A Refreshingly Different Approach *to Selling Your Business*

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Europe | America | Asia | Africa | Australasia

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Introduction

This publication has been written for owners of private companies.

Unfortunately, there is a great lack of information and instruction on the subject of selling such companies, which makes it very difficult for owners to confidently decide how to go about the most important sale that they are ever likely to face and how to achieve maximum value. You will find that the principles discussed and laid out in detail here have been proven time and again with companies of all sizes. At BCMS Corporate we are successfully involved in selling companies from £1million turnover to more than £100million. It is also worth noting that statistically, 35 per cent of these are manufacturers and 65 per cent are in the service sector.

Perhaps the reason why owners of private companies receive such ineffective advice and help from corporate finance accountants is that most of these organisations are geared towards much larger corporate clients. However, the proactive marketing principles given in this document apply to companies of all sizes. So whether you are a small business or even a large corporate you will certainly find these marketing principles of immense value.

Corporate finance accountants are often reluctant to sell small to medium sized companies because it is disproportionately more difficult to sell a smaller company. The smaller the company the greater the marketing effort required to generate enquiries from potential purchasers. Yet traditional approaches to selling companies involve shockingly low levels of selling activity. Typically, a corporate adviser would expect you to find a potential purchaser (thereby relieving them of the vital responsibility of sales activity) so that they can concentrate on handling the technicalities of the sale. Small wonder then that less than 8 per cent of company sales reach a successful conclusion using this approach.

Cutting across traditional methodology

The BCMS Corporate proactive marketing approach differs significantly from the mostly passive methodology employed by corporate accountants. Most owners of private companies recognise that they will only achieve a maximised price and acceptable terms if they are dealing with the most appropriate acquirer. The objective of thorough marketing is to find the most suitable acquirer in the first place! It is only after this that the focus needs to shift to the technicalities of the sale. Furthermore, negotiations are far easier when you are dealing with the most suitable acquirer.

Selling a private company is fundamentally not just an accounting or legal matter. It is, first and foremost, a sales and marketing matter. That changes in traditional thinking are required is certain. Absence of success using traditional methods makes that argument loud and clear. The purpose of this document is to bring proactive marketing principles to the fore. At BCMS Corporate we are involved in the process of taking a wide variety of companies to market every year. Whether you are a service company or a manufacturer, large or small, the principles here will work for you.

Why sell?

This may seem a strange question but analysing your objectives is important from the outset. The deal will need to be constructed in a way that will maximise your objectives. Your objectives must be clear.
The motto of IBM comes to mind:

> *'He who aims at nothing is bound to hit it'.*

Typically, owners choose to sell for one or more of the following reasons:

Change in lifestyle

After many years in the business they may have reached a point where they desire to do something different with their life. It is normal for people to radically alter their goals in life every decade, so don't be surprised if your objectives are changing too.

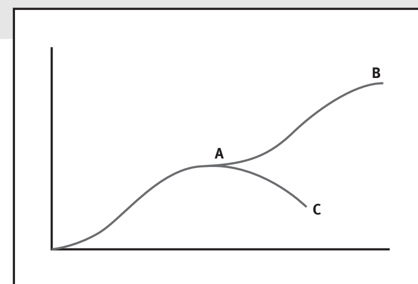


Fig.1

Entrepreneurs vs. managers

Owners of private businesses are often entrepreneurs, who by nature are creative, full of ideas and energetic. For many, starting a business was the most natural thing in the world! However, as the business has developed they have found themselves increasingly stifled by managerial responsibilities, such as employment legislation, personnel issues, health and safety matters, new EU rules, etc. They feel that the fun has gone from the business and consider a disposal as the logical and sensible way to exit and start a new chapter in life.

Time

It is not unusual for owners to sell their business due to the huge demands on their time which leaves little left to enjoy other activities. The business simply becomes all-consuming. Many personal areas of life suffer when this problem arises.

Business life-cycle

There comes a time when it is appropriate that a sale is sought for both shareholders and the company. Many companies grow quickly in their early years (see Fig 1). In due course sales can start to plateau (A). It is often disproportionately difficult and expensive to break out of this plateau. A significant investment is usually now required. This may be an investment in increased exports, new product development or restructuring of the company. If this investment is made, then the cycle will repeat itself (B). Without investment the life-cycle has a tendency to decay (C).

For many owners it now becomes a matter of inclination – *'Ten years ago we would have unhesitatingly invested, but today it is not appropriate'.* Perhaps to start investing in the company, to borrow heavily or to plough all profits back in for many years is not an option that the business owner is prepared to consider. At this point both the company and the shareholders usually benefit from a sale.

Whether your objective is to liberate your time, reinvest in a new venture, release family wealth or even emigrate, your goals must be considered carefully if the deal is to be constructed appropriately.

Chapter one

Why do so many companies fail to sell using the traditional approach?

Most of our clients have never (or rarely) sold a business before and this lack of experience tends to lead to a perception of 'mystique'. However this perception is ill-founded. The reality is that the process of selling a company departs only marginally from the process of selling any product or service. Additionally this 'mystique' often leads owners and shareholders to believe that they must hand the sale process over to the professionals.

Initially, selling a business may appear to be an accounting issue and it is this assumption which leads many business owners to their auditors with the question – *'Can you help me sell my business?'* and that all but guarantees the failure to sell or, at best, results in a poor sale price and sale terms for the business owner.

It may be that the company's auditors cannot help and therefore propose contacting a larger corporate finance accountancy company. Such a company would typically begin the 'sale process' by producing a 'prospectus' or 'sales memorandum' – typically 70 – 80 pages of very detailed information. Although this prospectus appears professional and well constructed it is simply the wrong type of document for the task. A typical prospectus gives far too much information away too early. Such a document is designed to sell a company and yet they are usually devoid of benefits to the purchaser. A good prospectus should never be designed to sell a company, instead, it should be produced simply to *'sell a meeting'* and nothing more – a meeting at which it will be considered whether or not to pursue a negotiation. The average prospectus is feature-rich and devoid of benefits.

Typically, a student in a gap year is now given the task of mailing this prospectus to a number of competitors (the UK average is 12), despite the fact that there is a good probability that the most suitable acquirer will be complementary and not competitive. The predictable lack of response to the prospectus then means that it is passed before various industry contacts in the hope that somebody somewhere may know of a buyer who is looking to acquire just such a company. It is little wonder that so few companies actually sell with such an approach.

As a last resort the company's details are advertised on a website or placed on a broker's list. Subscribers to broker lists may well be among the least desirable of acquirers. They are often venture capitalists and business angels looking for a quick return on their investment. Alternatively they can be large, aggressively growing public companies that are trying to sustain their share values by buying a company for as low a price as possible.

The failures of this sale process are clearly evident. Virtually no enquiry generation takes place and every selling principle used to sell the company's products and services are disregarded. Without doubt, selling a business is far more a selling and marketing matter than it is an accounting or legal matter.

Key factors that influence a successful sale

Misguided thinking and a lack of proactive sales and marketing activity at the early stages of a sale process can account for many failures. Being determined to address the following four issues will have a major influence on success.

1 Avoid passivity at all costs

As we have already said, selling a business is primarily a selling issue.

It is worthy of note that the most suitable acquirers are often not considering an acquisition. The only way to find such acquirers is through an active search. Alternatively venture capitalists and large PLCs looking to sustain share values are always searching for acquisition opportunities but rarely pay a premium. Passive selling will only ever locate such buyers.

Successfully selling any product or service requires active enquiry generation. Why should selling a business be any different? At BCMS Corporate, we have developed a vast database of tens of millions of companies. Using this unique combination of resources we actively contact an average of 230 potential acquirers just to locate two to three strategically motivated and financially capable ones. There is no short cut to achieving this.

Additionally, a search should not be restricted to the UK. Overseas acquirers seeking access to the UK will often acquire small to medium sized companies and premiums may well be paid for such internationally strategic acquisitions.

At BCMS Corporate we have a large team dedicated to this early research and identification of potential acquirers. With all of this commitment it still takes an average of four weeks to complete this activity. Failure to locate a large number of high quality potential acquirers initially will almost certainly result in a failure to sell. Interestingly, the more companies approached the luckier you get! Approaching around 12 competitors by mail is virtually certain to fail.

It is also essential to think laterally – to look beyond the obvious. For example, consider the sale of a small company specialising in the installation of demountable office and industrial partitioning. Traditionally, the majority of contacts would be with larger competitive partitioning companies. As mentioned earlier the average number in the UK is 12.

Success involves a far greater amount of lateral thinking and in this example our partitioning company sells to building contractors, specifiers, local authorities and architects. The question to ask is this – 'What other products and services do these buyers specify?' These complementary products would include suspended ceilings, raised access flooring, lighting, building control systems, access control systems, industrial flooring, security systems, fire alarms, structured voice and data cabling and HVAC (heating, ventilation and air conditioning) systems, to name but a few. Other manufacturers and installers of the above products could be prospective purchasers. In addition to this, searching for competitive and complementary companies outside of the UK is essential. Globalisation is a significant reason why a premium may be paid.

2 Motives vs. multiples

If most company owners were to ask their accountants to value their business there is an 85 per cent chance that the valuation would be related to the historic profitability of the business.

The valuation usually follows this process (an approach that we do not advocate). Hammers and Nails Ltd. is a privately owned UK business with a turnover of £2.4 million. The company is a distributor of hand tools, making an operating profit of £175,000 and owning a property worth £200,000.

The first task for the accountant is to make adjustments to the company's earnings in order to reflect the true underlying picture. For example, the departing shareholder is drawing a salary of £70,000. Significant pension contributions of £25,000 pa are being made into the director's pension scheme. In addition, the company has had exceptional expenses in the last 12 months due to investment for future growth accounting for £20,000. The Director loves motorcycles and the company recently acquired a new Harley Davidson for £30,000. (This was noted in the accounts as a company rapid response vehicle!)

The underlying profitability of the business is the sum of all these items which total £345,000. However, in the absence of the departing shareholder, £45,000 needs to be spent on a new general manager reducing the above figure to £300,000. Corporation tax is now extracted to leave an after adjustment and after-tax profit of approximately £240,000. It is this figure that is traditionally used to value a private company. A multiple of between 4 and 8 is applied (6-7 being the most common). If £240,000 is multiplied by 6, this gives a value of £1.44 million – a return on investment (ROI) in 6 years. In fact the underlying principle behind almost all traditional valuations is ROI. The net value of property and surplus cash may now be added to this figure.

Here is the problem with this valuation: It takes no account of the fact that the company has an enviable blue-chip client base, a reputable brand name and also generates surplus cash. It assumes there is no additional value to an overseas acquirer wishing to access the UK market either. Do these factors have value? If so how do you value them? These are valid questions that require an answer. It is the intangible benefits which have to be exploited. If multiples are used to value a business then it is fair to ask – multiples of what?

It's the intangible benefits which have to be exploited. Motives for purchasing a company are diverse. It is a fact that the no. 1 reason behind the purchase of companies is the quality of that company's client base. This is the greatest reason why anyone buys a company and the greatest reason why a premium price is ever paid.

The second reason why a company is purchased and a premium price is paid is its potential for future growth. What could the business look like in three years under new ownership, with new clients and fresh investment?

These two motives overshadow every other motive. Other motives might include internationalisation, diversification, operational and financial synergies, and inherent skills in a workforce. One of the rarest reasons why a company is purchased is short term return on investment. This is also the

rarest reason why a premium price is ever paid.

Here is our point. Why do we take the least reason why a premium price will ever be forthcoming (short term return on investment) and make that the basis of our valuation? We would never do this with any other product we were selling. Most advisors now make one of the most fundamental and expensive errors; they publish this value in the public domain.

At BCMS Corporate we are convinced that we are right on this issue. Let me give you two interesting observations, one independent and one internal. Internal first:

The '2.5 rule'

If you negotiate well with a choice of strategically motivated buyers, then you will almost certainly receive a diverse range of bids.

At BCMS Corporate we have a unique perspective through the observation of the large number of deals that we have completed. Over many years we have noticed that the difference between the lowest and highest bids is consistently 2.5; that is the highest offer is 2.5 times higher than the lowest offer. We get very few exceptions to this. Always a great differential between highest and lowest bids.

At BCMS Corporate we approach, on average, between 200 and 300 prospective purchasers to sell just one company. It takes us approximately five months to vet and qualify this list down to no more than five or six. These prospects will be asked to submit a competitive bid (in Chapter 5 we will lay out a proven process for securing competitive bids). Bear in mind that we have been negotiating for many months and they have been thoroughly screened. It is at this advanced stage we consistently find that the difference between the highest and lowest bid will be 2.5 times.

If valuation was truly rooted in multiples of adjusted profit, then all bids would be relatively similar, there would never be such a great differential. All buyers would use similar logic, figures and multiples. The bids would be much closer together.

Why is one buyer prepared to pay 2.5 times more than another? The answer is simple; one company is buying for a very different reason to another. The reality is that motives of purchasers rather than multiples of historic profit ultimately determine value, which in turn means that it is almost impossible to value a business. It is not too difficult to evaluate a walk-away price or even an aspirational price, but not a sale price. There is no 'correct price'; a company is always worth what someone is prepared to pay for it.

In addition, each buyer will apply different variables. A complementary product or service supplier will benefit from being able to cross sell to both sets of clients. An overseas company will gain access to a new market. A competitor may make huge savings in production and at the same time eliminate a competitor and release some downward pressure on price. All of these things will influence price.

Finally, if your company generates cash or enjoys guaranteed income streams then it might be seen as a purchase with lower perceived risk. This will also have a significant influence over the price that a buyer is prepared to pay.

3 Bidder competition

There is one factor that influences saleability more than any other and that is bidder competition. Having a choice of acquirers, effectively creating a market, is the single most important issue that a vendor can address. Not only must there be a choice of acquirers but they must also be strategically motivated and financially capable.

It is essential that this matter is not compromised. Therefore, it is necessary to contact many potential acquirers as this will dramatically influence the sale price. Failure to address this will result in a poor deal. At BCMS Corporate we directly contact (by telephone initially) an average of 230 prospective purchasers for each of our clients.

Bidder competition influences three areas:

The speed of the deal

Where there is competition an acquirer is less likely to be concerned with minor warranty problems etc. At BCMS Corporate we work closely with a select number of lawyers. Feedback from these lawyers shows that deals completed by BCMS Corporate (i.e. with competition) have a far greater momentum than for a typical sale. If the buyer knows that you can walk away and that deadlock is no enemy but indeed an ally, the deal is less likely to snag. This is more important than most people realise because the more protracted a deal the disproportionately more likely it is to fail.

The price achieved

Of all the factors that will influence price upwardly, the greatest is ‘creating a market of bidders’. Of course this is true in any negotiation and yet establishing bidder competition remains the most compromised element of most traditional sales.

The terms of the deal

Whether a business owner sells for cash or shares will be influenced by choice. Whether it is 100 per cent, 80 per cent or 50 per cent cash up front will be significantly influenced by choice. The timing of an exit and the warranties that are demanded will be influenced by choice more than any other factor.

It is fair to say that whoever establishes choice has the greatest control over the negotiation. Without choice it will nearly always be the vendor who concedes first. Lack of choice means that terms will be dictated to you and stress is increased. With choice the vendor has a far greater influence over the terms.

The ability to walk away from a deal and force deadlock can often be a great asset.

If all of this sounds too idealistic and unachievable, be patient. In later chapters we will look into the process and methods that make establishing genuine choice entirely achievable.

4 Future potential

We have already said that the no.2 reason why companies are purchased and why premium prices are paid is potential for future growth. However, if you were to analyse a traditional prospectus you will find almost no comment on this most crucial of subjects. The truth is that nobody ever buys a company's history; they only ever buy its future.

At BCMS Corporate we produce what we call a 'Synergy Business Plan' for all of our clients. This business plan asks the question 'what will this business look like in three years under new ownership'?

When we get down to the last 4-6 serious buyers we produce a separate plan for each purchaser, based on conservative assumptions agreed by both buyer and seller. This business plan asks:

- What would the business look like when the new owner brings their clients to your products or services?
- What would the business look like when the new owner applies fresh investment?
- What would the business look like when the new owner brings fresh energy and enthusiasm?
- What would the business look like when the new owner brings synergies, cost savings, ideas, etc?

When you sell a company you should never sell what a company looked like last year under your ownership. You should absolutely never sell what a company will look like this year under your ownership. Neither should you sell what a company will look like in three years under your ownership. When you sell a company you should only sell what a company will look like in three years under new ownership.

One important message that our negotiation director keeps reminding us of is that we should negotiate from what at first glance appears to be an unreasonable position. Selling a company on the basis of future growth rather than past performance seems unreasonable. A buyer might well argue – 'Why should we pay a premium price when it is our actions that generate this future growth?' That is a reasonable question. Our only defence is to have a choice of buyers. We have already said that having a choice of buyers is the single most influential issue that affects a company's value and saleability. Incidentally, when the Managing Director of the acquiring company wants to sell his/her business in ten years time they too will have the right to be unreasonable, if they have choice.

If your buyer is not prepared to see value in future growth then somebody else probably will. In addition, neither party alone brings the ingredients for this future growth; both contribute and therefore both buyer and seller should benefit.

Chapters 4-8 will deal with the process and methodology that must be employed if you are to ensure that you will find a choice of buyers and negotiate successfully. It is this five-stage process that BCMS Corporate staff undertake successfully – day in and day out.

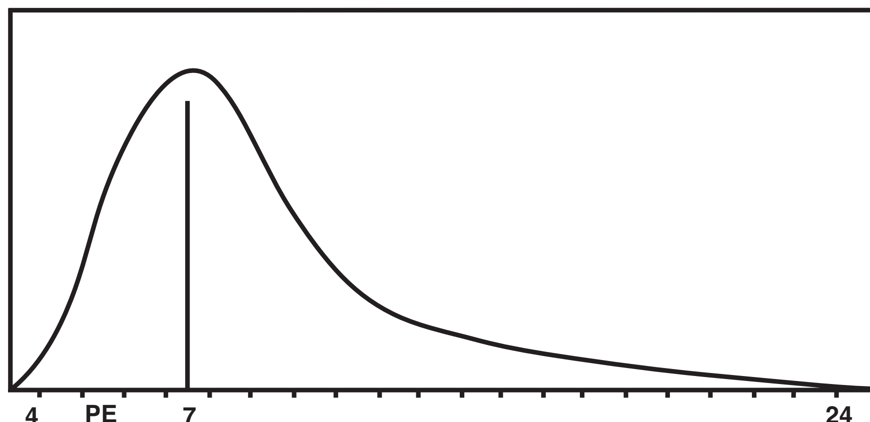
An independent observation

Within the M&A (mergers and acquisitions) market there is a highly respected database named Zephyr which specialises in the analysis of acquisitions – worldwide. The following graph (fig. 3) is based on the sale of small to medium sized, privately owned businesses.

For these British, privately owned, SMEs, multiples of adjusted earnings can be as low as 4 (for trade sales) and as high as 24. The average corporate finance advisor quotes 7 and the reason for this is simple. The distribution graph (fig. 3) peaks at around 7. Generally speaking, investors are unlikely to pay above this peak in distribution. Indeed, the only buyers who will pay a premium above 7 are strategic purchasers.

Typically a multiple of 7 times historic earnings is used. This value is then placed into the public domain and premium prices are rarely secured.

Figure 3



Once again, if value was all about multiples of historic earnings a spread of 4 to 24 would simply not occur. Value is related to the motives of purchasers and consequently, you must put yourself in the acquirer's position. What does your company possess that could strategically interest a buyer? People only buy benefits. If the benefits of a deal are not apparent, then do not expect a premium price to be paid.

Chapter two

Preparing to sell

Somebody controls every negotiation and if it is not the vendor then it will be the acquirer. The factor that gives greatest control is the choice of potential acquirers. Being well prepared for the negotiations is another important factor. Key areas of preparation that we lead our clients through include:

Considered communication

There are many ways to protect confidentiality, an issue that must be considered early on in the process. When do you tell staff? What do you say to them? It is far wiser to talk about raising investment for the future growth of the business than raising finance for the retirement of the shareholders. In fact the language that is used throughout the process and negotiations is very important.

In reality, confidentiality is a far greater perceived problem than an actual problem. Staff or major clients almost never ‘jump ship’ when hearing the news (planned or unplanned) of a possible sale. Indeed, new owners could well mean great opportunities for staff. Nevertheless, confidentiality should be taken seriously and communication plans must be made.

Documentation

At BCMS Corporate we guide our clients with a 78-point checklist of documents and information that will need to be prepared. The critical documents are the Brief, the Prospectus, the Synergy business plan and the Schedule of benefits. These will be examined in greater detail in the next chapter.

First impressions

Arguably this is a minor point, but it is often so easy to put right that it is worth considering. How does the property look to a third party? When was the floor last swept? How long have old pallets been leaning against the front of the building? First impressions can be of disproportionate importance. People will assume (rightly or wrongly) that a tidy operation represents a tidy business. Do staff deal with customers and prospects in a polite and professional manner? Acquirers have been known to call in with a fictitious enquiry to gain a feel for the company’s manner and general professionalism.

Objectives

What are your objectives? Why do you want to sell? What are your price aspirations? When do you want to exit? All of these issues will influence the type of acquirer that is approached and the nature of the deal. Each sale will need to be constructed to meet objectives in the most tax efficient way. If your objectives are unclear then it follows that planning will be too.

Negotiation training

Almost every BCMS Corporate client will choose to endure our infamous 'dry run' meeting. In this dummy run negotiation, we will endeavour to identify and prepare for all difficult questions and negotiating traps. This will be discussed more in a later chapter.

Removing skeletons from the closet

Tax evasion, phantom employees, contractors vs. employees, unresolved litigation, product warranty problems, etc – though rare, can occasionally be deal killers, or at the very least affect the price, and will need to be considered prior to taking a company to market.

Traditional grooming

The principles of grooming a company for sale are much discussed and yet many have little or no influence over the matters of saleability or value.

For example, traditional perceived wisdom may suggest that you should spend 12 months or so improving your credit control. It may be argued that poor credit control is costing Hammers & Nails Ltd. £10,000 annually. Using a multiple of 7, this improvement could therefore make a £70,000 difference to the price achieved.

This argument has a certain logic that is attractive, but is it really true? The answer may well be yes, to a pure investor, but a strategic purchaser is less motivated by this factor. Whether you improve your credit control just before they buy or whether they improve credit control just after they buy is relatively inconsequential. Nevertheless, many vendors spend years addressing issues that will ultimately have little influence over price. Meanwhile, they fail to address issues that will influence saleability and value. In fact, the ideal scenario to a buyer is often that the vendor is doing much that is wrong yet still making money. Such a company has potential for improvement.

Let us consider some preparatory issues that are important.

The Project Brief

At BCMS Corporate we consider this document to be one of the most essential. This document will form both the objective and plan for all that we do. It is important that the Brief covers the following areas:

- The vendor's personal objectives
- Company history
- Company uniquenesses
- Future growth
- Past performance
- Company assets
- Company strengths and weaknesses
- Financial summary
- Purchaser profile
- Staffing information
- Products and services
- Product/service benefits
- Reasons for selling
- Sales and marketing information
- Deal structure
- Confidentiality

A full list of the questions that appear in our briefing document can be found in Appendix A. The briefing process will be considered in greater detail in Chapter 4.

Good documentation

It is common for one party to control any negotiation. If the vendor is not in control then the acquirer will be. Having a choice of potential acquirers will influence this control more than anything else. However, once you have established choice then being well prepared will continue to assist control. Early in the preparation it will be necessary to prepare for every difficult question that you are likely to face and ways to pre-handle them. We shall look at the 'dry run' meeting later in this chapter and the invaluable part that this plays. All appropriate documentation needs to be made ready. At BCMS Corporate we carefully review a 78-point checklist with every client. This careful preparation will go a long way to ensuring a smooth negotiation.

The Sales Memorandum

At BCMS Corporate we advocate a very different approach to the preparation of the sales memorandum or prospectus. We believe that a traditional prospectus gives away far too much information far too early. Additionally they often focus on features rather than benefits and are not read in detail by prospective purchasers due to the sheer amount of information contained in the document.

The aim of a traditional prospectus is to sell a company and yet, intriguingly, this should not be its objective. A good prospectus should be designed to sell a meeting and not a company, a meeting at which it can be considered whether or not it is appropriate to enter into further negotiations. For this reason a prospectus should be benefit-rich and relatively short on detail. Its aim is to generate enquiries rather than assist a negotiation. The prospectus should be no more than 15-20 pages and should focus on:

- Company location, contacts, auditors and bankers
- Company history
- Shareholding/ownership
- Company activity, product/service benefits
- Competitive advantages
- Sales and marketing information
- Lack of vulnerability to existing shareholders
- Key staff
- Future potential for growth
- Benefits of an acquisition to the buyer
- Brief financial overview

Each section should be short, concise and professionally written.

Future projections

In addition to the sales memorandum it is essential that a 'Synergy business plan' be professionally produced.

We use the term Synergy deliberately in order to differentiate this from a traditional business plan. This is dedicated to revealing the true potential growth of a company under new ownership. What will the company look like in three years when the new owner brings to bear new resources, new investment and (above all) new clients to your products and services?

Nobody buys a company for its past performance, only for its future potential.

Negotiation training

Never rely on the negotiation skills of your advisor. Indeed, your advisor may be good with numbers and lousy at negotiating. Selling your business is first and foremost a marketing and negotiating matter, not an accounting matter.

Deals are built or broken during negotiation. Asking the right questions, understanding deadlock, understanding 'win-win' scenarios, never conceding but trading, pre-handling objections, thinking on your feet, maintaining control, dictating terms and avoiding pitfalls are all vital elements necessary to ensure a good deal. Not only do many advisors poorly execute these but often company owners make matters worse too!

One of the best investments you will make is to undertake negotiation training at this early stage of the process. This won't necessarily be the biggest deal of your advisor's life, but it may be yours. Don't assume your advisor will serve you well.

At BCMS Corporate we take all of our clients through a 'Dry Run' negotiation. This negotiation training session has proven to be invaluable and is covered in more depth in Chapter 7.

Confidentiality

At BCMS Corporate we take this issue very seriously. We plan our communications with great care. Great consideration is given to communications with staff, the market and competitors. Because of this we have virtually no confidentiality breakdown, despite the fact that on average we speak to 230 potential acquirers per client.

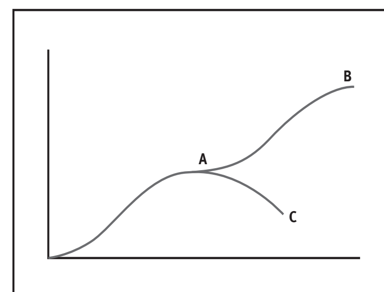


Fig.2

I mention this in order that you do not consider me irresponsible when I say that 'confidentiality is a greater perceived problem than an actual problem'. Firstly, a breach in confidentiality is extremely rare and secondly, on those unusual occasions when there is a breach, staff or clients very rarely leave if they hear that a company is on the market. In other words, usually the fear of disclosure is greater than the reality of it. Indeed, a new owner could represent a significant opportunity for existing staff to develop.

What is important is to consider the terminology used during the sale process. It is usually inappropriate to talk about selling the company; rather, you should talk about resourcing the company for future growth.

Let us assume that your business has begun to plateau reaching point A in Fig. 2. You are now in the process of selling the business when your senior sales manager knocks on your door and asks, 'I've heard that there is a business for sale in our industry. Is it us?'

Your next few sentences are very important. Using the above graph it is possible to clearly explain how the company has reached a plateau. Unless this is addressed the company will inevitably decline. You will need to explain how you are going about looking for an investor (who may well take a shareholding) in order to develop the company, staff and products to point B.

Your terminology needs to focus on the future of the business and not the future of the existing shareholders.

BCMS Corporate case study

Here is another example from one of our past clients: having received a copy of our 78-point checklist one of our clients spent several weeks preparing a 60-page document ready for a 'Dry run' negotiation meeting at our main office. The night before, the main shareholder discreetly entered the company's office in order to use the company laser printer to print the large document. After hitting the print button twice the printer failed to perform so another computer and printer were used and the document successfully produced. All the computers were then shut down. At 6:00am the next day the shareholders began their long journey south.

At 8:30am the staff arrived for work back at the client's offices. As usual all computers and printers were started and immediately two copies of the 60 page document poured from the buffer memory and printed out. An 8:45am telephone call from the staff to the shareholders sent them into a panic and they arrived at our offices having pulled most of their hair out.

Our advice was quick and simple: get back in the car, meet with the staff and draw the graph in Fig. 2. Talk about investment and future growth. Four hours later the issue was resolved, nobody left the company; in fact the staff bought into the idea, but a face-to-face meeting was required and the focus needed to be moved from the shareholders' future to the company's (and hence the staff's) future.

Management - Should you recruit a replacement MD or a senior management team?

Traditional wisdom says 'yes', but this is questionable. A good rule of thumb is that you should continue to run the business as if you were not selling it. The exceptions to this are likely to be changes in shareholding (which may have tax implications), major moves in premises and expensive recruitment of managers. These are three major decisions with potentially major consequences. You may well now be making decisions on behalf of new owners – decisions that may well be contrary to their desires. They may well have senior managers in place or may at least wish to be involved in the recruitment process.

Here is your decision. Do you recruit and train new managers now (that will take at least 18 months) and then sell the business (a further 12 months) or do you sell the business now and commit to assisting the new owners in the recruitment and training of managers if necessary? It is usually better to make the decision with them – not for them – and this may well speed up the sale process.

Valuation

We have already stated that traditional valuation is rooted in multiples of earnings when it should be focused on motives of the purchaser.

However, there are many different methods of valuation, including those based on:

- multiples of earnings (P/E)
- net asset value (NAV)
- breakdown valuations
- discounted cash flow (DCF)

Each of these is rooted in simple mathematical formulae but none take account of an acquirer's motives. As a result they may be appropriate for Inland Revenue valuations but they are unlikely to be appropriate for the purpose of a strategic company sale.

Various BCMS Corporate clients have brought historic valuations to us. Quite regularly they have presented us with three or four valuations of the same business, all made using different valuation methods. They all seem to produce the same value because they are all rooted in ROI.

Here is a simplified but actual example. A manufacturer of building products received two valuations summarised as follows:

1 P/E (price/earnings valuation)

Average operating profit over three years	£296,000
Two departing directors' salaries	£128,000
Two company cars	£24,400
Directors' pension contributions	£22,100
Miscellaneous exceptional expenses	£18,000
Cost of a new General Manager	(£45,000)
Adjusted earnings	£443,500
Multiple applied	6
Company value	£2.661 million

2 Net asset valuation

The Company's net worth based on their balance sheet is £1.425m. At this point a figure was added for goodwill. In reality, goodwill means – 'How much more am I as a buyer prepared to pay above NAV and still receive a return on my investment within six or seven years?' In this example the figure was: £800,000 giving a total value of £2.225m

The two valuations were almost identical because both were rooted in ROI. Both of these figures are based on the company's historic performance and yet acquirers never seek to purchase a company's history – only a company's future. This thinking, with ROI based on historic (albeit adjusted) results, is clearly inappropriate. If your adviser insists on using multiples, then you should ask the question – 'Multiples of what?'

Multiples of earnings or ROI may be appropriate if it is based on future performance calculated/predicted using a Synergy business plan. It will be necessary to produce a different plan for each prospective purchaser. In Chapter 2 we discussed the need for a 'Synergy business plan'. This is so important that it is worth repeating here.

This plan is by far the most important document that you will produce. At BCMS we have dedicated analysts that spend all of their time producing these plans with our clients and the buyers.

Don't forget what we said earlier that the business plan asks:

- What would the business look like when the new owner brings their clients to your products or services?
- What would the business look like when the new owner applies fresh investment?
- What would the business look like when the new owner brings fresh energy and enthusiasm?
- What would the business look like when the new owner brings synergies, cost savings, ideas, etc?

When we get down to the last 4-6 serious buyers we produce a separate plan for each purchaser, based on conservative assumptions agreed by both buyer and seller.

As we said earlier, when you sell a company you should never sell what a company looked like last year under your ownership. You should absolutely never sell what a company will look like this year under your ownership. Neither should you sell what a company will look like in three years under your ownership. When you sell a company you should only sell what a company will look like in three years under new ownership.

If your buyer is not prepared to see value in future growth then somebody else probably will. In addition, neither party alone brings the ingredients for this future growth; both contribute and therefore both buyer and seller should benefit.

In summary we are demonstrating to the purchaser what can be realistically achieved under new ownership and with shared resources. This inevitably results in a step change in company performance and profitability. Almost no amount of grooming and preparation for sale can compete against such planning.

Nobody ever buys a company's history, only its future. Acquisition directors have eight rules or commandments. These are commonly called the ‘Acquisition Musts’. It is interesting to note that five out of the eight are related to future potential and none of them consider ROI. ‘Future growth’ is the second most articulated requirement in an acquisition, behind ‘client base’.

Chapter four

Stage one – the Project Brief

The first and obvious step is to gather all of the information that will be required to start this process.

If you are carrying out this process privately then you may wish to use a (copyrighted) copy of our BCMS Corporate Project Brief template in Appendix A.

You may find that there is an inclination to skip this part of the project. After all, you already know all there is to know about your own business. However, doing so would be a major mistake. What you write down you will be inclined to review. It is a healthy and often illuminating process.

Our clients often reveal their surprise after the Project Brief. We regularly find that after the brief they place more value on their own business. You will find a list of the questions in our Project Brief template at the back of this booklet.

The key elements of the brief are:

- Administration – key contact points, confidential telephone numbers etc
- Company history and background – milestones in the company's history
- Company structure – key staff, property, shareholders, vulnerabilities
- Product and service information – activities, benefits, USPs, future product development, patents, accreditations, suppliers
- Sales and market information – customers, sectors, vulnerabilities, reputation, competition, sales activity, geographical coverage
- The future prospects – potential for growth, market conditions, sales planning, capacity, gains for the buyer
- Financial and other – statutory accounts, management accounts, trading cycles, skeletons in the cupboard, adjustments to earnings, cash position, the nature of the deal
- The potential purchaser – geographic location, current activity, nature of clients, areas of synergy
- Miscellaneous – professional advisers, confidentiality, companies to avoid, etc.

Once again we contend with traditional thinking when it comes to the prospectus. A typical prospectus will contain up to 100 pages of detailed information. Our proven conviction is that a traditional style prospectus gives away too much information far too early.

In most cases the prospectus will be produced and then a student in a gap year will be asked to locate 10 or 12 competitors to whom this will be mailed.

Most professionals produce the prospectus to sell a company. This objective is wrong. The prospectus should never be designed to sell a company, only to sell a meeting – a meeting at which it can be determined whether or not to enter into negotiations. A typical prospectus is feature-rich but devoid of benefits.

When producing this document, it is essential to focus on benefits. The focus should also be on the potential acquirer and not the company for sale. People only invest in benefits. Benefits appeal to and attract potential acquirers – they are the all important and typically absent payload.

A good prospectus should be no more than 15-20 pages and should include products and service information, future potential, key benefits of the acquisition, sales information, financial summary, shareholder information, reasons for sale, company history, administrative information, a disclaimer and a proposal summary.

The profile of the purchaser

A critical part of the initial brief is to consider the profile of the ideal purchaser. It is necessary to consider the attributes and requirements of the acquirer. Key questions to consider will be:

1. Where will the acquirer be located geographically?

It is important to recognise that the acquirer of your business could be an overseas company. An overseas acquirer may well pay a premium to gain access to your market. After all, consider their alternatives:

a) They could appoint agents and distributors in this country. However, the Institute of Export confirms that 12 out of 13 export partners fail in the short term, primarily because they do not invest enough in selling.

b) The overseas acquirer could develop their products, set up an office, recruit the right staff and generate a client base by growing organically. However, this route is 'littered with corpses'. It is extremely expensive and less than three per cent of companies globalise in this manner.

By far the most successful route to internationalisation is acquisition.

Now, having said all of that, it is worth noting that the UK is the most acquisitive country in the world. The UK buys more companies than North America and Japan together. As a result your buyer may well be British but a bid from a British buyer will be influenced significantly by overseas bidders.

2. What products and services will the acquirer be selling?

Don't forget that a premium price may be forthcoming from a complementary company rather than a competitor. Your products can sell to their clients and vice versa. Customers who buy your products or services probably buy many other products and services. What are they? What products fit alongside your own?

3. What do their clients look like?

It is likely that there will be a high degree of commonality between your customers and those of a potential acquirer. The buyers and decision makers that they sell to will be the same as yours.

4. Are they financially strong?
It is interesting that, with almost no exceptions, management buyouts are bad news for the vendor. In almost every case the managers cannot finance the acquisition and are forced to borrow money. However, the lender will never lend a premium over and above the short-term ROI. It is now the lender who will determine value and not the buyer.

The ideal buyer will be financially strong. They will need good access to funds. If they rely too heavily on borrowed money then the lender will be too influential on the price that is paid.

At the end of this process you will have assembled a reasonable picture of the ideal acquirer. However, here is a word of caution; At BCMS Corporate we can cite many cases where the acquirer does not conform to the ideal acquirer's profile. Indeed, if you restrict your search for an acquirer to the obvious at the expense of the less obvious then you could lose valuable opportunities. It is vital at this stage to think laterally and creatively.

Chapter five

Stage two – desk research

The objective of stage two is to comprehensively locate as many prospective purchasers as possible. Your research will now need to be intensive and exhaustive.

At BCMS Corporate, we have been so convinced about the importance of this stage that we now have access to the largest and most respected data resources available for the sole purpose of locating the most suitable potential acquirer. Over many years this has become our greatest ongoing cost, outside of salaries (many of which are researchers). This investment reflects how important this step will be in the process of selling a business. If you compromise this element, then you will find that every aspect of the sale process will be compromised until the day you sell. Research is the cornerstone of the entire project.

Our database is not a list of companies that are looking to acquire; instead, it is a comprehensive database of tens of millions of companies that exist. Don't forget that the best purchaser for you may well not be looking to buy. They may be successful, profitable and growing without the need to purchase your company. An acquisition may well not be on the agenda. It will now become tempting to cut corners, but to do so will invoke great penalties. This may surprise you but statistically, opportunistic acquisitions are more likely to be successful than those planned well in advance. We are, in effect, giving the acquirer a finite time in order to create a 'scarcity value'. Such an opportunity may not re-occur for many years.

Despite having a large dedicated research team and unique in-house resources, this stage of the project will still take BCMS around four to five weeks to complete. If you are undertaking this yourself, you may find that you are spending weeks on end in libraries gathering and crosschecking data. You may despair that your time is being wasted. However, the truth is that there is little better that you could be spending your time on during this stage of the process. While you're in those libraries, don't forget that this could possibly be the single largest sale of your life.

It is essential that you do not restrict your search to the obvious at the expense of opportunism. As we have said before, a premium may well be more forthcoming from a complementary company than from a competitive company.

Again, your buyer will also need to have sufficient financial strength. If they cannot afford to buy you and are forced to borrow heavily, then it may well be the lender that determines the price paid.

In addition, you must not neglect looking beyond the shores of the UK. The Buyer may well be an overseas company that is seeking to enter the UK market. Once you have identified potential acquirers you will need to cross-reference your research in detail. At BCMS Corporate we have access to a significant number of premium data resource providers to enable cross-referencing to take place. You will need to cross-reference a company's activities with their financial strength and their acquisition history. At BCMS Corporate, we identify an average of 230 potential acquirers. We will validate the appropriateness of each one of these potential acquirers which may even mean that we also telephone some of these to confirm that our research is accurate.

Review and 'ring-fence'

After four to five weeks of intensive research you will now be ready to review the results. Do not be over-selective during the research; instead, allow yourself some freedom, knowing that the results will be reviewed and revised later on. At this point at BCMS Corporate we meet with our clients to analyse each of the 200–300 prospects that have been identified. The purpose of this review is:

1. To analyse the appropriateness of each candidate and to consider areas of research that may have not been previously considered.

2. To consider confidentiality: It is far easier to consider whom you do not want to approach after you have completed the research. At this time you may conclude that there are perhaps 10 or 15 companies that you are not comfortable with contacting. These companies will now need to be 'ring-fenced' in order that they can be avoided or introduced into the process at a later stage. Be careful at this time as our experience shows that sales are frequently made to prospects that were originally 'ring-fenced'. Never say 'never'.

BCMS Corporate case study

Some time ago we sold a Bristol based company which purchased, refurbished and resold production machinery. The company's accountants had valued the business at £650,000. Additionally, the company owned property with a valuation of £300,000. Consequently, our client had an aspiration of achieving approximately £1 million. There were three other companies in the UK carrying out similar activities and each had a 25 per cent market share. At the desk research review meeting our client insisted that one of these three competitors should never be contacted. An ex-employee, who some years earlier had set up in competition, owned this particular company. We disagreed with our client who was unaware that a financially strong Canadian company had purchased this competitor. Nine months later that very same Canadian parent paid £2.45 million for our client.

Three research 'keys'

Our clients often express scepticism when we tell them that we are likely to find several hundred prospective purchasers. Many tell us that they are far too specialised or operate in too much of a niche market to be able to find so many potential purchasers. These customers are inevitably surprised with the results of our research. There are three reasons why the volume of companies generated by our research is often higher than expected:

1. The size and scope of our database resource is greater than any that our clients have previously observed.
2. We look beyond the obvious, thinking laterally and looking at complementary potential acquirers, competitive potential acquirers and potential acquirers outside of the industry.
3. We target potential acquirers from overseas using our own multilingual staff.

If you are undertaking this activity in house, be sure not to overlook any of these three research 'keys'.

Chapter six

Stage three – first contact

Having identified perhaps several hundred prospects, careful attention must now be given to the way that these companies are approached.

As we have already stated, traditional methods of selling involve writing a detailed, but inappropriate prospectus, which is then given to a student in a gap year, who is asked to identify between 10 and 12 competitors to which the prospectus will be mailed. This course of action is consistently followed despite the fact that premiums may be more forthcoming from complementary companies. In addition, it is inadequate to approach just 12 companies. To then mail these companies is a further serious error. The mailing may be well-written and packed with benefits but if the ideal potential acquirer is not looking to buy (often the case) then they will not respond to a mailing. The only people that tend to respond to such an approach are bargain hunters and short-term investors. Perversely, such mailings can have the opposite effect to that which is desired. They can end up alienating you from the ideal potential acquirers and only generate inquiries from the least desirable.

So how should you best approach these potential acquirers in a way that will generate maximum results?

At BCMS Corporate we have found that the only successful option available is to pick up the telephone and speak to the chief executive of each prospective purchaser. We consider this so important that we have recruited and trained a large and specialist team called the Prospect Generation Team (PGT). The objective of the PGT is to verbally place the idea in the mind of the potential acquirer that the acquisition of our client could be a valuable opportunity. The call must:

- focus on the benefits of acquiring for the acquirer
- Introduce the concept of competing potential acquirers
- retain the initiative
- be concise

Benefits must be used to establish interest and the potential acquirer should be made aware that there are a large number of other potential acquirers. With the realisation in the potential acquirers mind that there is competition the initiative now remains with us.

Only now should written documentation be introduced and a two-page summary drafted. The name of the vendor, of course, should not be disclosed and the content of this brief summary must be well thought out. The objective should be to:

- establish credibility
- clearly state some of the benefits on offer
- form the basis of a future discussion
- maintain confidentiality

We have referred to benefits on a number of occasions but what do we mean by this term when it comes to sales and marketing? The absence of benefits is a major factor behind why so many companies fail to sell or never sell for a premium price.

BCMS Corporate case study

In a recent meeting with the managing director of a small private engineering company I asked what benefits their products offered their customers. I was a little surprised when the MD was unable to articulate even one of his product benefits. This was no real problem; after all it was my job to draw these benefits out during discussion. In order to achieve this I began asking open-ended questions, beginning with – 'You have a very loyal client base. Why do they return to you year after year and continue to place orders?' I knew that his reply had to reveal at least one benefit. However, I settled in for a long day when he replied – 'We've been wondering that ourselves for years!'

So, to clarify, features focus on the product or service being offered for sale. Benefits focus on the potential acquirer of the product or service and induce the response 'So what?', for example:

> 'We use the latest Cincinnati machine tool centres.' – 'So what?'
>
> 'We employ all of our own electricians.' – 'So what?'
>
> 'Our aluminium extrusions are plastic-coated rather than painted.' –'So what?'

None of the above indicates a benefit to the potential acquirer. They are product features and not client benefits. You can convert features into benefits as follows using the key words 'which means':

> 'We use the latest Cincinnati machine tool centres, which means that the components we produce for you can be made to consistently

> high tolerances, even with high-volume batches. Consequently, you should not expect any problems with returns.'
>
> 'We employ all of our own electricians, which means that we have total control over quality and timing to ensure that we meet your specifications and your deadlines.'
>
> 'Our extrusions are plastic-coated rather than painted, which means that our products will give you 10 years longer life than our nearest competitor.'

If you look at many company brochures and sales letters you will find that – in many cases – they quote features and very few benefits. If benefits are all-important while selling products and services, then they will become even more important when selling a business.

Acquirers buy benefits. If the benefits are not clear then do not expect a premium to be paid for your business. Benefits are the all important payload that drives any sale.

It is also important to ensure that the proposal is professionally written. At BCMS Corporate we have professional business writers who specialise in writing these proposals together with the company overview or prospectus. Unprofessional communication will work against you. Use a professional business writer; it will be money well spent.

In many cases these documents will be sent to overseas potential acquirers. In such cases the letter will need to be translated professionally into the appropriate language. At BCMS Corporate we employ many linguists, but we never translate our own letters. Instead, we use nationals from the appropriate country.

BCMS Corporate case study

Some years ago, I was speaking at a seminar in Milwaukee, US. We made the point, in the presentation, about the use of professionals to carry out translation. During the break the director of a large company described how some years earlier they had launched their Swedish products into the United States. The company used a Swedish agency to produce all literature, magazine and TV advertising. One week before launch date they discovered a problem. In the US, as we all know, if you were to say that a product sucks, it would not be seen as a compliment. In this instance the company's logo and dominant strap line read – 'Nothing sucks like an Electrolux' – a great slogan anywhere else, but not in the USA.

Only nationals can pick up local nuances and cultural errors.

Chapter seven

Stage four – negotiations and competitive bids

We will now have made our first contact – by telephone – with each potential acquirer. It is now very easy to hand over the initiative to them. Resist this and ensure that you stay in control.

At BCMS Corporate we maintain contact with each potential acquirer, start to trade information with them, ask them questions and slowly feed them more benefits that you have to offer. We find that 200–300 prospective purchasers will relatively quickly be filtered down to approximately 25 during this stage.

Most vendors we represent tend to be entrepreneurial in their personalities, which is unsurprising, given they are generally self-made people. What is surprising is that, more often than not, the top person in the acquiring company is usually entrepreneurial as well. This is noteworthy because most entrepreneurs tend to be driven by the 'feel' of a deal.

Could we work with these people? What good reason is there not to proceed? Is the buyer excited about the potential of the acquisition?

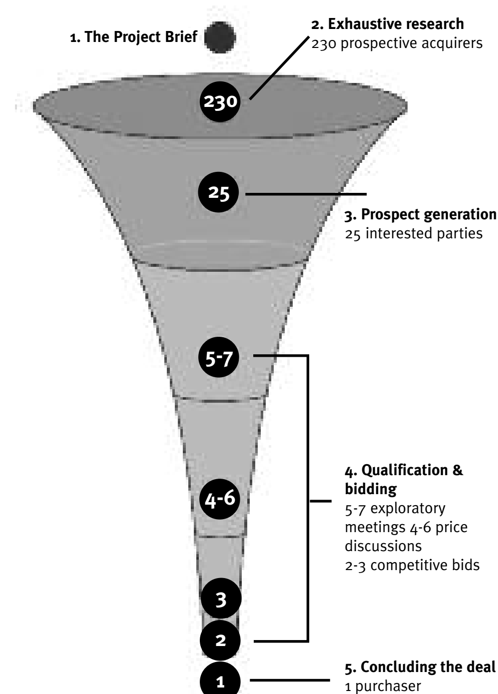
It is critical that the buyer feels good about the deal. Our objectives need to be considered because the 'flavour' of the meeting has a profound impact on the outcome of it. Here's what not to do.

BCMS Corporate case study

I was in a meeting once at which the buyer asked the seller "what's your staff turnover?" The seller replied, "very low, just 5% - which is just as well because recruitment's a nightmare!" Needless to say this response affected the feel of the meeting and simply left the prospective acquirer with a potentially serious concern. What the vendor should have said is 'We enjoy a very low staff turnover of just 5% so it is not an issue'.

While also making the potential acquirer feel good about the deal we also need to have a compelling commercial argument that "one and one makes three" by considering issues like:

- the nature of the fit
- commonality of client base
- financial strength
- strategic intent
- applicable benefits
- motives for purchase
- sharing of resources



Note: Figures quoted are average

The 'dry run'

It is at this point that we take our clients through our 'dry run' negotiation training. Call to mind a scene during a courtroom TV drama, when the defendant's attorney privately turns to the defendant and questions him in the same manner that the prosecuting attorney will use in the forthcoming trial. The BCMS Corporate 'dry run' negotiation meeting is a little like that, but with a few more smiles!

Typically BCMS Corporate facilitates c. 200 meetings per month between potential acquirers and our clients, which over the years equates to many thousands of meetings. Over this period we've witnessed everything from the unusual to the bizarre – it's fair to say that nothing now surprises us! Equally, as well as the unusual we also know the 'common denominators' which are discussed, almost without exception. These include such subjects as 'reliance upon the owner', 'vulnerability to certain clients or sectors', etc. It is essential to assess these in detail before these are raised at a meeting to ensure that our negotiating posture is appropriate and that we are not 'off-guard'.

We consider what should and shouldn't be said, how to behave and how not to behave, how to handle tough questions, how to avoid becoming defensive, handling the bidding process, using and avoiding deadlock, capitalising on choice, etc. There is another particularly important reason why we take all our clients through our 'dry run' meetings.

The '30% rule'

Of the 200–300 prospective purchasers identified during research, we will normally arrange exploratory negotiation meetings with only 10–12. In approximately 30 per cent of cases, the very first potential acquirer to attend an exploratory negotiation will be the one that eventually acquires the vendor's business.

Although this is not an overwhelming percentage it is high enough to be significant. Because there is such a high probability that the first meeting

could be with the eventual acquirer it is vital not to use that first meeting as a ‘training run’. Potential mistakes should be examined prior to the first meeting. The ‘dry run’ negotiation ensures that both our clients and ourselves are fully prepared. Every difficult question that we are likely to face, we will have already pre-handled.

There will be some disqualification. If 10–12 companies enter into exploratory negotiations, then only 4–6 will enter the bidding process.

The competitive bid

Assuming that you have a choice of potential acquirers (which is why you will have endured the last five months’ hard work), then here is the bidding strategy that we would advocate:

1. Each prospect should be informed that they are one of several companies with whom you are in discussions, therefore their bid will need to be competitive.

2. Be open-minded regarding the eventual deal structure. Generally speaking, the more flexible a vendor is with the deal structure the more the business will sell for, primarily because it reduces the potential acquirer’s risk. For example, if a vendor is prepared to receive 80% of the monies on completion and 20% in one year linked to some performance criteria, the act of doing this reduces the buyer’s risk and could result in a considerable increase in the overall price offered.

3. It is important to write a Synergy business plan for each potential acquirer which will factor in all of the various ‘economies of scale’ and ‘added value’.

4. Always retain choice. Only by retaining a choice will you ensure a change in mindset from – ‘How little can I get away with paying for this company?’ to ‘Why am I really buying this company?’ If that change in mindset does not take place, then diverse motives will almost never be expressed.

It is at this point that, at BCMS Corporate, we find the difference of 2.5 times between the highest and lowest bid will reveal itself. Although the lowest bid will almost certainly be rejected, the same may also be the case with the highest bid if the terms are inappropriate.

At BCMS Corporate we typically find that only two or three of the four to six bids are worthy of further consideration. You are now ready to move into the closing stages of negotiation, due diligence and legal aspects.

Some negotiation thoughts

Don't discuss value too early

Traditional routes to market involve calculating a value using traditional valuation techniques (meaning the value is almost certainly wrong). The company is then offered to the market with a brief description of the business and the value is attached. It's a bit like advertising a car for sale for '£2,000 or nearest offer'. Guess which offer you won't receive?

Be professional and credible

Good preparation is vital; it makes your negotiating position look serious and committed. Construct all documentation in a professional manner and spend time on your Synergy business plan.

Know your buyer

Investigate potential acquirers thoroughly. In particular, ask the question – 'What is their motive for buying?' 'How badly do they want it?' Their motive for purchase will determine the price that they are prepared to pay.

Think benefits

We have said this already, but benefits are the all-important payload. If the benefits of a deal are unclear, then do not expect a premium to be paid. Benefits are the only reason premium prices are ever paid for any product.

Be confident

Don't appear reticent or nervous. As a rule, human beings tend to undervalue the businesses that they have built. This may be because they know the flaws and weaknesses in their own business, but can't see them so easily in others. You may need to develop a confidence in your business. Avoid weak statements like – 'We were hoping that the company might be worth...'.

Use choice

Ensure that the buyer knows that you have credible options. Don't worry about sounding or looking shocked if they make a derisory offer. Saying nothing may well be seen as resigned acceptance. Remember that choice will ensure that you not only sell for the right price, but on the right terms.

Trade concessions

Although seemingly obvious, it is an often overlooked fact that negotiating will mean you may have to make concessions. But always bargain a concession – never give them away. If you move, so should the potential acquirer. However, try to make this one-way traffic. If they concede, do not assume that you have to concede in return. It may also be better to trade several small concessions than one major one. Look for concessions that will provide high value to them and low loss to you.

Plan the negotiation

What are your expectations? What terms would be acceptable or unacceptable? How will you pre-handle objections? At what point would you consider using deadlock? How will the team work together?

Keep sight of the objective

Be sensitive, flexible and quick to adapt, but never take your mind off the objective.

'Win-Win'

Remember that every successfully concluded negotiation must be perceived as a 'win-win' by both parties.

'Triple think'

Do not simply consider what the potential acquirer wants out of this negotiation, but also consider what they believe that you want out of it.

Develop trust

Negotiation is a sophisticated form of dialogue and always succeeds best when the other party has developed a trust in you. Go out of your way to develop trust. Keeping small promises will always aid the negotiation.

Listen

Develop the ability to listen beyond what is being said. Hear why people are saying things. Listen to the way people speak and their inflexions. Observe non-verbal communications.

Prepare your alternatives

You need to consider the best alternative to the best solution in advance.

Chapter eight

Stage five – concluding the deal

Following the competitive bidding process, BCMS Corporate will be available to facilitate during the due diligence and legal process. We will now be down to the final two to four candidates. That is two to four bids out of four to six that are acceptable to us. What happens next?

Final choice

We can't sell to all three candidates, so a choice has to be made. This may be an easy selection as one candidate may be head and shoulders above the other two. It may not be so easy, as all candidates have made good offers. However, a choice has to be made.

Here we need to be careful not to make our choice at the expense of competition. The final candidate needs to be aware that: You have not rejected the other two prospects, but that you have parked them temporarily; that although you will not be entering any due process with them (indeed you may be happy to offer a degree of temporary exclusivity to the buyer), you will, however, retain a relationship with them. The reason for this is simple. Both parties may be convinced that a deal is likely, but what happens if the buyer's parent company suddenly calls off any group investment. This is beyond anyone's control, and is not infrequent. What you are saying to the buyer is that you absolutely intend to sell to them, but you would be unwise to lose relationship with the others at this early stage.

In other words – you still have alternatives and the choice remains with you. Deadlock holds no fear for you. The one that retains choice will dictate terms. Choice retained during this element of the process will significantly influence:

- the speed of the sale
- the price secured
- the terms that you sell for

Confidentiality undertaking

Specific confidentiality agreements must be signed as part of the 'Heads of Terms'. These agreements identify what information is regarded as confidential and how both parties (and their advisors) will handle such sensitive information. This document usually also includes enforceable undertakings restricting a potential acquirer from, for example, talking to staff or clients.

Due diligence

Over the past few months the vendor has detailed their business's activities and financial status, however the potential acquirer will need to validate this information before completing the acquisition. This stage is known as 'Due Diligence' and normally starts with a questionnaire from the acquirer's advisor. Answers must be concise, following which, the acquirer will begin investigations. Sometimes these investigations have been little more than all sides getting together for dinner and going through all of the issues and documents during one evening. On other occasions it may involve a sealed room at a hotel where the buyer studies all the appropriate paperwork over two or three days. Occasionally, it may require site surveys, particularly where there are potentially sensitive issues such as environmental risks etc.

Heads of agreement/Heads of Terms

This document outlines the terms of the deal that have been agreed verbally by the vendor and acquirer. Heads of Terms document is normally produced by the acquirer's lawyers and then checked/amended by the vendor's lawyers. This document covers only the main issues and terms of the deal. At BCMS Corporate, we prefer to draft the 'Heads of Terms' ourselves because we can have preferable terms of reference, although on some occasions we move straight into negotiating the final 'Sale and Purchase Agreement'. Heads of Terms will normally include:

- confirmation that the Heads of agreement are non-binding and 'subject to contract'
- accurate confirmation on what is being bought
- confirmation of the price agreed and how this will be paid
- conditions 'precedent' – these are matters that have been agreed and will be resolved by the vendor or the purchaser prior to completion

- any restrictive covenants that the purchaser may require, such as limitations on setting up in competition for an agreed period of time
- some wording to do with likely warranties or indemnities
- an approximate timetable of events
- pension schemes and how they will be dealt with
- any agreed period of exclusivity

Sale and purchase agreement

This will be the final agreement upon which the business will be sold (or bought). Both the vendor and the acquirer will have a slightly different perspective. Let's just consider what they are:

The acquirer's perspective - The acquirer will be looking to define what they are buying and reduce risk as much as possible. As a result, they will want to ensure that they know about any major problems in the future that may arise in the business and, if possible, warrant against these so that they remain the liability of the vendor.

The vendor's perspective - The vendor will also be looking to clearly define the elements of the sale and ensure that, as far as possible, warranties are minimal or non-existent. It is also important that the deal is constructed in the most tax-efficient way possible. This agreement is usually drafted by the acquirer's lawyers and then amended by the vendor's lawyers until agreement is reached.

Both sides need to express an element of caution with their lawyers at this stage. A good lawyer will pragmatically find a way around a possible problem and will think in sound commercial (and not purely legal) terms. A poor lawyer will find ways to unpick a good deal. They string out the negotiation process to the point where it becomes disproportionately more likely to snag and fail. Agree together with the buyer that both sets of lawyers are to be servants of this deal and not masters of it.

Completion

Completion may involve board meetings of both parties to sign off the transaction. Share transfers will be signed and handed over and a variety of documents will also be required to be handed over to both acquirer and vendor. For BCMS Corporate clients our recommended lawyers are available during these stages to ensure this final stage of the transaction runs as smoothly as possible.

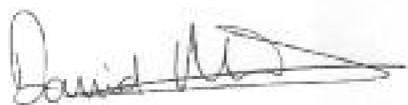
Chapter nine

Final thoughts

Let me close by saying that the principles outlined in this publication have been proven time and time again to ensure a maximised sale price for our clients. This success demonstrates that the method of selling businesses using traditional valuation methods and financially based organisations should be consigned to the history books. Active sales and marketing combined with competing financially capable and strategically motivated acquirers has been proven to be a more successful method of selling privately owned businesses for their maximum value than any other.

I will leave you with a few thoughts:

- It doesn't have to be difficult to sell a company, but most people don't bother to sell. They hope that enquiries will somehow come to them. However you go about it, be active in your marketing
- Don't forget that the best buyer may well not be looking to purchase. They will not be scouring the brokers' lists looking for bargains. Instead, they are likely to be successful and profitable without you. An acquisition of a company like yours is quite likely not to be on the agenda
- People buy for many motives and ultimately it is the motive of the purchaser not multiples of profit that will determine price
- The single most influential factor over saleability and price is the creation of a market of strategically motivated, financially strong buyers. If you compromise anything, don't compromise this. Don't even consider entering a negotiation without choice. It is not a luxury and could be worth millions



David Rebbettes

Appendix A

Project Brief questions for private use but subject to copyright, please do not forward on (Note: for a full copy of our Briefing form call BCMS Corporate on 01635 299616)

Brief description of the company

When was the company established?

Has the company been offered for sale in the past?

What is the history of the company? (Include major changes and milestones)

What is your current position in the marketplace?

What are the unique selling points of your company?

Number of employees (including directors)

Key staff (name, position and a brief summary)

Detail the management structure of the business

Who owns the property?

Is the property leasehold or freehold?

Is the property likely to be part of this sale?

If the property is owned by the business, is the true value of the property reflected in the balance sheet?

Is there room for expansion with the existing property?

Are any other assets to be included or excluded from the sale?

Are there any reasons why the business may be difficult to relocate?

Detail any holding companies, subsidiaries, dormant companies, trading names including any address information, etc

Shareholder details

Are all shareholders in agreement with the sale?

What are the executive roles of the shareholders?

What are the reasons for exiting the business?

Is the business reliant upon the skills/knowledge of the current shareholders?

Do any shareholders wish to remain in the business after the sale? (if so, for how long?)

Is there any management succession in place?

Please provide a full description of the company's products and
services (please break down percentage of turnover against each section)

Please detail any new products/services planned for the future

Please list the benefits of your company, products and services,
detailing what differentiates you from your competitors?

Are your products and services standard or bespoke?

Do you hold any patents or product/service awards?

Do you hold any accreditations?

Are you members of any trade associations?

Does the company operate to any recognised quality standards?

Do you have any significant lead times in delivering your products or services?

Are any products or services outsourced?

What is your chain of supply?

Is the company vulnerable to any key suppliers?

To what market sectors do you sell?

Please list your major clients

How many active clients do you have in total?

What percentage of your business is repeat business?

Does the company have any dependable income streams from service and maintenance agreements, licenses, rental contracts etc? (Detail as a percentage of turnover)

Does the company suffer from any vulnerability in its client base? (What percentage of turnover do your major clients represent?)

What reputation do you have in the marketplace?

What is the company's current market share?

Does the company have any notable partnerships or alliances?

Who are your main competitors?

What is your customer service record like? (Number of returns, complaints, etc)

How do you currently sell your products/services? What resources do you commit to sales and marketing?

In your opinion, how could a purchaser improve the sales performance?

What (if any) exhibitions relate to your industry/business?

How would you classify your sales territory?

In which countries do you currently sell your products or services?

What is the total percentage of exports against turnover?

If you export, how do you sell your products/services overseas?

In your view, what is the future potential for your products/services (Where do you see future growth coming from?)

Summarise the condition of the marketplace

Do you have a medium to long-term sales plan?

Summarise the gains that you can offer the purchaser: (Cash generation, scarcity, client base, uniqueness, potential, etc)

What do you consider to be the company's weaknesses?

Does the business have the physical capacity for expansion?

What are your forecasts for the current year?

Are three years trading accounts attached?

Do you have financial projections/management accounts for the current financial year?

Add backs & adjustments

Do you have any significant trading cycles?

Are copies of standard employment contracts available upon request?

Are there any employee benefit schemes in operation?

Are there any litigation issues to disclose?

Are there any warranty concerns?

Does the company have any long-term contracts/lease arrangements?

What is the present cash position of the business?

Which of the following options is the owners' preferred route of sale?

- total sale of the shares of the company
- merger with another company
- partial sale of the company
- sale of the company's trade
- sale of the company's assets

In what jurisdiction is the company registered?

Where could the purchaser be located?

What products or services is the purchaser likely to be providing today? (i.e.what type of company may be interested in buying a business like yours?)

What type of customers will the buyer be servicing?

Do you have suitable M&A lawyers?

Do you have a suitable tax advisor?

Do you have a suitable wealth management advisor?

Please list any companies that BCMS Corporate should try to avoid contacting

Please list any companies that you feel BCMS Corporate should particularly contact

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