

# The Jamieson

Summer 2008/09

your guide to buying and selling businesses

## Welcome

Over the past several months there has been much 'doom and gloom' in the news with predictions of a global recession and rising unemployment.

Fortunately however, it has also been reported that Australia's strong economy will protect us from the full force of the shockwave currently rippling around the world.

If you've been thinking about selling or buying a business all the 'doom and gloom' may have made you nervous, but the truth is it actually can be a great time to sell or buy.

Consider this... Even in the toughest of times people are always looking to buy an established business for a whole host of reasons.

For example, executives unable to find another job after being retrenched, or people fed up with working long hours for a boss, decide they want more control over their own destiny.

In this issue we look at some of the issues and considerations from both sides of the fence - selling and buying.

If you'd like to know more, call and have a chat with our team at Jamieson.

## Inside:

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## Are things really as tough as they say? Why it's a good time to sell your business

**Despite the recent reports of 'gloom and doom' Australian consumers are starting to realise that life isn't so bad after all.**

Petrol prices are plunging, putting more spending power in people's pockets. Interest rates are falling with further significant reductions expected.

If only the soggy US economy wasn't dragging our shares lower everyone would be a lot chirpier.

If the Reserve Bank had any lingering worries about the inflation outlook they would have been extinguished with the latest wage data.

Wage growth is very much in 'Goldilocks territory' not too hot, not too cold, in fact, about right.

But let's not paint too rosy a picture - Companies are indeed retrenching and people are feeling the pinch. Furthermore Forex rates have moved adversely for importers. However, in the end everyone will share a little bit of this pain for a while - suppliers, importers, retailers and consumers.

After the economic conditions settle down the rates may move up a little to a steadier more favourable level.

Times are indeed challenging, but just



not as tough as we might want to believe after watching the evening news.

Not a good time to sell your business you reckon? That's not correct.

Now is a great time to sell a business. Find it hard to believe or don't understand why? Read our story on page 3 titled, "The number of potential business buyers actually increase in tough times."

A word of warning though... Just because it's a great time to sell, don't race into it. Preparing a business should not be rushed and we explain some of the things you need to do to prepare your business for sale on page 2.

# Jamieson

- BUSINESS BROKERS
- VALUERS
- ADVISORS
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# Four important steps to a successful sale



1. *Preparing the business for sale.*
2. *Deciding on a price.*
3. *Identifying the right types of buyers.*
4. *Negotiating the deal.*

## 1. Preparing the business for sale

Many businesses are operated with the objective of minimising tax liabilities. Unfortunately, the operating techniques and accounting practices that minimise taxes also lessen business value.

Thus, there is an inherent conflict with running the day-to-day aspects of a business and preparing it for sale.

It's important to have all the right information and details available before you start to market the business, as a business well prepared for sale will sell more quickly.

This information is also required to establish the selling price for the business as certain calculations need to be made to work out the true net profit of the business.

Items you should have available are:

- Profit and loss accounts from the previous 3 years.
- Copies of accounting reports for the current year to date.
- Identify and quantify abnormal and/or non-recurring costs in accounts.
- Identify all items of a personal and non-business nature.
- Copy of the lease if any.
- Information on your product or service and background on the business.
- Staff details and organisation structure.
- List of plant, equipment, and any equipment leases.
- Copies of active agreements e.g. customers, suppliers, staff.

## 2. Deciding on a price

There will be many views on what constitutes value. Sellers will have one view, buyers another, accountants another, bank managers another.

What you want for your business, or what it owes you, is not its value and the only 'rule of thumb' is that there is no rule of thumb.

The key factors that determine the value of a business include:

- Recent profit history.
- General condition of the company.
- Market demand for your type of business.
- Economic conditions.
- Ability to transfer goodwill and other intangibles.
- Future profit potential.

If you're unrealistic and price your business too high the serious buyers will not even look at it. All you achieve is to frustrate the buyers.

If you are too low, you are throwing away hard-earned money and creating suspicion that there's something wrong with it.

We can give you guidance on realistic price expectations based on actual sales.

## 3. Identifying the right types of buyers

You should seek the help of a professional and experienced advisor to prepare a business before going to market. One needs to:

- Accurately assess, describe and 'package' the business.
- Identify the right strategic buyers such

as those in the same industry (trade buyers).

- Market the business strategically, approach likely buyers, advertise where buyers will be looking (websites, newspapers).

## 4. Negotiating the deal

Confidentiality is required from most business owners wanting to sell their business, so it's a good idea to have any prospective buyer sign a confidentiality agreement.

If you have to sell in a hurry you are in a weaker negotiating position and likely to get less, so sell at the right time for you.

When discussing the business with a potential buyer, tell it 'warts and all'. Even if it is only a small fib and the buyer catches you out, you will lose their trust and probably the deal.

When a buyer wants to make an offer, the offer needs to be in writing and in the correct format.

Verbal offers can become complicated, as they do not detail the terms and conditions of the offer.

As a business owner, you need to ensure you're protected by having the right clauses in the agreement and it is advisable to seek professional advice.

Jamieson can help you in all of the above steps with professional advice based on over 20 years experience.

### Here's a tip:

Guess what? Big forecast numbers don't impress investors, but consistently strong results and realistic forecasts can really grab their interest.

It's far more impressive to hear projections, time frames and strategies that are believable. So strip emotive language out of your sales pitch and stick to the facts. Your passion for the business will still shine through if you are thorough in your approach and put up supportable, comprehensive projections.

## Insurance Brokers - fees vs commission

*Can we have your thoughts please?*

The choice between fee for service versus commission based income earnings for insurance brokers and financial planners is a discussion that has been going on for years.

The reason it has been ongoing is because there is no clear cut, right or wrong. Both have their pros and cons no matter which side of the fence you're sitting.

In 2005 the Australian Securities and Investments Commission (ASIC) conducted a campaign examining insurance brokers' remuneration practices.

The aim of the survey was to better understand the practices used in the industry and confirm that appropriate disclosures were being made to clients of brokers.

More importantly, it wanted to confirm that brokers were properly managing any conflicts of interests and were acting in the best interests of their clients.

Which side of the fence do you sit on? What are your thoughts on this ongoing debate? Do you have an innovative solution to solve the debate once and for all?

**Our team at Jamieson would like to hear from you. Send your comments to [info@jamiesons.com.au](mailto:info@jamiesons.com.au)**

If enough responses are received we'll reveal the outcome of our mini-survey in our next newsletter.

## Customs Brokers/Freight Forwarders - choosing between SME and multi-nationals

**Customs brokers and freight forwarders have the important task of keeping goods moving in and out of the country efficiently and meeting all the legislative requirements.**

Price is always a major consideration when it comes to freight forwarding, but sometimes there are other issues to be taken into consideration. It all depends on the level of service you require.

Both the small and large multi-nationals have vitally important roles to play. For example, you may favour the high quality, attention to detail service provided by the SME's but their service normally comes at a premium, or you can choose the normally 'no-frills' lower priced multi-nationals.

Often it is worth paying more for speciality services such as is required for special customs clearances on important and valuable shipments.

Customs brokers are the interface between the importers and exporters and the government regulatory bodies so they are a good barometer when it comes to the health of the economy in regards to

import / export levels and also the effects of international currency fluctuation. Needless to say, both of these are moving targets at present given the state of the world economy.

## The number of potential business buyers actually increase in tough times

**As a result of corporate downsizing, the number of unemployed but very qualified business executives increases in bad economic times.**

It is generally very challenging for a former corporate executive/employee to find a decent job matching their qualifications especially when they are in their late 40's/50's, so buying an existing business becomes an attractive alternative.

These people are generally very resourceful and experienced in terms of business skills and financial capabilities.

This abundance of qualified business buyers tends to counter the downward pressure on business valuations.

This phenomenon is more pronounced for small to mid-sized companies that tend to be acquired by individuals generally seeking to buy a business as a job alternative.

In tough times the good businesses really stand out. Sellers are driven to sell for many reasons and good businesses are always coming onto the market, so talk to the team at Jamieson today about current opportunities.

Beware; don't fall into the trap of believing just because times are tough that the value of a business is reduced. Demand can actually increase in tough times.

## About Jamieson Corporate Services

**For over 20 years Jamieson Corporate Services has provided business broking and valuation services to owners and managers of private businesses.**

Our principals are licensed as business agents by the NSW office of Fair Trading.

The firm is a member of the Australian Institute of Business Brokers and the Real Estate Institute of NSW.

Further information is available from our website [www.jamiesons.com.au](http://www.jamiesons.com.au)



# Steps to buying a business - here 's what you should do

Never bought a business before? Not sure where to begin or what's involved? Here 's a checklist of steps which show it's really not that scary, especially when you have experts to guide you:

1. **Investigate** - check out businesses for sale in the newspaper, on the net or simply contact us.
2. **Confidentiality** - we will ask you to sign a confidentiality agreement.
3. **Discuss with broker** - we will pass over a business profile, which gives details of a business for sale. Explore its potential as an investment.
4. **Inspect the business** - we will arrange for you to see the business. Sometimes the seller is present; generally we will act on their behalf.
5. **Meet the owner** - your opportunity to ask the hard questions to the one who knows the business best.
6. **Seek more information** - such as detailed financial accounts to back up the summary already provided.
7. **Make an offer if you are still interested** - make a clear and detailed offer.
8. **Offer presented** - the broker takes your offer to the seller, but expect a counter-offer.
9. **Check counter offer** - decide whether to accept the counter offer or negotiate further.
10. **Letter of intent** - If you and the seller both want to continue to the next stage you may have to sign a letter of intent and pay a deposit which allows you to access additional information without committing fully to the purchase.
11. **Carry out due diligence** - investigate all areas of the business and decide whether it still interests you.
12. **Acceptance** - if you both agree on the final details it can still be conditional on a number of factors, such as finance being arranged, or a certain contract being approved.
13. **A Sale & Purchase Agreement** - is drafted (usually by the seller's solicitors) and sent to both parties for signing. There are usually conditions such as lessor approval of the lease transfer.
14. **All conditions met** - the agreement now becomes unconditional until the final date of settlement.
15. **Lawyers finalise things** - both buyer and seller sit back and leave it to the people in suits to co-ordinate settlement.
16. **Settlement** - the seller gets the cash and the buyer gets the keys to the front door.
17. **Stocktake** - any variation in the value of stock prior to and after settlement is adjusted.
18. **New owner steps in** - it's all yours!
19. **Training and support** - the old owner often stays on for an agreed period to show the new owner the ropes.



## Business opportunities

### HOMEWARES IMPORTING & DISTRIBUTION:

Profitable, long-standing and highly successful business based in Sydney concentrating on a small range of its own and customer branded products. Broad base of long standing blue chip customers. Resilience to economic fluctuations. Annual turnover is around \$10m.

### PROFESSIONAL INTRODUCTION SERVICE:

This two capital city business has been established for over 20 years and has a consistent profit history. If you are a people person who wants to own a business that makes a difference as well as a profit, is incredibly fulfilling and personally rewarding, contact us now.

### REGISTERED TRAINING ORGANISATION:

A highly regarded RTO, one of the largest providers in Australia in the health/ lifestyle sector. Online delivery accounts for 50% of revenue of \$2.7m. It is VETAB accredited, has an excellent teaching faculty and offers genuine growth opportunities.

### NICHE ADVERTISING & DESIGN:

Well established business, with expertise in advertising, graphic design and production and corporate communications. Blue chip clients in its specialised consumer sales market sector. Experienced, well qualified staff team. Annual sales around \$1.3m p.a.

### ELECTRICAL MAINTENANCE & CONTRACTING BUSINESS:

Based in a major NSW regional city and services industrial and commercial clients across a large part of the state. Featuring sales of \$1.8m and growing strongly, the business has a high market share in its niche which will return \$450k to an investor.

**Please refer to our website for more Businesses for Sale opportunities.**

**Recent Business Sales include:** Specialised physiotherapy, Occupational rehabilitation management.

**New Business Opportunities expected to become available soon include:** Computer software and support; Insurance broker; Advertising/ communications.



SEASONS GREETINGS AND IN PARTICULAR  
A PROSPEROUS NEW YEAR FROM  
THE DIRECTORS AND STAFF OF  
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