

## THINKING OF SELLING? GIVE YOUR P AND L THE 'KISS' TREATMENT

(That's 'keep it simple, stupid!')

When it comes time to sell your important business asset, we need to keep it simple. At the same time we need to tell as much as we can about the business.

That is, we need to make it clear. Clear is the partner of simple!

Keep it simple. Keep it clear.

90% of Profit and Loss statements I see allow for little understanding of the dynamics of the business.

Not simple! Not clear!

And if the purchaser's accountant – our natural predator – can't see the beauty in its simplicity and clarity, then we are already falling behind where favour goes to someone who is – you guessed it – simple and clear.

### **A few ideas that could help.**

Generally in a Profit and Loss, there's a sales figure in the income field, and a varying number of costs – not necessarily very descriptive – in the expenses. And then a value of one minus the other. What's left over is your profit or loss for tax purposes.

Now that probably keeps it simple enough – adequate – for a preparing accountant and a receiving tax office.

But it doesn't answer a lot of your broker's questions, which generally are a precursor to a buyer's questions.

Questions? What questions?

Where did your sales come from? (No, the answer is not people or travellers or tourists).

It's good to tell a buyer (and yourself to start off with) the sales dynamics of the business. That is, we should be able to identify the range of sales streams / booking channels that bring customers to your door.

Consider these:

- Free Independent Travellers
- Expedia / Wotif
- Bookings.com
- Your franchise or group brand (CHA, Best Western etc)
- Account Business
- Discount packages (Travel Auctions)
- Food sales (Restaurant items like breakfast and dinner, even if served direct to rooms)
- Beverage sales

Each of these enlightens us on the business, and better still gives our buyer a reality check of the bookings, and room to start a self tantalising talk of improvement opportunity; to allow him to have a few strategic lights come to glimmer in his mind.

Most owners do not have this level of detail – this granularity – readily available.

So how is the business currently running? And how do you know which bits are performing and which aren't? How do you know the value of your brand's performance, and whether room sales generated by the brand, even cover the costs you pay for the brand?

Brands can give you a warm and fuzzy feeling. Then so can Malaria!

### **There's an expression out of Management School 101:**

**"If you can't measure it, you can't manage it."**

On the expenses side, as brokers we work hard to identify items that have nothing to do with the business, and everything to do with your company (that's not the business) and your lifestyle.

So here are some bits and pieces that may assist.

- Separate your bank charges away from your merchant charges. The first is an expense of the company and can be added back, the second is a cost of the business and can't be. But if you don't make it clear, you may be dudding yourself of adjusted profit that then gets multiplied out into business price.
- If it's a lease, make sure that any payment to the landlord is specific. Some landlords pay their own building insurance and then add to the rent. This can skew the amount of rent you are actually paying if not removed. And if left in, it can compromise that all important 'rent as a percentage of turnover'. And it can even make your insurance spending look very low, if not identified. If low, to an educated eye, lack of accuracy can cause suspicion. We don't want that!
- Look for items that are of a one-off nature, or capable of being amortised over a number of years. An example would be painting. If you paid a tradesman to come in once every five years and splash many litres of paint around the entire premises, his cost would cause a dramatic downturn in the profitability of the business in that year. But it won't happen for another five years. So 80% of the payment should be added back into the bottom line for that financial year.

If you installed three split system air conditioners in one year, it would be likely that 90% could be added back, given a ten year life of an air conditioner. At say \$1,000 each, \$2,700 would be added back. That could multiply out to \$10,000 on your asking price.

- If wages are shown, and if they include payments to principles, make sure there are two entries such as:

Wages – staff

Wages – principles

Superannuation – staff

Superannuation – principles.

That way the payments to you will be added back in and included in the profit line of the business. And already they are presented as part of your Profit and Loss prepared by your accountant, in turn confirming credibility.

- A perk of ownership is often expressed in the chance to buy a really good set of wheels – even of the ‘boy’s toys’ variety. First up, be guided by your accountant on the price ceiling. Then importantly show every cost possible that can be attributed to that motor car. Every petrol receipt, every parking cost, every service, every street directory, or the Navman, the car wash, the service, the new tyres.

Now given the limited use of a car in the business, there’s an awful lot of add back opportunity. An awful lot of improvement to your adjusted bottom line.

## **THAT’S ALL FOR THE MONTH IN THIS NEW YEAR – BUT BEFORE I GO THE FOLLOWING IS IMPORTANT READING.**

No matter where you are in Australia there are only two groups of people who can sell your real property. In the first group are the owners. You are all perfectly entitled to sell your own properties.

In the second group are licenced real estate agents or their similarly licenced representatives.

It’s illegal for anyone else to sell your business. If it does happen, there is risk that then or later, a sale could be at risk of being voided, commissions marked as invalid and to be returned.

Gaol may be an outcome. Buyers could feel burned enough by their purchase and go looking for their money back, generating costly litigation.

**So .....**

If you are in Victoria and you wish to check the credentials of your agent, you can google **Department of Justice Estate Agents Register**. Then type in the name of the person about whom you are enquiring, and immediately you will know the status of his industry credentials.

For other states check your own government department. You should find similar detail available.

I’m sure our legitimate competitor agencies would share our desire to rid the industry of these carpetbaggers. If they can’t be honest in their presentation to you, how can they be trusted any further?

It's interesting to note when reading the Estate Agent's Act (not the most exciting of reads) that a person with a criminal conviction is refused a licence for a period of ten years from the conviction.

And if you are being asked for upfront fees, resist. Maybe for advertising, but then a good agency will probably hold these costs until settlement.

Ultimately, when you are considering listing your property by contracting an agent, remember this.

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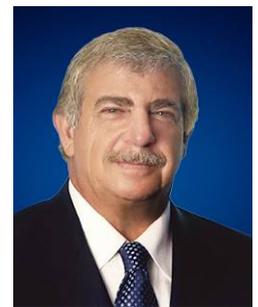
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