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sound advice

Shaping your business strategy: prepping for a profitable exit

When you have one eye on your future exit, managing your business requires a slightly different mindset. One that is focussed on cleaning everything up, increasing appeal and being seen to spend the right amounts on the right things.

It requires smart decisions that focus on shorter term goals, but without neglecting future business value. This might feel like a subtle shift, but nevertheless it's an important one. In our previous article, [Exit Strategies: 10 steps to successfully move on from your business](#), we mentioned the importance of building a 'sellable' business as part of the process of succession planning.

Here, we'll dive deeper into that, looking at what a sellable business looks like, and determining the things you can be doing day to day in order to add value and appeal. Both while you're still at the helm and at the point you come to exit.

What does a sellable business look like?

When we talk about a sellable business, we mean one that is attractive to potential buyers and has qualities that make it appealing in the marketplace. Of course, what makes one business more or less sellable than another will depend to some extent on the industry. But in general there are a number of characteristics that potential investors will be looking for in any opportunity:

Financial stability

A potential buyer will look for consistently positive cash flow. They'll want to see organised and well-maintained records, as well as a strong balance sheet giving a profitable outlook. Importantly, any debt reported should be both reasonable and necessary.

Predictable revenue streams

In order to ensure continued profitability, any potential buyer will want to see that the business's revenue streams are dependable and predictable. This requires a diverse and stable customer base, preferably with long-term contracts in place or recurring revenue models set up. Dependency on a small number of clients will be viewed as a disadvantage.

Operational efficiency

Transparent and streamlined operational processes are vital. This should be demonstrated through clear documentation of standard operating procedures, with all day to day operations carried out by well-trained and capable employees. Where possible, investors will like to see that technology is being used in the right way to enhance productivity.

Scalability

It's unsurprising that buyers tend to get excited when they spot potential in a business. So if you can demonstrate opportunities for growth and expansion, with plans in place that allow increased demand handling by your systems and people, you'll be in a great position.

Strong market position

Where do you sit in your market? Are you clear on your unique selling proposition, or USP? Brand recognition and a positive reputation, underpinned by a solid marketing and sales strategy, will set you apart as an appealing prospect.

Customer relationships

Customer satisfaction and loyalty give confidence to potential investors. They'll like to see that you have systems and processes in place to strengthen relationships and keep repeat purchases coming.

Intellectual property

There's competitive advantage to be gained by making sure you have all patents, trademarks, copyrights and licences in place for any intellectual property or innovations owned by the business.

Transition strategy

With a clear succession plan in place, any potential buyer will be able to see immediately what the transition timeline would look like should they choose to invest.

Compliance and risk management

Whether they're industry specific risks, or more general ones, meeting all regulatory requirements and having the right insurances and contingency plans in place demonstrates that the business is prepared for any eventuality.

Positive, motivated workforce

Do you have the data to support claims of low turnover rates and high morale, with effective employee training and development programs? Depending on the type of sale or acquisition that occurs, this could be incredibly important to any new owner.

Strong business values

What do you stand for and is it clear? Whether you believe in operating with environmental conscience, or you're committed to corporate social responsibility, if your values align with those of a potential buyer, you'll have another tick in the box.



Shaping your business into a sellable prospect

Ultimately, preparing a business for sale is not about 'making the books look good', it's about enhancing its overall value and ensuring that potential buyers see it as a desirable and sustainable investment. It's about demonstrating strategic foresight and operational excellence, while making smart choices about growth opportunities and avoiding overinvesting. All while maintaining day to day operations. It's a fine line, requiring a strategic and disciplined approach.

Here are some of our most practical tips to help you strike the right balance:

Making cost-effective equipment decisions

Items of IT hardware, machinery for manufacturing, vehicles and large items of furniture can be expensive. And while buying might be more economical in the long run - allowing for capitalisation and depreciation over successive years - it may not be the most financially prudent approach if you have one eye on the exit in the short to medium term.

If you're faced with looming upgrade or purchase decisions, evaluate whether leasing could be a more cost-effective choice. You might find you're able to benefit from greater flexibility and lower initial costs, thus keeping your balance sheet looking more buoyant.

In each case, consider the nature of the equipment, its expected lifespan, and the potential for technological advancements. Open-source, or cloud-based solutions, for example, can provide scalability for software, IT infrastructure and storage, without large upfront costs.

And before you even get to deciding between leasing or buying, make sure you're only investing in technology or equipment that fully aligns with your current business goals.

Focus on flexibility in your workforce

You might feel that permanent staff provide an important level of stability and loyalty, particularly when it comes to specialist or senior roles. And that may often be true. But tying yourself into long term contracts, with associated benefits payments and severance arrangements, may not always be effective when you see a potential exit on the horizon.

Where possible – and of course it won't always be possible – seek good quality temporary or contract staff who will offer you more flexibility. Alternatively, consider a hybrid approach, combining permanent employees

with contractors, to balance that all important flexibility with a comforting level of continuity.

Think too, about whether you could outsource non-core functions such as accounting, IT support, or customer service to specialised service providers. This can often be more cost-effective than maintaining in-house teams. And should leave everything nicely tidied up ready to hand on to new management too.

Of course, if staff get wind that there may be a sale, takeover or merger on the way, morale could take a bit of a nosedive. That's why it's vital you work to maintain a positive environment to increase satisfaction and retention among employees. Encourage employee engagement and make good on promised training and development opportunities. Particularly where these benefit the business too – think cross-training and up-skilling to allow employees to handle multiple roles, improve flexibility and reduce the need for additional hires.

Keep a constant eye on your costs

While cost control is vital during any season of your business, it should become central to any and all decision making at the point you're positioning yourself for potential exit.

Monitor costs carefully. As discussed above, outsource functions, use freelancers, lease equipment... If those things make sense for your situation. And make sure your cash flow is fluid, ensuring you can meet all financial obligations.

Regularly review expenses, identifying areas where these can be reduced without compromising the quality of your products or services. Or maybe add an incentive scheme for employees to find these opportunities for you. You'll be amazed by the ideas that will emerge.

Shaping your business into a sellable prospect

This may not be the time to be investing in large item energy-reduction schemes, such as solar panels, insulation and the like. Because the benefit won't be seen in the near term. But simple measures such as installing energy-efficient lighting, a mandatory evening switch-off, a campaign to reduce water consumption, or a commitment to reduce printing and paper could be easily and cheaply implemented and will have a much quicker impact on day-to-day running costs.

Avoid accumulating debt

If you're looking to maintain an attractive business prospect for purchase, it pays to keep your levels of current debt low. Prioritise paying off high-interest debt to reduce financial strain. And if further debt becomes necessary, explore options with favourable interest rates and repayment terms.

Make sure you keep those customers coming

A business is nothing without its customers. So if you can demonstrate a strong base of loyal and returning customers you'll be ticking a huge box on any potential buyer's checklist. After all, it's a lot cheaper, in general, to retain existing customers than it is to go out and find new ones. So in those important months and years leading up to that potential sale, invest time and energy into building your customer base. Depending on your industry, consider personalised customer service to build long-lasting relationships and even increase the value of your proposition. And consider implementing loyalty programs or special offers to incentivise repeat business.

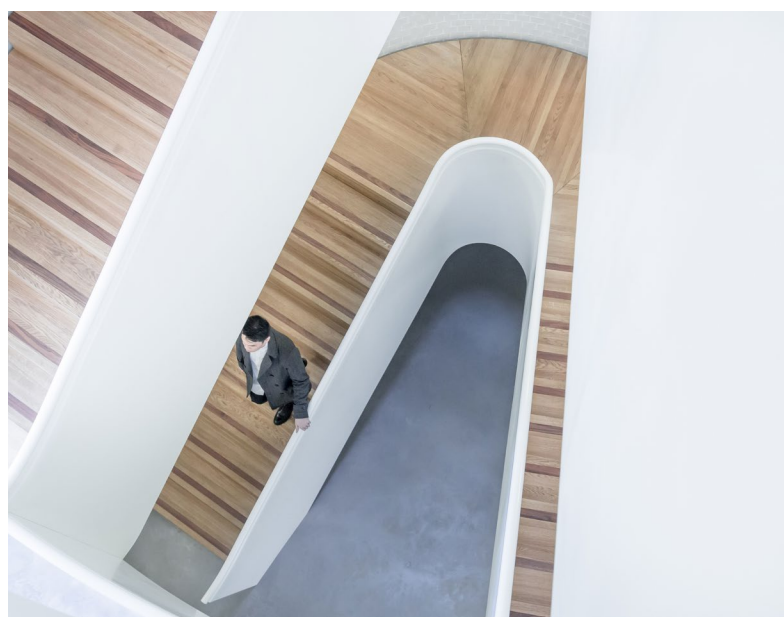
Importantly, it pays to have a good Customer Relationship Management (CRM) system in place to track customer interactions, manage leads, and enhance customer relationships. And you'll also be able to interrogate it to produce all that good data to demonstrate business value to a potential investor.

Be strategic about supplier relationships

While good vendor and supplier relationships are important to ensure efficient operation of your business at any time, there are specific things we should think about when we're tidying things up with a view to a sale.

Consider what a potential buyer would hope to see. Perhaps well-managed relationships that can be relied on to deliver strategic alliances that benefit both parties. Or particular synergies or a shared ethos, for example. Chosen suppliers should fit with the goals and values of your business, whether that's environmental conscience, the highest quality products or providing a living wage, for instance. They may also wish to see you're taking a diversified approach, mitigating the risk to your supply chain by ensuring you don't rely too heavily on one provider.

And whether you're setting up new contracts, or simply taking the opportunity to renegotiate old ones, explore bulk purchasing options for lower costs and make sure you secure favourable terms that work in the short to medium term. Be particularly mindful of exit clauses on contracts if you know that the longer term is uncertain.



5 more things to think about when you're building a 'sellable' business

1. Inventory management

Depending on the business you're running, it could pay to review your warehouse processes and adopt just-in-time inventory practices. This could allow you to minimise excess stock and associated carrying costs in the short term. As well as creating a potentially more favourable sale offering with greater liquidity and less cash held in stock.

2. Legal and compliance considerations

If you're planning to sell up at some point, you'll want to be able to demonstrate that you're adhering to industry regulations, with all necessary checks up to date. Conduct a compliance audit at the earliest opportunity and create a list of actionable steps to get you where you need to be. Assign someone responsible for each item and ask them to report back progress to you regularly.

Avoid the need for new contracts or agreements where necessary. But if it's unavoidable, make sure you seek legal advice in order to protect your business interests.

3. Investments

Depending on how close you might be to exit, it may not be the time for investment. But if you feel it's important strategically, focus only on investments that directly contribute to revenue generation or cost savings. Prioritise projects that align with your business goals and offer a clear and demonstrable return on investment, particularly in the short to medium term.

4. Market research and positioning

Even if your goal is to reduce costs, it's important to maintain some level of marketing presence. But perhaps not one that it is necessary to invest too heavily in at the current time. Identify a specific niche in the market where you can focus your efforts and keep abreast of what your competitors are up to. Make the most of cost-effective strategies such as social media marketing, content marketing, and email campaigns. And leverage analytics to track the performance of marketing efforts, doubling down on channels that deliver the best ROI.

5. Manage risk

During the period of due diligence involved in the sale of a business, any potential buyer will want to see the steps you've been taking to manage risks in your environment. Make sure you can demonstrate that you have any necessary insurances in place – liability, property, cybersecurity, among others. And develop contingency plans for potential disruptions, such as supply chain issues or natural disasters.

Anything you can do to show you have a well-managed, security-focussed business will reap rewards when it comes to its valuation and how quickly a buyer can be found.

Richard Starkey's bottom line

"What are the key takeaways from this?"

"In my view, when you're looking towards a future exit, your number one focus should be on the meticulous management of your capital assets. From astute choices in equipment acquisition — weighing the merits of leasing versus buying — to fostering a flexible workforce and vigilant cost control, each decision contributes to shaping your business into a 'sellable' prospect.

"Beyond the day-to-day, a focus on financial matters is paramount. Regularly reviewing expenses, controlling debt levels, and sustaining a loyal customer base all contribute to a robust and appealing financial profile. Strategic supplier relationships, adherence to legal and compliance standards and a keen eye on risk management will further fortify your business for a successful exit.

"As you navigate the journey towards a potential sale, remember that building a sellable business is not just about financial metrics or 'making the books look good'; it's a holistic approach that considers every facet of your operations. The steps you take today to enhance your business's value will not only pave the way for a smoother exit, but also contribute to its resilience and desirability in the marketplace. And while we're talking of smooth exits, it's worth noting that the due diligence that goes into any sale is not easy and takes time. It'll take you away from the day-to-day running of the business.

"But ultimately, by aligning everyday decisions with the broader goal of creating a business poised for sale, you will set the stage for a successful transition and the realisation of its maximum potential value."



Do you have one eye on exiting your business in the near (or not so near) future? If you'd like us to support you with any aspect of strategic financial management or cost control, contact the team at:

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