simple and lean P&L will always set buyers off on a more confident footing. A word of caution however; do not be tempted to trim your P&L beyond what would be considered reasonable. A P&L with pharmacist costs at £30k and a gross margin of 35% will only be swallowed by the truly foolhardy and will make most buyers suspicious of everything else in the business.

Guarantee the future

Although it is impossible to guarantee the future, most buyers will want not only to understand your baseline level of profitability, but will also want to be assured that they can keep this up. The most common and expen-

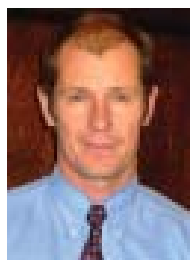
sive area of concern for buyers is what is known as “The personality business”. This is the business where the existing owner is so well loved by each and every one of his customers, that the only way is down. This may well be perceived risk rather than a real one, but nevertheless it is one for which your business will be discounted (I have seen discounts as high as 50% negotiated on this basis). If you think the business can stand it then begin to step back from the day-to-day operations well in advance of the sale. If the pharmacy is trading under your name or, worse still, that of your great grandfather, consider changing the name to something more generic a year or so before the sale.

Almost as frightening to a buyer is the perfectly run or over-performing business. You may well be proud of the fact that your business is extremely complicated yet runs like clockwork under your expert guidance, but this will do little to set-

tle the nerves of a first time buyer contemplating a £1m loan or a multiple buyer planning to operate the business under an employed manager. Most buyers are naturally attracted to businesses they feel they can improve rather than those they feel they will destroy. Once again, where possible, attempt to simplify the business operation and to make it as automatic and independent of you as possible. Where you have nursing homes, delivery services or significant MDS provision, do what you can to make sure this business can be easily picked up by a buyer.

Above all, be aware that buyers want to hear that they are buying a low-risk easy to run business so do not let your desire to blow your own trumpet destroy your goodwill.

If you are in the fortunate position to be able to plan the sale of your pharmacy well in advance, with a few simple steps and a good marketing campaign, you can be assured that your many years of hard work will achieve the maximum return.



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