



## Plan to get value from SME sale

Less than half of Australian small business owners have a plan to realise the value they've built up in their businesses, according to a new report from Commonwealth Bank Local Business Banking.

The Commonwealth Bank/Investment Trends Local Business Owner Report shows only 47% of SME owners have an exit strategy, such as selling their business. Of those with an exit plan, 22% intend to close their doors and walk away.

More surprisingly, 60% of business owners planning to close their doors are still actively reinvesting profits back into their businesses. Half are also working more than 50 hours every week – 13 hours more than the national average of 36.9 hours. This problem is at its worst among business owners aged 60 or over, with one in four planning to close the business.

At the opposite end of the scale, two thirds of Generation Y owners have already made plans to sell their businesses outright.

CBA's General Manager, Local Business Banking for South Central and Western Australia, Bernard Tanner says the alarming tendency of Baby Boomer business owners to 'walk' may have to do with how prepared they are to invest in advice. Well structured businesses are better prepared for eventual sale and more attractive purchases.

Owners who went straight into a family business or became business owners through success in a trade too often find themselves without options when the time comes to move on.

"Really all we can do is to advise the business owner and look at putting them in touch with someone who can help," Bernard says.

Taking advice can smooth the path to sale, either to management or by generational change.

Skilled professionals in solo practice need to take

steps to protect their "own best asset".

"You need to prepare and document your knowledge so you can pass that on to someone willing to pay you for that valuable commodity," Bernard says.

"The value of IP surrounding your business is critical and shouldn't be under-valued. Some Baby Boomers are under-valuing the IP they bring to their own business. By documenting things you can make your business sale a success – working in the business, you can see what a purchase will get when they buy in to the business."

Again, advisers can help. Business brokers handle most premium business sales and tapping in to the network of expertise surrounding them can help sole traders consolidate and document the systems that identify value in their life's work.

Bernard acknowledges the daunting financial challenge of generational change, which can seem "prohibitive".

"You absolutely should speak to a financier because there are always ways finances can be structured," he says.

But he suggests the best way to effect change is in stages so the business principal steps away slowly and those who take over aren't overwhelmed professionally or financially.

"Very few Baby Boomers want to stop working immediately," he says.

"Staging withdrawal can be as simple as saying, from now on, every Wednesday is golf day. That lets the second generation assert itself gradually. Financial options become broader and we can structure something that suits."

For example, a staged-draw down of approved finance can see the buyer purchase the business in proportion to how much responsibility – literally, ownership – he or she assumes.

"There are always financial options," Bernard says.

"We wouldn't see large amounts as a hurdle, but something to be worked through in a structured way."

It makes sense for a bank to back a solid business with a long trading history and a principal whose son or daughter is going to continue the business.

Planning is vital.

Too many people get "caught on the hop," he says, when circumstances for the principal to dispose of the business. Results are never optimum.

The readiness of Gen Y business owners to sell up in short timeframes reflects generational change. Gen Y doesn't expect a "job for life" in any form.

"Gen Y is looking to explore multiple opportunities," Bernard says. "They reason if I've done it (built a business) once I can probably do it again. If you get the right price you just go on to the next opportunity."

Bernard feels younger business vendors won't necessarily look for directing roles in business after selling up, but will look to help a younger generation step up.

"I suppose Gen Y also has had ready access to market information to make their decisions," he says. "Baby Boomers and Gen X had to learn the hard way."

What will happen to the market as more and more Baby Boomer businesses come on to the market is "a very tricky question" because of the several factors at work.

Baby Boomers' experience of several market cycles may have made them more risk averse than upcoming generations. Gens X and Y have been better paid, are relatively cashed up and are more willing to take risks.

Slowly rising interest rates may be offset by steadily increasing wages. Payouts from businesses ceasing operations, such as Mitsubishi, may also create a pool of proto-entrepreneurs who don't want to go back to employment.



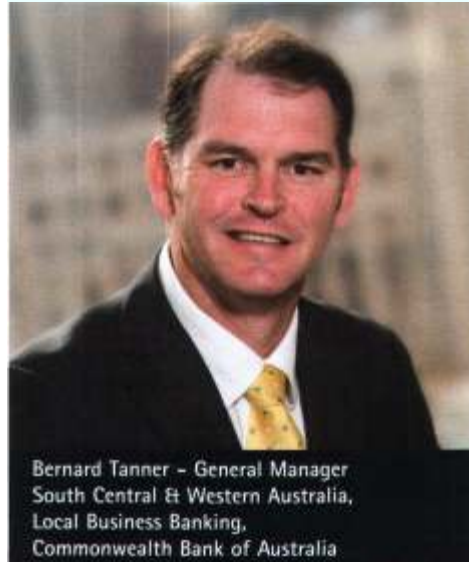
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## COMMONWEALTH BANK LOCAL BUSINESS BANKING'S SEVEN TIPS FOR BUILDING A SALEABLE BUSINESS

1. Plan ahead. Plan to make your business saleable right from the start. Look at other businesses for sale, then think about what potential buyers might want.
2. Build systems. Put processes in place so that everything works smoothly, even when you're not around. Your business will be more efficient, and a new owner will find it easier to step into your shoes.
3. Document everything. Keep detailed records of your systems, your plans, your marketing strategy and your customers. It's all valuable intellectual property that could be worth real money to you one day.
4. Dig a moat. Carve out a unique niche for your business with a distinct competitive advantage.
5. Have a unique selling proposition. Your USP is what differentiates you from your competitors – and makes your business uniquely desirable to a buyer.
6. Recruit outstanding people. Invest in outstanding staff who can keep the business running without you. Then, having recruited them, share the knowledge around.
7. Get advice. Professional advisers, such as your accountant, your business banker, or a business broker can help you get the most out of a sale.



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