Chapter 6 - How to spotlight your business strengths

Speakers

Russell Prior
Managing Director and Regional Head of Family Governance, Family Office Advisory & Philanthropy, for HSBC Private Banking in EMEA
Andra Ilie
Senior Adviser, Family Governance, Family Office Advisory & Philanthropy, for HSBC Private Banking in EMEA
Paul Herman
Group CEO, Bluebox Corporate Finance
Amar Shanghavi
Investment Director, MML Capital Partners
Andrew McDonald
Head of Real Estate Finance, HSBC UK
Roland Emmans
Head of Technology Sector, HSBC UK
Gillian Morris
Head of Franchising, HSBC UK

Transcript

Andra:
In our final chapter, we asked our experts to consider how you can spotlight your business's strengths. We take a look at two areas in particular: firstly, the importance of your management team, and then secondly, what are some of the ways to gain higher bargaining power in a price negotiation? Let's start by asking our experts, what impact does a strong management team have on the value of your business?

Paul:
When you come to sell your business, having a strong management team is of critical importance. It may not be the thing that actually moves the pricing from a multiple of five to six, or six to seven, or seven to eight, but what it will do is it will ensure that the deliverability of the transaction is enhanced and it also gives you a much broader range of purchasers to approach because some people will want to rely on a team that's going to be in situ and able to carry the business forward. So for me, it's more about making sure the deal happens rather than making an enormous impact on pricing.

Amar:
I think having a strong management team that are incentivised to remain within the business is integral to every transaction process, particularly where a shareholder may be leaving. I think ensuring that you have the right people in the right roles and that they're incentivised to continue in those roles after a transaction is integral to successfully completing your transaction.

Russell:
Now let's go to each of our HSBC sector heads to ask how strong management can impact real estate, technology, and franchise valuations.

Andrew:
Strong management is key to any type of business and real estate is no different. Fundamentally at its core, real estate is a service sector. Landlords are selling space and being able to adapt to the changing needs of your clients is the same in real estate as it is to any business going through a period of change. Good managers will also know how to manage stakeholders and prepare their businesses for sale.

Roland:
I don't think you can ever separate people from business and I think it's even truer in technology when the people are so intrinsically important to the business. I think it's incredibly important to have a strong team because if you haven't got a strong team, no matter how good the business is, it's either going to have value implications or there won't just be a process. I think where I've seen it work really well, the entrepreneurs made themselves effectively dispensable, redundant, and their team was ready to take it on. It's more important if you're looking to go through some sort of financial buyer process, but it's also important if you're going to trade because they want to know that there's people there that are going to run the business that are competent and capable and know the business really, really well.

Gillian:
It's also important to ensure that the business management structure remains in place and that the franchisee exit is not deemed detrimental to the business. And that's the same with a non-franchise business as well. In many successful exits, the franchisee has stepped back ahead of time, to demonstrate that the management team are effectively running the business and it can be sold as a going concern. And this also provides the franchisor with the confidence that the business and their business will not be impacted by this sale.

Russell:
We've just discussed the importance of a strong management team, so now let's touch on what can give owners a higher bargaining power in price negotiations.

Paul:
So in terms of maximising your bargaining power when you're actually coming to sell, there's two key things that I would point you to be looking at. The first is competitive tension, making sure that the buyer with whom you're speaking is aware that there are other suitors out there that are also interested in the asset and they're not the only people in the ring. And secondly, it's about preparation. It's about preparation for due diligence to make sure that what you are presenting people is fully thought through, is comprehensive, and means that there's not going to be any surprises for that buyer as they move through the due diligence exercise.

Andra:
When you're looking to sell your business, creating competitive tension is key, and preparing well will help you ensure you engage the right buyers and keep them at the table throughout the negotiation. And now for our final question in this chapter and episode on 'How to Value your Business', we asked each of our experts for their top tip for business owners looking to sell in the next three to five years. Let's listen to what they had to say.

Amar:
Firstly, prepare. Make sure you're recording the right data to give your buyer the best possible information to make an informed decision. Secondly, the Finance function. Most people under invest in Finance functions and they are usually the parts of the business that get most strained through a transaction process. Thirdly, transition. Often great businesses are owned by great shareholders who are looking to sell the business and most of the value goes with that person. So think about if you need a transition plan for you if you are the major shareholder. And lastly, my biggest tip, don't feel like you have to sell your business. Often people think there are two options, keep owning the business or sell it completely. There is a middle ground, you can take on a minority investor, take some money off the table, but keep going and achieve that next phase of growth.

Paul:
It's a really great idea to start thinking about your exit early and three to five years is a perfect amount of time. My top tip would be developing an opportunity map that shows a purchaser how the business is going to grow in terms of new products, new services, new channels, new territories, new initiatives. Because when someone comes to apply a valuation to your business, it will all be about the future. So thinking early about what that future will look like at the point in time that you come to sell is of fundamental importance and a key thing to drive value.

Russell:
Not so much a singular top tip from our external experts, but clearly a lot of food for thought. Now let's turn to our internal sector specialists as to what tips they offer up.

Andrew:
My top tip for business owners looking to sell over the next three to five years - very simple - control the timing of your sale. I think that is particularly important, especially in this market as we sit here today*. Also, be very clear in identifying the type of purchaser for your business and their motivations for buying your business. Understand what you are leaving on the table for the buyer. Lastly, don't underestimate the importance of environmental compliance and energy performance to the buyer universe.

Roland:
So I've got two thoughts here. The first one is, what do you personally want to do after you've exited your business? So often, I work with entrepreneurs whose psyche is so intrinsically connected with their business that they often feel a feeling of grief after they've sold their business and they're a bit like a lost sheep. So that will determine who the buyer pool might be. Could it be you actually want to stay involved in some way? Do you want to sell to your management team? Or is it you want a clean exit and you're going to pass it on to somebody else? And the second piece would just be around easily explaining your business in such a way that the reader who doesn't know your business as well as you, can really easily understand and digest it.

If I reflect over the last 15 years where I've purely been working with tech firms, where I've seen processes go really well, management teams have hired good corporate finance advisors. Where I've seen it gone badly, they've tried to do it themselves. The advantage of having a good corporate finance advisor alongside you is they make your life easier, they help explain your business and they will also warm up the potential buyers and they'll have them salivating before there's even a process.

Gillian:
Well, the key to success is to be prepared, start planning ahead of time. A future buyer and their funding partner will be reviewing both the financial and non-financial performance of the business. So think about any potential gaps you may have. And as a business owner approaches their exit, it's really important that the remaining management team are equipped to run the business efficiently without relying on them. And finally, don't forget to engage with the franchisor. Seek their support for your exit strategy and timeline. This will enable them to plan and potentially help you to source your buyer.

Andra:
There's a common theme shining through our experts' answers, and that's preparation. And when it comes to the value of your business, the future is critical. It's less about what you've done in the past and much more about what you will likely do in the future. So growth potential is an important factor to consider.

Russell:
We hope you've enjoyed listening to our experts' insights on the challenges and practicalities of how to value a business. We've learned that business valuation is both an art and a science with multiple methodologies and industry specifics to consider.

Andra:
We've also seen that there are a range of other factors to be considered, like the strength of your management team and building competitive tension to improve your negotiating position and drive favourable terms. And don't forget to look to the future. Your business needs a strategic vision for creating value and maximising returns because that's what buyers will be mostly interested in.

Russell:
If you haven't watched the other chapters in this episode on "How to Value your Business", you can catch-up on our **'Beyond Business Ownership'** webpage.

*As of May 2024