

Thinking of selling your business when you retire?

Management issue paper

How do you determine a price, find a buyer or negotiate a sale? When do you need to start planning? How do you let go emotionally from the business? A good adviser can help owner-managers answer these questions and realize the financial rewards of their business.

Recently, one of our clients was preparing for retirement, and decided to sell his manufacturing business for what he thought was a good price. After analyzing the business and considering its various aspects, his Grant Thornton adviser concluded that in fact, it was probably worth much more than the owner had thought. His third-party perspective and ability to project into the world of buyers had found value in the business where the owner had not. In the end, the owner expected to be able to realize about 50 per cent more for the company than he originally had anticipated.

If you're thinking of selling your business as a way of funding your retirement, finding the right price is only part of the challenge. You also have to know what to do to make sure your business is saleable, how to take your business to market, and when to begin planning its sale. You need

to understand the tax implications and how to deal with any emotional attachment to your business.

What's your business worth?

If you've been enmeshed in running your business for years, you may be unsure of its worth in the current market. Instead of underestimating its value, like the client described, you could be overestimating it to the point of alienating possible buyers. A mature business which has had most of the capital removed, or which has not kept up with current equipment and other necessary investments, is unlikely to have much value for buyers. A third possibility is that you simply have no idea of a reasonable price.

Ultimately, a business is only worth what the market will pay at any time. For a successful sale, it is important to maximize business earnings up to the owner's retirement and take advantage of favorable market cycles when timing a sale. This requires careful planning that should not be left until the last minute. The year before you retire is too late to start thinking about selling your business.

When should you start planning to sell?

Just as we should all contribute to our pension plans as soon as we begin working, business owners should be preparing their businesses for sale from the very beginning. Failing that, it's best to begin as early as possible — some experts recommend beginning at least 10 years before retirement.

Unfortunately, according to a Globe and Mail report, 81 per cent of business owners in a recent survey had no business plan, and only seven per cent of those without a succession plan were forming one.

If you hope to fund your retirement from the sale of your business, it will be imperative to ensure that it retains its value, and that this value will be perceived by buyers. A business that's worth selling has sustainable resources, or potential value through patents, proprietary products, a niche in the market or a unique product. A buyer must be able to identify a product or service that could be taken to market, even if it is not yet at its optimal level of development. The buyer must recognize an opportunity for generating enough revenue to reimburse him or her for the cost of the business.

Determining the true value of a business takes time. Working with a qualified adviser can lead to a clearer understanding of the potential of the products or services for sale, and a broader range of prospective buyers. In addition, there are tax implications to selling a business that should be taken into account to help owners keep more of the proceeds from a sale.

What's your emotional attachment?

Is your business your life blood, your reason for living? Is its value so high to you that no one would be willing to buy it? Will you find it difficult to let it go? Do members of your family expect to buy it or retain an interest in it? When will be the best time to retire?

These are some of the emotional issues that can surround the sale of a business. Grant Thornton advisers can help vendors identify and work through these concerns, and offer creative solutions, such as including a continuing involvement in the business within parameters that are acceptable to the purchaser.

Taking your business to market

Your adviser will likely begin by preparing a detailed information memorandum on the company, based on such documents as the curricula vitae of senior managers, historical financial statements, market commentary and discussion of the competition, information regarding proprietary or patented processes, a current business plan, marketing brochures and a list of major clients.

The comprehensive information memorandum will then be forwarded to potential buyers, whose names have been gleaned from competitors and interested third parties. When interest in a company develops, negotiations begin.

How Grant Thornton LLP can assist in the process

Grant Thornton LLP understands the selling process from the perspective of both the buyer and vendor. Because buyers and vendors begin negotiations from opposite ends of the spectrum, an expert who understands this can articulate the solid opportunities and advantages of a company in a way buyers can appreciate. In this way they can substantiate the value of a business for a purchaser.

Our qualified personnel can also help a vendor by providing a third party, unbiased, perspective to help the client make the decision as to when is the best time to sell the business; whether to sell to existing management and/or employees or seek outside purchasers for the company; how to benefit from tax planning; how to bring a business to market and how to negotiate a successful sale. Some may not be taking full advantage of savings opportunities because they are involved in both GST/HST-taxable and exempt activities. Evaluating how much GST/HST they can recover as an input tax credit (ITC) can be time-consuming and frustrating. As well, such organizations may not have reviewed their methods of allocating GST/HST to taxable and exempt activities since inception of the tax and may not have considered alternatives available.

If selling your business is something you need to consider before retirement, contact your Grant Thornton adviser — knowledgeable advice will help you reap the rewards of your business.

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