

**Case Study – winding up a business at retirement, rather than trying to sell**

Many business owners will assume that their business is worth the Balance Sheet value & when they retire, they will wind up the business and collect in all the assets, pay off all the liabilities and walk away with the net asset value. This is highly unlikely.

This case study shows what happened when a business owner who manufactured home textiles thought he would do that, rather than try to sell his business (much to my frustration!).

This was his Balance Sheet before he started to wind it up.



It was a typical small, owner managed business with turnover around £1m. He employed 6 staff, most part-time and nearing retirement themselves & they had worked for him for many years. He had enjoyed a good lifestyle from the business, indeed hadn’t drawn all his income in full over recent years (the business owed him £120k in directors’ loans), but the market was getting tough and he was ready to retire,

He assumed he would be able to sell his equipment on the 2nd hand market (although this was before the days of ebay!), his large stockholding would mainly be taken back by the suppliers, with whom he had a long-standing relationship of 30 years, and who he mainly also called his friends. The trade debtors monies would gradually come in & then he would repay his creditors, walking away with around quarter of a million pounds to add to his pension pot.

The actual situation, after about 6-7 months was as follows:



The fixed assets couldn’t be sold & were just scrapped;

Clearly his suppliers wouldn’t take back his stock on a ‘sale or return basis’ & he just had to negotiate what and with whom he could, losing a lot of money;

When his customers found out he wasn’t continuing to trade and they needed to find alternative suppliers, they became awkward about paying their debts to him. Suddenly he received complaints about poor workmanship, bad service/products and other arguments so that they didn’t have to pay their debts in full. When a business relationship ends (even if due to retirement) many businesses see an opportunity to haggle! The only route to resolve this was taking each of the disputes to the Small Claims Court, a hassle and a cost he didn’t want. So he wrote of 25% of his debtors.

Clearly he received the monies in his business bank account in full – but see the additional costs at the bottom of the Balance Sheet.

He had to pay all his suppliers and liabilities to HMRC, but as director, he didn’t receive his loan account balance because there wasn’t enough cash left. The additional costs of redundancies and scrap/removals cost £60k. He was fortunate that he didn’t have any leases or contracts to extricate himself from, so he didn’t incur any legal costs in this instance.

The net effect? He walked away with cash of approximately £30k.

From a business which earned him over £100k per year, a brand that he had built up over some 30 years and provided years of continuous employment to the local area, over a six month period, he left with £30k (less taxes!)

I asked him after he had liquidated the company if he would attempt to sell his business as a going concern if he was to do it again. He said he absolutely would! Going through this process was the most depressing part of his business life, and also the most costly!