

Selling Your Massage Therapy Business

How would you go about selling your business? Do you know how to put the right systems in place – and ask the right questions? In this article, Don Dillon, a Canadian business writer and author, provides some excellent ideas for selling businesses which are relevant for Australians as well as Canadians.

25 per cent or more of RMTs may retire within 10-15 years!

'As the baby boom generation approaches retirement, an unprecedented number of workers will be leaving the workforce. According to Canada's Urban Futures Institute, some 9.8 million Canadian baby boomers, people born between 1946 and 1964, are approaching retirement. By 2020, the number of Canadians retiring each year will be 425,000.

Statistics Canada said in 2005 about 3.6 million workers were within 10 years of retirement age, composing 22.1 per cent of the total, up from 10.3 per cent in 1986.¹

¹ Boomers retire idea of Freedom 55, StatsCan analyst suggests. CBC.ca Wed Jan 25, 2007

As retirement looms for many baby boomers, a considerable number of massage therapists will be looking to hang up their lubricant-harnesses and retire. In Canada, the 2003 Collis and Reed survey of massage therapists practicing in Ontario indicated 25 per cent of RMTs were between the ages of 40 and 50+.¹ How will these therapists finance their retirement? Will they have a business asset to sell?

Entrepreneurial RMTs who have worked hard to deliver compassionate care may not be able to transfer the value of their business to eager new therapists looking to buy ... unless the entrepreneurs have created a valuable asset in their business. The business, inextricably meshed with the practitioner when the business is new, must eventually take on its own identity to be saleable and transferable. Like any McDonald's location, Ray Kroc needed to put systems and good employees in place so he could move on to open subsequent successful chains.

If you are your business, then your business's life depends on your resources alone. It's worth asking the question, 'If I don't show up for work one day, is there still a business?'

For example, Melanie is an RMT who needed to sell her practice in preparation for a move out of province. The purchase price included a contact list of five hundred clients, linen, office furniture and computer/fax. Melanie contacted me for information and I recommended several resources. Instead of packing up and receiving nothing for all her hard work, Melanie acquired a tidy sum to help her in her new life.

From day one, entrepreneurial massage therapists should be preparing for the day when they'll pass on their turnkey operation over to a new owner ... at a fair market value. The problem arises when the RMT has toiled away at providing high service, but has not systematised the business – that is, set up systems to run the business automatically

– or replaced themselves – that is, bringing in highly competent service providers besides the owner/primary practitioner to deliver care. The primary practitioner/business owner has, in effect, made her or himself irreplaceable. Good for the ego, but bad for the value of the business!

What do I mean by systematise? Michael Gerber in *The E Myth Physician* describes how the value of your business (equity) depends on how well the practice works. The practice must be designed to deliver service systematically and predictably every time.

To systematise, you must:

1. Honestly evaluate your business – how well is it working for you?
2. Determine the most effective practices in delivering care, then document these – just like you see in manufacturing – the ISO designation from the International Organization of Standardization (in Australia, Standards Australia/the Australian Standards Association).
3. Replace yourself with competent people. Hire people equal or better at specific methods or modalities than you are! They'll be proud and you'll have a valuable asset.
4. Quantify the effects and improve the systems continuously.
5. Repeat this process for every aspect of your business.

Remember to be the owner (work on your business) not just the employee (working in your business).

Questions to ask when selling your business

According to RBC's *The Definitive Guide to Retiring from Your Business*² there are a number of questions to ask when you are considering selling your business.

- Who will buy it? – Family member, employee/contractor or investor.
- Can the buyer raise the necessary money?

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- Can the buyer successfully run the business? (Very important if you offer seller-financing for part of the purchase!)
- Will you partly finance the purchase?
- Will the buyer offer personal indemnities to ensure the financing?

The purchaser may be a new therapist starting out, complete with student loans and fears about taking on a large expense up front. Therefore, you may consider seller-financing (i.e. you lend the money and the buyer pays in installments with interest). There are pros and cons to this, so do your research and speak with your accountant.

Selling to third party

The purchaser of your business may not necessarily be an RMT. Many entrepreneurs look for an industry that fascinates them but they're not necessarily employed or

experienced in – the booming winery industry, for example. Because the potential buyer will know even less about running a massage therapy business, there are some key points to consider:³

There are two types of buyers: financial and strategic. Financial buyers are interested in the company's cashflow i.e. 'How much money can I make if I buy this business?' Strategic buyers are interested in businesses that fit in their long range growth plans, e.g. to secure supply chains or open new markets. Perhaps an existing physiotherapy clinic or spa would be interested in your business in order to offer multiple locations and expanding services.

You will need cashflow records and projections, listing of liabilities, information

on new product development, and value of hard assets (property, equipment, intellectual property, customer lists and contractual relationships).

Caveat – protect pre-sale details so the potential buyer doesn't usurp your business information and become a competitor!

The RBC Definitive Guide further recommends you use an advisory team (experienced accountant and lawyer) to assist the buy/sell process, value your business, and ensure protection from errors and omissions/misrepresentation.

Caveat – RBC Guide recommends 'Don't test the market if you're not willing to sell. Selling takes up valuable management time, makes the sale public (which can affect business), and limits maneuverability during the selling process'.

continued overleaf

More ideas

Employee Share Ownership Plan (ESOP)

- Owners sells independently-valued shares while maintaining control of the business.
- Provides instant liquidity and excellent employee motivation.
- Administered by trustee who buys/sells shares on behalf of the employees.

Your business must be a corporation for an ESOP to function. A good move for ensuring high loyalty to the business.

Winding down the business

- If no one wants to buy your business, try selling again in a year or two.
- Make the business more attractive – increase cashflow, assets, reduce liabilities, raise community profile.
- If not, have a ‘going out of business sale’ to recover some inventory costs.

- You can sell property, equipment, proprietary technology, customers’ lists, finished goods, raw materials, inventory and accounts receivables to competitors, suppliers or other interested parties.
- Tax considerations if incorporated, or assets with depreciation.

What’s your business worth?

- What do you have to sell?
- Is your business more valuable in pieces, or as a whole?
- How do you determine fair market value? (See part two in the next issue of *Massage Therapists*.)
- How can you improve the value of business before you sell?
- How much of the business’s value and long-term future is tied to you being at the helm? To cash out, give more responsibility to employees or partners and raise their profiles in the eyes of your customers and suppliers.
 - Is the business creating sustainable wealth? If only providing modest income, it may not be worth more than the salvage value.
 - Use a valuator to identify strengths and weaknesses. ‘In working businesses, for example, most of the working capital may be gone, equipment outdated and sales declining’⁴.
 - A valuator may suggest investing in the business to increase attractiveness.

Three valuation methods:

- Cost or asset-based approach –

totals all investment to date into the business. Doesn’t account for business’s goodwill/reputation, market share, expertise or future earnings.

- Market value – measured against comparable businesses sold. This could be a problem if there are no comparable businesses or transactions available.
- Earnings – most common measure; based on historical or future earnings. A discounted cashflow approach is often used. Problem: It is based on speculation and management projections and performance.

You may wish to use one or all three of these calculations to gain perspective, and take the average mean of the values.

What if the value is lower than you expected?

- Increase income – increase sales and lower expenses.
- Improve assets – dispose of unproductive assets, replace or repair equipment or upgrade.
- Reduce liabilities – settle outstanding debts, liens or lawsuits.

In part two of this article, we’ll explore valuation methods to determine what your business is worth.

Don Dillon, RMT is the author of Better Business Agreements and the self-study workbook Charting Skills for Massage Therapists. More than sixty of his articles have been published in industry publications including Massage Therapy Canada, Massage Therapy Today, AMTA Journal, AMTWP Connections, and various massage school and professional association newsletters. Don’s website, www.MTCoach.com, provides a variety of resources for massage therapists.