maximiti
aspire.advance.achieve

5 Costly errors when selling a practice

1 Failing to understand what your practice is worth

All too often potential sellers approach us too late in the day to maximise the value of their practice, which is possibly their largest asset after their home. They fail to realise that they have a valuable intangible asset that if marketed properly can attain high prices, and the time to start thinking about selling can in certain cases be up to 4 or 5 years prior to the desired exit date.

The value of the practice lies in the fees that clients pay, not the clients themselves, who are of course free agents and not bound to you – something that while obvious still needs pointing out. You are selling this income stream as goodwill and it has a value, based on the gross recurring fees (GRF) that these clients can be expected to generate, based on historical performance. Typical valuations range 0.85 to 1.5 x GRF, depending on the specifics of the deal.

2 Being unprepared for sale

You wouldn't sell a car without cleaning it and preparing the service history and neither should you put your practice up for sale without ensuring that it is well presented. Too often we see that "the cobbler's children are barefoot", without the practitioner realising the state of his or her own records.

Buyers will expect, as a minimum, to see :

- A detailed client list with their age, trade and respective fees and most importantly what services you perform for them
- Details of non-recurring work
- VAT returns
- Bank statements
- Wages records
- Lease details for rented property and equipment

3 Inflexibility on clawback periods

Unless you are paying a very low multiple, typically in a "fire sale" scenario, you can expect a clawback period as standard. Many practitioners believe that the clawback period is 12 months but typically it is 18 months, and can extend beyond this depending on client billing cycles, timing of the payments and the seller's departure after the sale. Refusal to be flexible on this could undermine a sale, and it is always possible to achieve a different concession without undermining the buyer's confidence in the deal, which is backed up by the clawback.

4 Not prioritising your requirements

Usually there are a number of variables driving the need to sell, but not every one will necessarily be compatible with the desires of the buyer. It is therefore crucial to recognise, understand and prioritise your requirements, so that the deal is a "win-win" for both parties. Decide early on what is important and what is not important, always maintaining flexibility to reconsider and remembering that there are two parties to the transaction and in the grand scheme of things some requirements are not worth sacrificing the deal for.

5 Refusing to use a broker

Occassionally you can pull off a quick deal with a friend or colleague and all is well. Otherwise you'll need a broker to ensure the deal goes smoothly and completes successfully. In particular, when you wish to push for a point it is much easier to cause offence when negotiating directly instead of using a third party, who can explain your stance in a more sensitive and less confrontational manner.The best scenario is where both parties contribute towards the broker's fee, meaning that the broker is acting as a matchmaker and can balance the interest of both parties avoiding a situation where the intermediary is paid by one side only, creating unnecessary pressures on price and terms that leads to a breakdown in negotiations. A good broker will have pre-vetted both sides and understand the background of each party and what they want out of the deal, essentially being a trusted adviser to both buyer and seller.

A good broker will convey concerns to the other side in a manner that you may not be able to do, and is usually able to suggest innovative solutions.