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Shaping Up for the Market

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While the economic environment will greatly influence the total value and number of transactions in the market at any given time, smaller transactions suffer less from the impact of the cycle and have a habit of continuing to happen. It is a fact of life that private companies are overcome by events (generally filed under death, divorce or debt – the infamous '3Ds' beloved of estate agents) and have to be sold come what may.

Businesses need to get into shape regardless of whether the market is up or down and there are a number of considerations to think about if you have the luxury of planning your sale.

Focus on strengths

In the capital markets it is easier to value a company that can be pigeonholed – and in the capital markets no one wants difficulty. Even relatively small companies often find that they have developed a number of differing strands to the business, which makes it difficult to categorise them.

Many public companies are currently selling off non-core parts of their businesses at a loss. These 'less sexy' elements have had the effect of analysts down-rating the business as a whole and significantly reducing value. For example, Tomkins plc recently sold Smith &

Wesson Corp at a loss of over £100 million and increased its overall value.

Put yourself in the position of a prospective purchaser and think what would catch their eye about this business. Is it the breadth of your customer base? Perhaps your expertise in a certain area? If you are in a service industry, is it your people?

Make sure that everyone knows what the company does. Make sure that it is good at that one thing and take care not to get distracted by dabbling in areas of peripheral interest.

Gain critical mass

There is no doubt that scale is king. Without the right critical mass you will not attract the attention of buyers who themselves have access to funds to pay for your business. Your size could hinder your organic growth if customers regard you as too small to handle their contracts. You are unlikely to retain good staff if you are unable to offer the same career opportunities as larger competitors.

While you need to be achieving organic growth, an acquisition or alliance is more likely to make the difference that you require in profit multiples. The reduction in overheads and other savings that you can shake out of the balance sheet, plus the increased volume of sales, will help to progress your profits up the scale from £100,000 to your first £1 million and onwards to £10 million. Each step up the scale will add to the multiples used to value the business.

Thus, you must start thinking about possible acquisitions, or, alternatively, build up alliances with companies that you might subsequently acquire. Look at gaining greater geographic reach by aligning yourself with a similar business in a different location. Another option is to hook up with a company offering something slightly different but drawing on the same customer base. Avoid at all costs an alliance with a business that has a very different offering to your own or with companies either up- or downstream from you in the process, for these rarely work.

Geographic or sector coverage

This ties in very closely with focus – you need to know what sector you are in and achieve good coverage. Concentrate on building sector coverage – companies that have made it to number one or two in their chosen market are far more attractive than those that are number three or less.

Alternatively, you can achieve good geographic coverage with a degree of monopoly wherever you are. Because the world is getting smaller, geographic growth flows more easily and quickly than in the past. Few companies achieve world coverage, but concentrating on a single geographic market can have dire consequences as companies with exclusively US markets have recently discovered to their cost.

Intellectual property and barriers to entry

How do you protect and distinguish what you have got? Barriers to entry take all forms and you have to be clear what they are. There are plenty of obvious physical barriers in terms of the location you are delivering products from, but there are many others in terms of comfort levels. Quite often, services or products are prescribed by professionals outside or beyond the buyer, and that becomes a barrier. Approved supplier lists where purchases are only made from parties known to a group is another. The slow decision-making and tendering processes of certain parts of the public sector create a barrier to trade. How do you protect your intellectual property – is this another barrier? Have you got anything special to offer?

People and incentives

Your employees will always have a view of where they stand in comparison to their contemporaries in the market. Managing their expectations can be hard work as life becomes more sophisticated. Delivering tangible benefits generally has a much better long-term effect than pure monetary rewards. As a rule of thumb, it is not usually the salary that keeps people in their jobs but seemingly niggling things that drive them into the arms of competitors. Is their working environment comfortable? How family-friendly is your company? Attracting and retaining good people is a vital ingredient in the process of shaping up for the market, whether in attaining mass or having the appropriate skills base to boost your market position.

Sale planning

The external perceptions of the company need to be looked at. You need to have something to say to the outside world that differentiates you – and this can be done by employing a good public relations adviser to make sure that you are on the map. Nowadays, the vast majority of businesses seeking to go to market have reasonable websites, but it is surprising how few have made a name for themselves through press coverage of their activities. The smaller the community in which you operate, the more important this becomes. It is too easy to assume knowledge out in the wider world when none actually exists. You should be constantly on the lookout for opportunities to raise the profile of your company.

As part of your strategic considerations, you might want to consider whether flotation is a serious option. There are times when having a listing can make a difference; the market or the sector might expect it of you or you might need to offer marketable securities to attract other companies or joint venture partners. Today, however, with almost limitless private equity funding readily available, investment requirements can usually be fulfilled without the need to float.

Often, there is a need to think about a change of leadership or management. The person who has the wherewithal to get the business up and running may not be the best qualified to manage the growth phase taking the company to the next stage in its development. There should be a structured evolution within the management team to allow the business to expand and grow – and personal development and training are crucial for this. Clearly, the owner wishing to sell up and retire must first become superfluous to the company.

Flexible focus

The world is changing so rapidly that you must continually review what you are doing and how you are doing it – and thus change to meet market demands. This is not at complete odds with making sure that you stay focused on your business. You need to be flexible enough to review what is happening around you and keep your options open to opportunities as they arise. If you look around at companies that have achieved their goals, this is perhaps the crux to their success.