

# Get the best price for your business

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## Get the best price for your business

Like beauty, value is in the eye of the beholder. Your business is worth what the highest bidder thinks it is worth – unless you can convince them otherwise. Consider what most buyers will be looking for.

## Stability

The longer your business has been operating, the easier it could be to sell, provided it has a solid track record.

**Action:** Make sure you have a well-documented performance and growth record over the years, including financial returns, projects completed or customers gained. Buyers may find tax return records more convincing than other financial documents.

## Reliable market

A good history is reassuring, but buyers will be strongly interested in the future. They will want to know that your main market(s) are growing or at least stable rather than declining.

**Action:** Look for research that shows your market is in an emerging or growth phase rather than declining. If growth has flattened, can you suggest areas of the market with still untapped opportunities?

## Stable customers

A well-managed customer database is one of the most valuable assets you can offer a buyer because it can be used in many ways for marketing and gaining more customers through referrals. Buyers will also want to know that key customers will not leave when you do.

**Action:** Improve and update your customer database. Start measuring customer retention rates and customer referral rates so you can talk about customer lifetime value and show how the good service the business provides both retains customers and brings in new customers through customer referrals.

## Secure cash flows

Buyers will want evidence of reliable revenue streams coming into the business. A business with a good spread of customers is usually more attractive than a business dependent on just one or two major clients because it will be more resilient if a major customer leaves.

**Action:** Start building more diversity into your customer base if you are too reliant on a few major customers. Look for ways to develop more revenue streams by adding extra services or products and lock in stable revenues through customer loyalty schemes and contracts.

## Proven marketing tactics

Marketing is an area where buyers may fancy they can add value through new ideas, but they will also want to know what tactics you have used.

**Action:** Document your marketing strategy (it should be in your business plan) and be able to show your promotion plan tactics for the next 12 months. Point out what you have done to expand your markets and what has worked best for the business. Suggest some still unexplored areas that could offer potential, such as a better website or social media marketing.

## Tight financial control

A business with a history of lurching from cash crisis to crisis will hardly inspire confidence. You can be sure that a buyer will check out your credit history and the loans the business has needed from time to time. The buyer will also want to know what key performance indicators (KPIs) you regularly monitor. These features will reveal your money management skills both in good times and bad.

**Action:** Be able to show a buyer through key documents such as cash flow forecasts, profit forecasts and budget reports that the business has been well managed. Start monitoring the standard key performance indicators (KPIs) such as gross profit and net profit ratios as well as KPIs critical to your type of business. Show in particular that you have credit management under control and the average debt collection time is at least as good as the industry average (ask your accountant for the statistics) and steadily improving.

## Good business systems

Anyone buying a business will want reassurance that all business processes are clearly documented to make the transition to new ownership as smooth as possible.

**Action:** Prepare your business as if you are planning to franchise it or had to leave the business tomorrow. Start building an operating manual that documents all processes in simple, easy-to-understand steps. This may take time, but will definitely add value as it will smooth the transition, and enable faster training of new staff.

## Protected intellectual property (IP)

The IP the business owns such as a respected brand can be very valuable to a buyer, but only if it is well protected.

**Action:** Protecting your logo and brand as a trademark is essential. See what else you could do to protect any designs, inventions, copyright material or other IP that will add value.

## Stand-alone business

A business wholly or largely dependent on your presence and personality will have limited appeal because buyers will naturally wonder what will happen when you walk out the door.

**Action:** If your business is personality-based, take steps to reduce its dependence on your continued presence. The steps could include employing staff and delegating more of the critical tasks to others.

## Loyal staff

If key staff are critical to the continued success of the business, buyers will be anxious about their loyalty to the business under a new regime.

**Action:** Be able to show that key staff have been briefed on the likelihood of new ownership and are locked in through loyalty incentives.

## Easy transition

Being able to reassure buyers the transition to their ownership will be as painless as possible may just be what is needed to clinch the deal.

**Action:** Think about what you can do to help the buyer. For example:

- Offer some training before the handover, plus a hand-holding period afterwards.
- Offer some financing terms. The reality is that few businesses are sold for clean cash. An offer to leave some money in the business can be reassuring to a buyer.
- Restructure the business to make it more affordable. If you own the building, can you separate it from the operating part? If the business has expensive machinery, can you separate it into a separate company and lease the machinery back to the business?

## No surprises

Finally, the last thing a buyer wants after buying the business is to encounter unexpected issues that will waste time and lower the value of the asset they have just bought, such as:

- Unpaid debts
- Unresolved legal issues
- Hidden or unpaid tax liabilities
- Debts owed to the business you know or suspect will not get paid
- A game changer in the shadows, such as new disruptive technology, a major competitor about to locate near you, or a road change that will divert traffic from your area.

**Action:** Investigate what you can do to reassure buyers and make the business more attractive. If there are skeletons around, consult with your advisers about ways to resolve these issues. You don't want to face later legal action from an angry buyer.

## Next steps

- Work through this guide again to select and action the most important items that will add the most value to your business.
- Discuss possible ways to protect your IP with an IP expert.
- Get advice from an accountant to identify the KPIs critical to your industry type so you can show they are monitored and acted on.
- Ask your accountant and a business broker what other steps might add value to the business, or make it easier to sell.
- Discuss any tax angles and other issues that might result from restructuring your business into separate parts to make it more affordable or attractive to a buyer.



## We hope this guide has been useful to you.

If you require more detailed or more tailored advice and support, call us today at **(08) 9380 3555** and book a **FREE no obligation meeting**. We can catch up for a coffee and discuss your individual needs.

You can access further tools, guides and calculators at



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