Dodging the pitfalls

Hoping to sell your food or beverage business? David Baveystock and Ben van der Westhuizen of Comet Line Consulting reveal three of the most common mistakes, and how to avoid them.

THE SALE OF a food and beverage business is for most owners a once in a lifetime event. During the sale process, the business owner invites prospective buyers to assess and evaluate the business in order to make offers to acquire the business. For most business owners it will be the first time the business has gone through the rigorous scrutiny associated with a sale process. The management and communication of a sale process plays a significant role in determining the final purchase price.

There are some fundamental rules that business owners should observe to ensure the sale process delivers the desired outcome. In this article we highlight the key reasons why a business sale process may fail and importantly, the steps a business owner should take to ensure a successful sale process.

1 FAILURE TO PREPARE

Embarking on a sale process without doing the required preparatory work is one of the main reasons sale processes fail. Selling a business requires substantial preparation before the business is put on the market. Preparation for a sale process consists of three key elements: setting the price expectations and objectives of the seller, attracting bidders who are genuinely interested, and providing access to information required to assess the business.

SETTING REALISTIC PRICE EXPECTATIONS

Before embarking on a sale process, the seller should have clarity on the objectives of the sale process. The most important consideration for the seller is normally the value that can be realised for the business.

The final decision on whether to sell a business is generally based on the value of the final offers received. Most sale processes fail because the offers received from bidders do not match the price expectations of the seller. The gap between offers received and the price expectation is the result of a number of factors, the most common of which is above market price expectations by the seller.

The seller's price expectation should be referenced to an arm's length standalone valuation of the business. This initial valuation of the business should be prepared at the start of the sale process and the inputs for the valuation should be based on information that will be made available to the bidders during the sale process. The valuation should reflect all information (positive and negative) likely to come to light during the due diligence process. Having the inputs of the valuation model reviewed by an independent adviser is considered good practice.

ATTRACTING GENUINE BIDDERS

When approached to participate in a sale process, buyers generally conclude early in the process whether they have a genuine interest in pursuing the opportunity. Buyers normally do not decline an invitation to participate during the initial stages of a sale process. However, once the seller calls for indicative bids, generally only the genuinely interested bidders comply.

It is important for the seller to attract to the sale process those parties that have a genuine interest in making an offer for the business. Missing out on genuine buyers may result in the business selling at less than fair value or not selling at all. Expanding the sale process to include any and all parties that may have even a remote interest in the business, without prequalifying those potential parties, is also not advised. A highly visible sale process may reflect negatively on the business and have implications for customers and suppliers. Once a business gets a reputation of being "shopped" around in the market, potential buyers may become wary of a business. We have seen this instance a number of times resulting in a genuine party avoiding a sale process due to this perception.

The seller should work with an independent adviser to identify those parties that are most likely to benefit from an acquisition of the business and therefore have a high level of interest. In our experience, a discrete approach to a limited number of parties that have been identified this way delivers the most competitive process and the best results for the seller.

OPENING UP

Participation in a sale process can be an expensive endeavour for a prospective buyer. A sale process requires bidders to dedicate staff and engage external advisers to assist with the assessment of the acquisition opportunity. So-

phisticated bidders may pursue a number of different acquisition opportunities at any point in time and make quick assessments of opportunities in order to prioritise resources. The initial assessment of an opportunity is made based on limited information and includes assumptions about the business made by the prospective bidders. A flyer is commonly issued to potential bidders as the initial communication of the sale process. It is important that the flyer, and subsequently the information memorandum, highlight key characteristics of the business that provides a compelling investment case.

For a successful sale process the seller should firstly attract the attention of genuinely interested prospects and secondly retain bidder attention and interest throughout the sale process to create a competitive process.

Making the wrong investment decision can have significant negative consequences for a buyer and most buyers tend to err on the side of caution. The seller should facilitate the due diligence process by controlling the flow and quality of information provided and making available sufficient information to enable buyers to make an informed assessment of the business. Retaining momentum by responding quickly to bidder information requests and ensuring that information provided throughout the process is consistent, substantially adds to the credibility of the sale process.

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2 DEALING BADLY WITH SURPRISES

An unforeseen negative surprise during a sale process may result in bidders reassessing the risk associated with an acquisition. The most common pitfall is when a sale process extends over a reporting period and the reported financial results are different from the forecasts provided to bidders earlier in the process. Bidders may interpret this as a sign that the business is not able to accurately forecast future financial performance, which increases the risk of acquiring the business for the buyer.

It is important that (to the extent possible) surprises and uncertainties are dealt with satisfactorily during the sale process. Uncertainty and volatility are key characteristics of the modern business environment and cannot be eliminated completely. However, a business that can demonstrate an ability to anticipate and respond to unforeseen events through a risk management strategy will be viewed positively by potential buyers.

3 NOT RECTIFYING POOR BUSINESS PRACTICES

Sale processes also fail due to poor business practices employed by the business. These business practices normally come to light during due diligence. In certain instances, businesses are not ready for a sale process and poor business practices require rectification before the business can be put on the market. Examples include lack of legal agreements (lease agreements, employment contracts), unresolved disputes with the tax authorities, actual or threatened litigation, compliance with food safety standards (HACCP), and unregistered brands and logos.

Where there is significant uncertainty over the cost of rectifying poor business practices or the potential for litigation due to non-compliance with regulations, bidders may require indemnities to protect them against future losses. Where the risks associated with a business are considered unacceptably high, bidders may withdraw from the sale process altogether.

There are a number of reasons why a business sale process may fail. Advance planning and preparation, managing surprises and uncertainties and ensuring the business is in the best possible state to be sold, should ensure a smooth sale process and enhance the prospects of the business selling for the best price in the market.

ABOUT THE AUTHORS

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