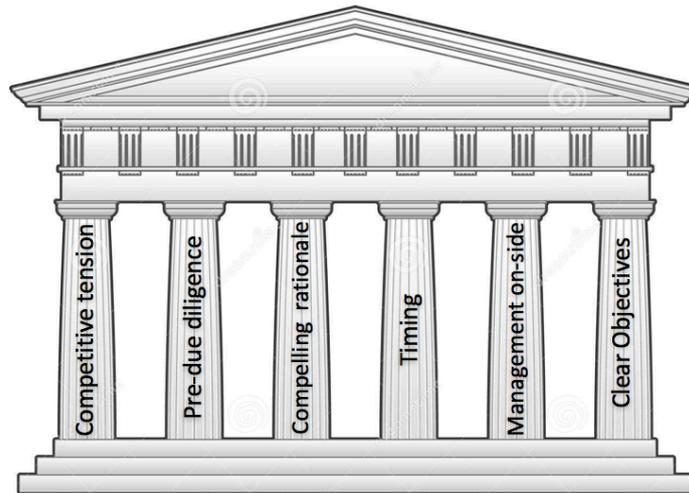


Six big issues when selling a business

Many business people spend their working lives running business, but when the time comes to exit/sell the business, find themselves in a whole new area. Here are my six key pillars on how to sell a business effectively:

Six pillars for selling your business



1. Define the *compelling rationale* to buy

To get the best sale price, you must carefully consider the nature of the sales pitch. What kind of purchasers should be encouraged to bid, and why will they be interested? What will they want? Is it Intellectual Property, capabilities, customers or what? How will they benefit from the purchase? Is it through growth, cost savings/ scale 'synergy', access to new markets, calibre of management, or something else?

It is critical to define the compelling *rationale* for purchasers to buy so that you can carve and then sell a compelling *story* back to them that fits the business.

2. Complete your pre-due diligence *first*

Don't let yourself be surprised by what the acquirer discovers about your business in due diligence. Many a deal has been wrecked because of attempts to sell a business without having had a critical 'outside-in' look at it first, as if through the eyes of a potential acquirer. This will avoid providing ready excuses for price chipping or an aborted process and disillusioned management.

3. Create competitive tension

Time and again I have seen a disposal process start as the result of one party approaching another speculatively. Whilst it seems easy at the time to follow through with one willing buyer, in my experience

these approaches usually fail to deliver (unless you know them well, or it is a stock-market takeover), because without the pressure of a competition, the acquirer finds reasons to look pessimistically at what they learn about the business through the process. For this reason, either have an actual competition, or be confident that you can create the atmosphere where they *really* believe you will pull out if they 'chip' at the deal on the table.

4. Keep management on side

As a transaction proceeds, you will have to involve management in the process of giving the acquirers confidence in the business plan, and in management's ability to deliver it. There is a huge temptation for the management team to 'go native' during the final stages of the process, thus potentially adversely affecting the sale value.

For management transferring with the business, I don't usually let the purchaser spend any time alone with the management until the deal is all but signed, to avoid undue pressure being applied. I also prefer to incentivise management on achieving the *completion* of the deal and acting with the right behaviours, rather than on the *value* of the deal. This is so that the acquirer has no reason to doubt what management have told them about the business.

5. Timing is everything

If you want the best price, then keep a weather eye on the right time for doing a deal, if you can. The value of businesses will vary with new contracts, markets, competitive attention, IP acquisition, and management calibre amongst other factors.

6. Objectives - be clear on *why* and on *what* you are selling

Many people believe that disposals are only about the money that the vendor can make. However, many other factors also come into play, especially in the case of family-owned businesses. Key questions must be navigated for a satisfactory sale, including: What will happen to the heritage and brand of the business? What will owner-managers *do* post sale? How will employees and customers be treated?

Businesses often have complex legal structures, shared assets and services, which are owned by different companies and individuals. It is important to be clear on what trade names, IP, services, insurance, tax liabilities, pensions, and employees are being sold, and how the sold business will be supported when separated.

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