A deal is a deal...is a deal

SMEs face a number of challenges when it comes to conducting corporate transactions. A corporate transaction, whether it be buying, selling or capital raising - does not happen often for most businesses, and in many cases is a once in a lifetime event.

As such, transactions require different skills from those needed in day to day operations, they need to be planned and executed ideally by qualified people to ensure you get the maximum out of the transaction with the minimum amount of fuss.

This article identifies three particularly critical issues of transactions that should be understood and agreed before a business takes the plunge – the “why”, the “how” and the “who”.

1. Cleary define the “why”

Buying a business; selling a part of, or possibly all the business; or capital raising should all be undertaken to achieve an agreed and clearly specified objective.

Because there is often a lot of emotional feeling around major issues - often any issues! - in family controlled businesses, it is very important to agree the reasons for doing it before heading down the transaction pathway. It’s also fundamentally important to agree the major parameters such as:

- How much will we pay for the acquisition, or sell the business for?
- What are the must haves and must nots in the sale or purchase agreement?
- Issues directly impacting value around whether as owners you are willing to remain in the company or do you need the old owner involved in the business as well?
- What staff are vital for the deal to happen?
- Is price the only driver for the sale?

These should be agreed up front to avoid decision making on the run which will likely lead to rushed and sometimes inappropriate or inaccurate decisions. Equally, whoever is negotiating on behalf of the business, be it executives or external advisers, need to be given clear instructions about the desired outcome. It inevitably destroys value if they find themselves in the unfortunate position of having to negotiate internally within the company and externally with the seller or buyer at the same time.

2. The devil is in the detail – focus on the “how”

There are a myriad of details to be handled in any corporate transaction. Typically, SMEs do not have the skills and experience to manage them. In many cases, traditional advisers also might not have the requisite skills. If this is the case, there is a high risk this will be embarrassing to the CFO or the traditional accountants and lawyers working with the company.

However, just as you consult specialists for medicine, architecture and engineering so too should the relevant experts be utilised for corporate transactions. A great deal of value can be added - or lost, with (in)appropriate deal structures, tax structures, warranty regimes etc. There is no cookie cutter approach and there is no substitute for experience. Especially when the deal does not go according to the plan.

It is also desirable to have one person, or organisation, manage the entire process. Coordination of all aspects of a transaction and all the relevant stakeholders is a specialist skill which typically adds value and almost always makes for a smoother and faster transaction. So the devil is in the detail and in this case in the planning and the management of the overall process.

3. Don’t mix up the “who”

Whilst the transaction is proceeding, the business still has to be managed. This is the hardest, but perhaps most significant lesson for SMEs to absorb.

Such companies have limited resources, so if they are pulled away from the day to day management of the business to focus on the transaction, it follows that the company’s operations will inevitably suffer.

It is always important to pursue profits and maintain operational excellence, however when you are buying, selling or raising capital it becomes critical. A dip in profitability at these times can severely impact the capacity to derive maximum value from the transaction.

The answer must be to allow management, indeed to instruct them, to continue to manage the business as if the transaction will not happen. In particular, during a proposed sale transaction, the business must be run, until the moment of completion, as if it will be owned forever.

This means that a group of specialists, quite separate from the management/ownership team, with the appropriate skills and experience as outlined above should run the transaction. Of course, the team must be given clear guidelines and must give regular reports back to the management/owners.

In the meantime, executive management should manage the business in the normal way. There should be clear guidelines for handling any internal queries that arise because of leaks. It’s also advised a designated spokesperson is assigned to the transaction, separate from management, to handle external queries.

These basic rules apply to all transactions for all companies, but are of particular importance to smaller businesses and family owned companies, where letting go of the controls is often the hardest but most critical step of all.

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