



SPS
Strategic Planning Solutions

Welcome to

***SPS* Directors Development Programme**

October 2006



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Workshop 1 - 4th October

'All businesses follow a life cycle'

Owner Managers
Successful Businesses
Corporate Components
Planning for POGEs
High Level Planning

Workshop leader – Martyn Fray



Workshop 2 – 10th October

'Businesses don't stand still... they GROW or they FAIL'

Business Excellence
Leadership and Culture
Customer-centric
Balanced Scorecard
KPIs

Workshop leader – Richard Percival



Workshop 3 – 18th October

'Leaving without Tears'

What makes an attractive business

What buyers don't like

Valuation

Preparing for sale

The Sale process

Exit without selling

Workshop leader – Martyn Fray



Personal introductions

Martyn Fray
Richard Percival

Delegates



Let's get started -

- The principles of good management are well documented
- 'Enterprise Culture' is not new
- 'Rules of Engagement' vary little

It should be easy...



Businesses often fail

- In the UK nearly half of all small businesses fail in the first year
- 80% are gone after five years
- Less than 10% of all UK companies survive for more than 50 years
- The average lifespan of all companies is 10 years

Its not always that easy...!



Why do businesses fail?

The key reasons why businesses fail are

- Lack of direction
- Inability to deliver
- Lack of funds
- Management 'doing' not 'managing'

*Win or lose, it's all about people –
Are the right people doing the right jobs?*



Winners and losers





Managing your life in business

Some things we **CAN** control -



Managing your life in business

Some things we **CAN** control

- What work we do
- When we work
- How hard we work
- Who we work for
- Who works for us
- When we STOP
- How we STOP

This applies to everyone on the bus



Managing your life in business

Some things we **CANNOT** control,
but may **INFLUENCE**



Managing your life in business

Some things we **CANNOT** control, but may **INFLUENCE**

- Customer demands
 - capacity, concentration, prices, service, quality
- Supply chain
 - prices, capacity, security, service quality
- Competitors
 - domestic, overseas
- Product substitution
- Technology
- Regulation
 - domestic, EC, H&S, trade, industry
- Product/professional liability



Characteristics of the Owner/Manager

Delegate exercise 1



Characteristics of the Owner/Manager – 1

- Self Starter
- Hard Worker
- Pioneer
- Entrepreneur
- Leader
- Communicator
- Passionate
- Competitive
- Loyal
- Honest
- Charismatic
- Optimistic

A great role model ?



Characteristics of the Owner/Manager - 2

- High expectations
- Hard task-master
- Poor delegator
- Bad time manager
- Lacks work/life balance
- Often disappointed
- Doesn't suffer fools
- Fails to develop his people
- Leaves loose ends
- Frustrated

Get a life!



Work/Life balance – a personal perspective

Asleep	33%
Working	33%
Eating	10%
Household duties	10%
Travelling	10%
Myself, family & friends	4%

Not very good!



Decisions – my way forward

- Buy a good bed
- Enjoy work
- Do what I do best
- Plan my future
- Take control

Live life in the real world



The Options

OPTION 1 – The Business Miracle

Doing today what you did yesterday and expecting a different result tomorrow

OPTION 2 – Manage the future

Set personal goals, define actions, review process

Planning is key to success



Features of a successful business

Delegate exercise 2



Successful business people

- Have a clear strategy and vision
- Know when and how to exit their business
- Organise their business around systems, not people
- Know their market position or niche
- Have a 'sales machine'
- Plan their finances
- 'Manage' rather than 'do'



Harvard survey of business graduates

On graduating in 1956

- 3% - had written goals
- 10% - professed a 'vision'
- 87% - had no clear agenda

That same group surveyed again in 1976

- 3% who had written goals were **financially more successful**
- 10% who had professed a 'vision' had **managed OK**
- 87% with no clear agenda had **coped/muddled through**

***Strategy is key to success
The same is true today***



Strategic Planning – the view from the helicopter

'He who aims at nothing is bound to hit it'

(IBM motto)



Thinking strategically

Delegate exercise 3



Self evaluation

- We have a Strategic Plan plan for the next 5 years
- Our staff fully understand our Strategic Plan
- Our staff know their role in our Strategic Plan
- Our staff opinions count
- I feel in control of our future
- We have written goals and objectives
- We regularly review our product offer
- We seek the opinions of our customers
- We have an innovative approach to our business
- We have clear succession or exit plans in place
- We have information systems in place that allow us to take good decisions
- I love what I do



Self evaluation - results

- Scored 45 or more - Brilliant
- Scored 25 – 44 - Not bad
- Scored less than 25 - Seek advice, but

DON'T PANIC!

*Whatever you scored, you will benefit from
'High Level' or 'Strategic' Planning.*

Take the 'Helicopter View'



Strategic Planning

- What is strategic planning?
- Why prepare a strategic plan?
- How to prepare an effective strategic plan
- How to implement the plan



What is Strategic Planning?

Business is like a journey.

- You must have a clear destination,
- And a route and a map to arrive where you want.

*Otherwise you might simply wander
around aimlessly.*



What is Strategic Planning?

Do you take time to consider:

- What you actually do want?
- How you are going to achieve it?
- and crucially where do you start?



What is Strategic Planning?

Are you just too busy getting the job done?

Nobody plans to fail.....

.....but too many simply fail to plan.



What is Strategic Planning?

DESTINATION – ROUTE - ACTIONS

Success is:

- 70% belief
- 20% vision
- 10% action

without the 10% action you will have no success

The 10% action is driven by a review mechanism



What is Strategic Planning?

The *Dictionary* definition is:

The art of war

The management of resources in a
campaign

A plan of action or policy in business



What is Strategic Planning?

According to the *Oxford Thesaurus*:

Plan
Tactics
Scheme
Blueprint
Master plan



What is Strategic Planning?

It is a plan to identify and implement your goals

or more succinctly –

“Management of Your Future”



Strategic Planning v Business Planning

- Strategy is about how to win!
- Business planning is about *implementing* your strategy

An effective business plan can only be developed from a strategic plan



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Strategic Planning v Business Planning

Delegate exercise - 4



Strategic Planning v Business Planning

Strategic

Ambiguous

Non-routine

Complex

Organisation wide

Significant change

Externally Driven

Business

Clear

Routine

Straightforward

Organisation Specific

Incremental Change

Resource driven



Why Plan?

- Are you content with survival or do you want to really *prosper*?
- Effective Strategic Planning -
 - gives the business direction
 - provides focus for activity within the business
 - allows you to stay in control
 - provides a platform for profitable growth



Why Plan?

- With profitable growth you can choose -
 - A lifestyle business
 - A value business – the value doesn't exit when you do!



Who should plan what type of business benefits?

- Smaller businesses
- Medium sized businesses
- Owner managed SMEs
- Looking to make more profit?
- Not enjoying business as you did?
- Looking to succeed?
- Wanting greater focus?



Who should plan Smaller businesses

- Many people believe strategic planning is just for large businesses, but this is not the case
- Planning is even more important when you are a busy smaller business
- Smaller businesses get even greater value from the strategic process
- Even in a well established business, it is vital to stand back and properly plan for the future



Who should plan Medium sized businesses

When a business is well established and the owners are busy working hard, that is the time when it is vital to stand back and properly plan the future

This type of business has a number of issues to consider, as all impact upon its success

Continuous Strategic Planning for a medium sized business is very important



Who should plan Owner Managed SMEs

- Strategic Planning is used as an empowering process for owners of small and medium enterprises
- It focuses specifically upon the needs and wants of entrepreneurial owners of businesses
- It understands the entrepreneur's desire for greater focus, direction and control in personal life as well as business



Who should plan Looking to make more profit?

- Is your business making enough profit?
- Do you feel that you could achieve more?
- Strategic Planning will give you a new perspective on opportunities
- It does not tell you how to run your business – The plan has to be your plan
- It helps you to find new ways forward for greater profitability



Who should plan Not enjoying business as you did?

- Being in business is often for a lifetime
- The first years are simple work hard, keep costs down, Survival
- Sometimes as your business matures you can find you do not enjoy business as you once did
- You may feel business is a lonely place
- Strategic Planning will re motivate and inspire you.
- It is a great feeling to re-capture



Who should plan Looking to succeed?

- If you are as passionate about succeeding now, as you were at the beginning, then planning is a fundamental ingredient
- Extensive research shows this
- Drive and determination still need planning to achieve success
- Strategic Planning is the most empowering planning aid available to you



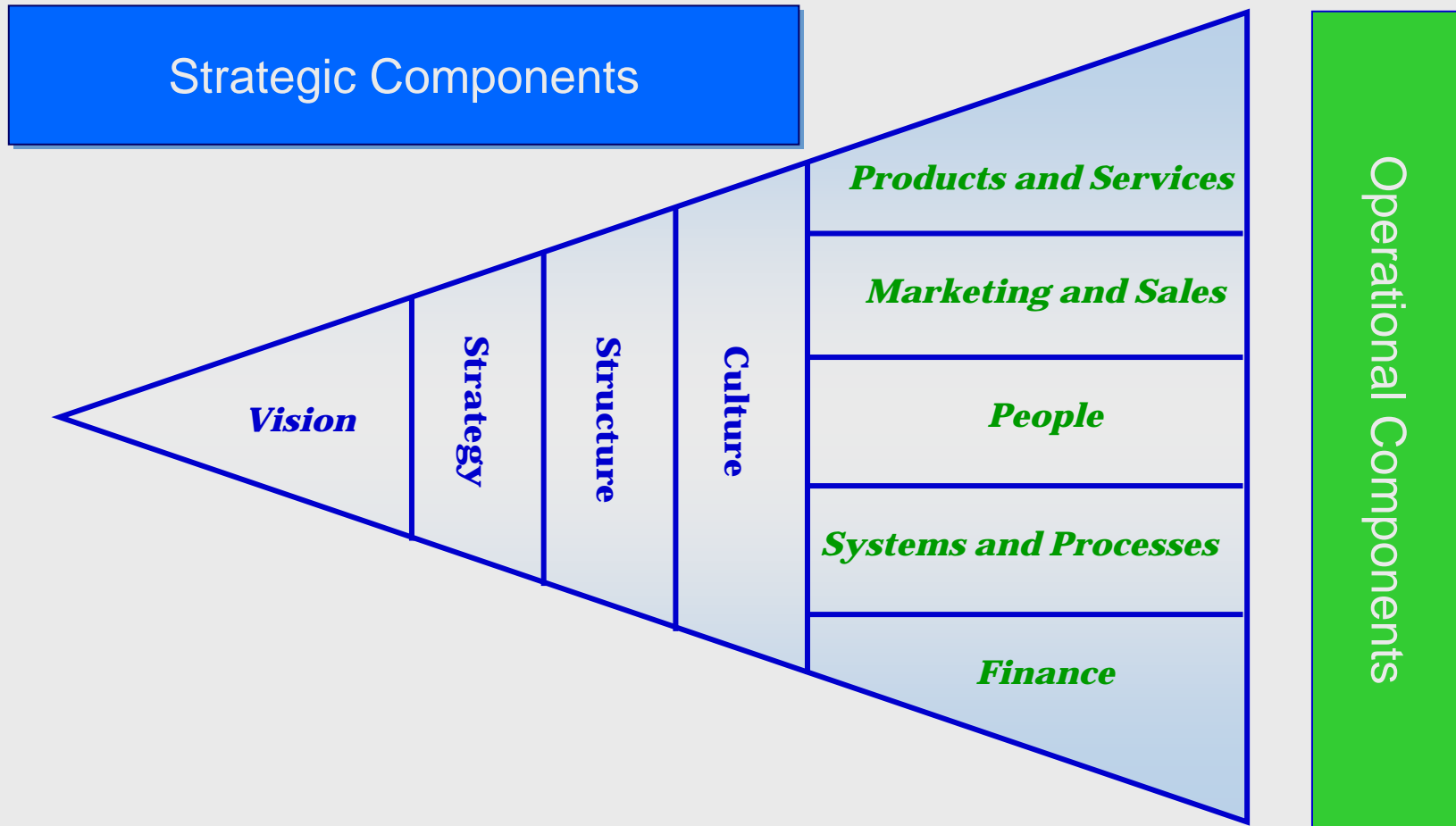
Who should plan Wanting greater focus?

- Are you looking for more focus in your life and your business?

Most entrepreneurs want just this



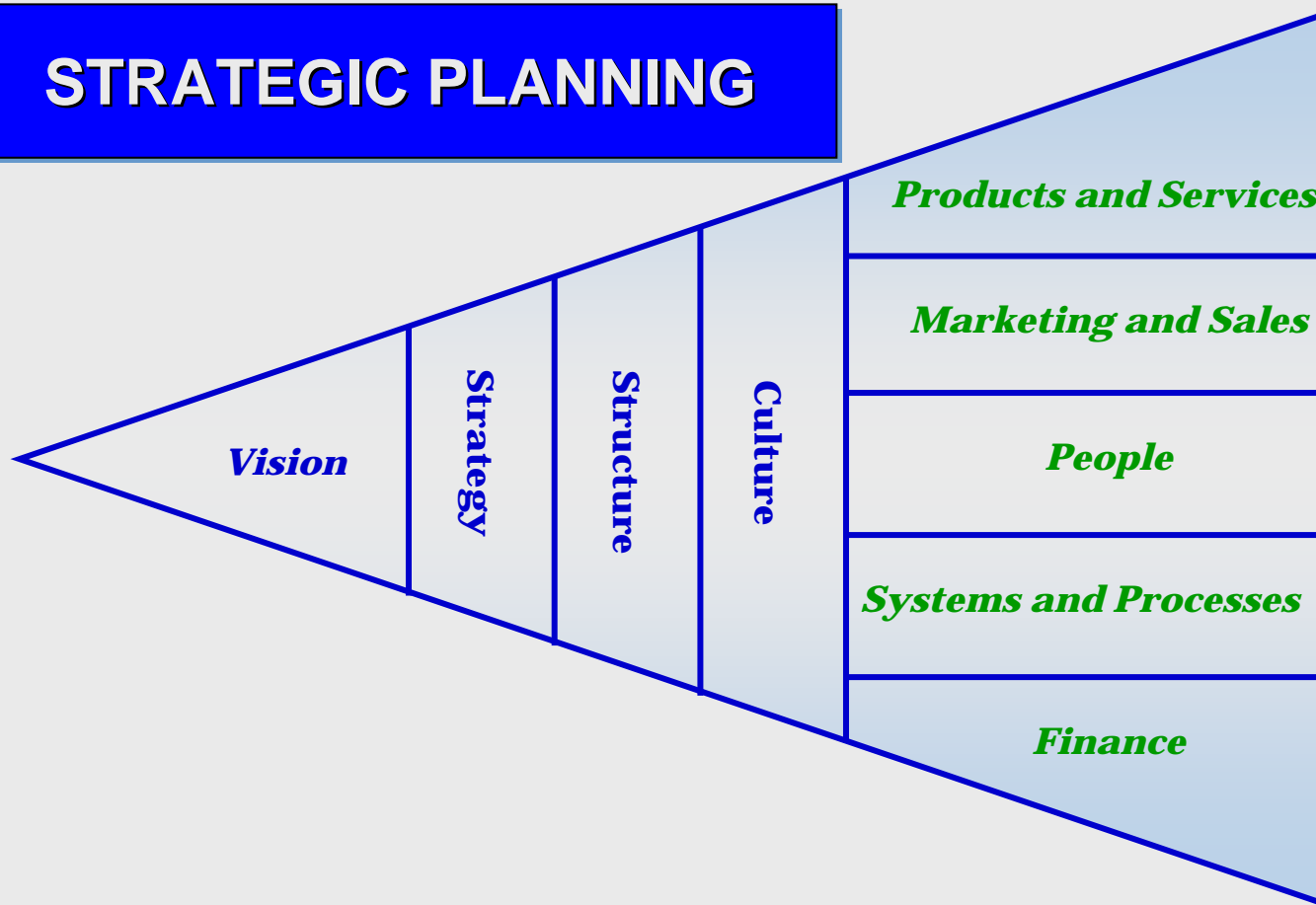
RAN ONE Framework The business 'Rocket'





RAN ONE Framework The 'Rocket' - planning

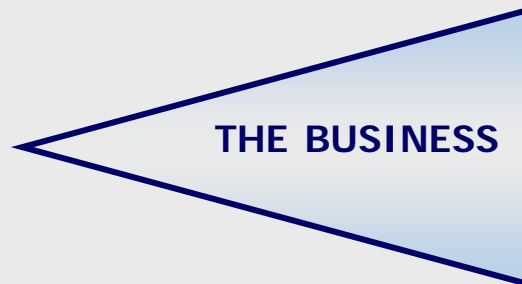
STRATEGIC PLANNING



BUSINESS PLANNING

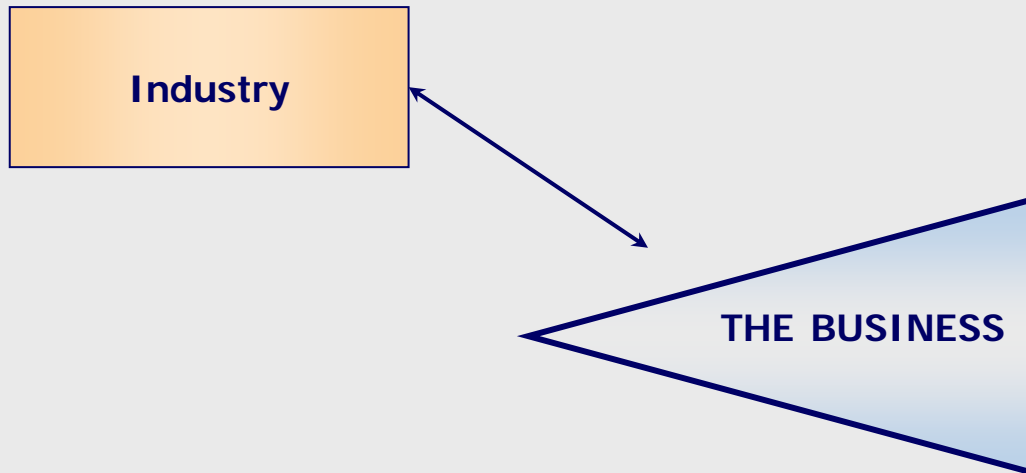


RAN ONE Framework Business influencers



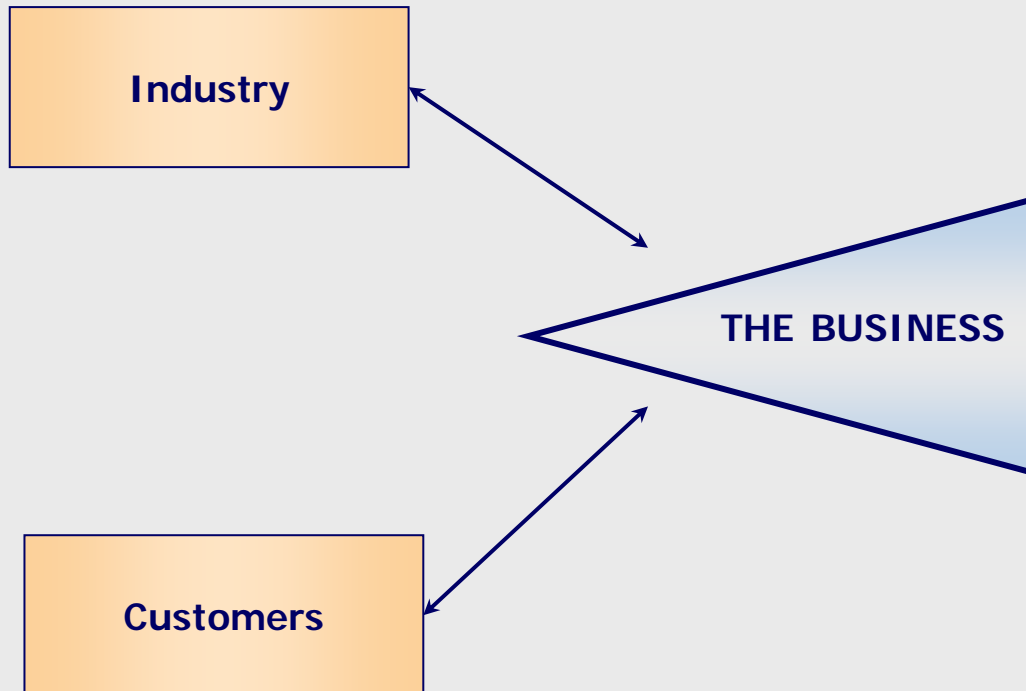


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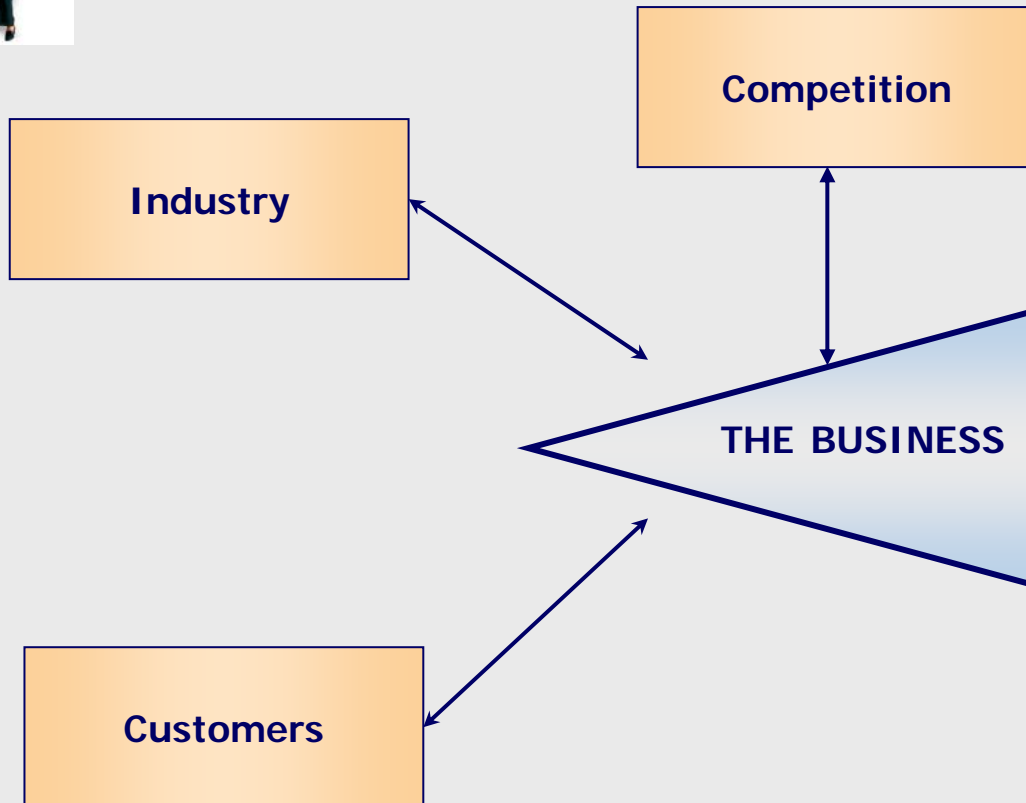


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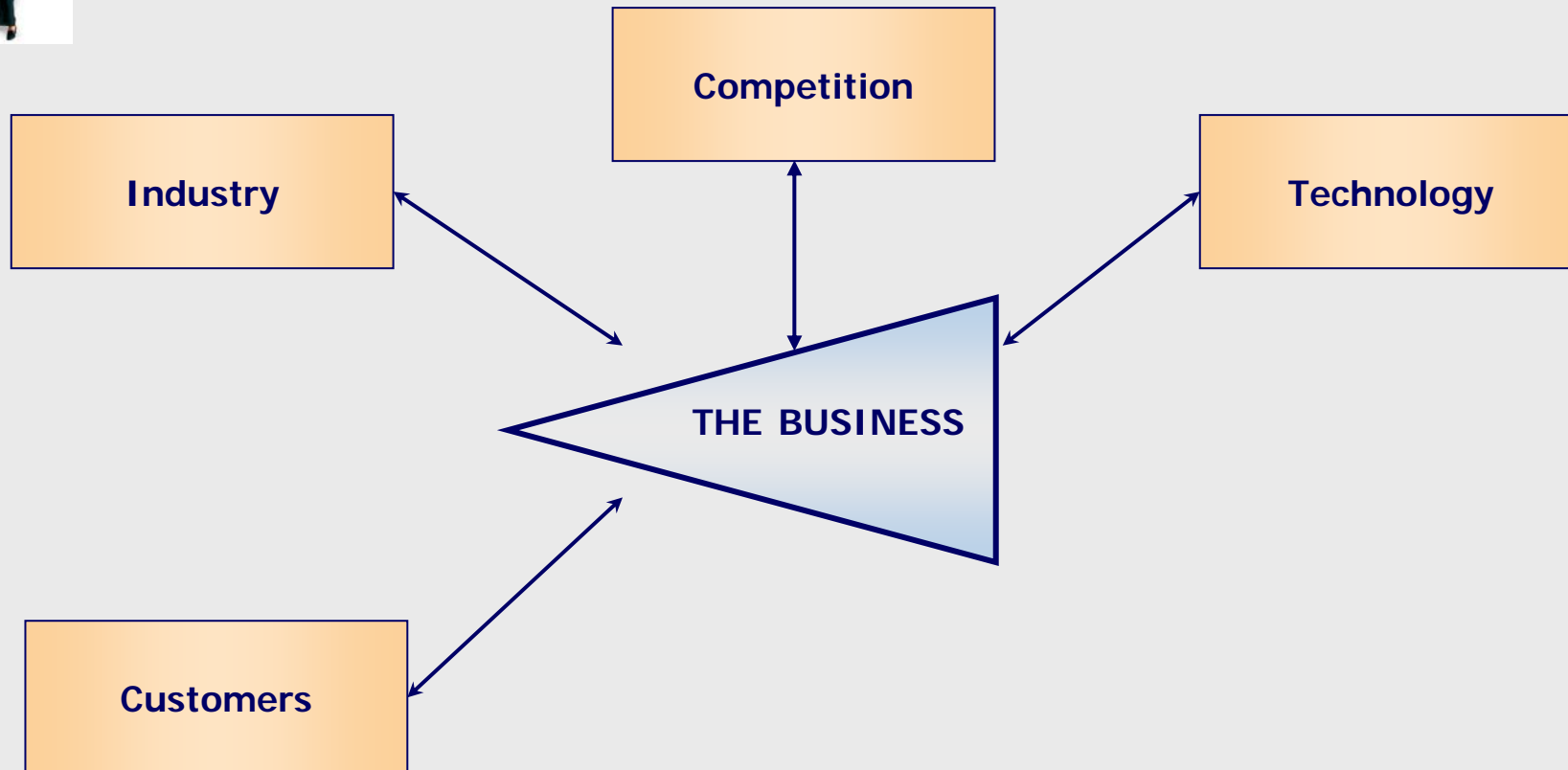


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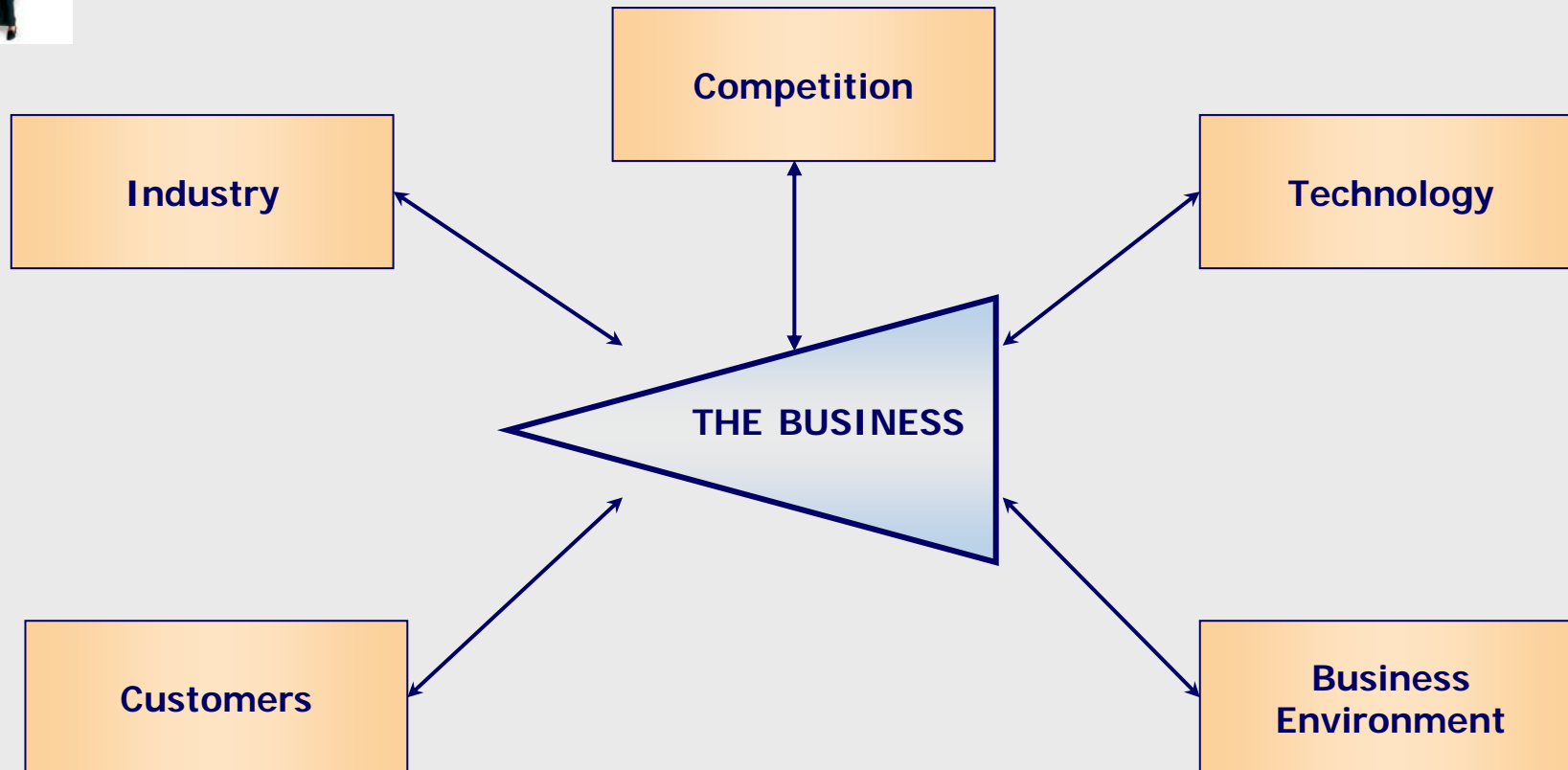


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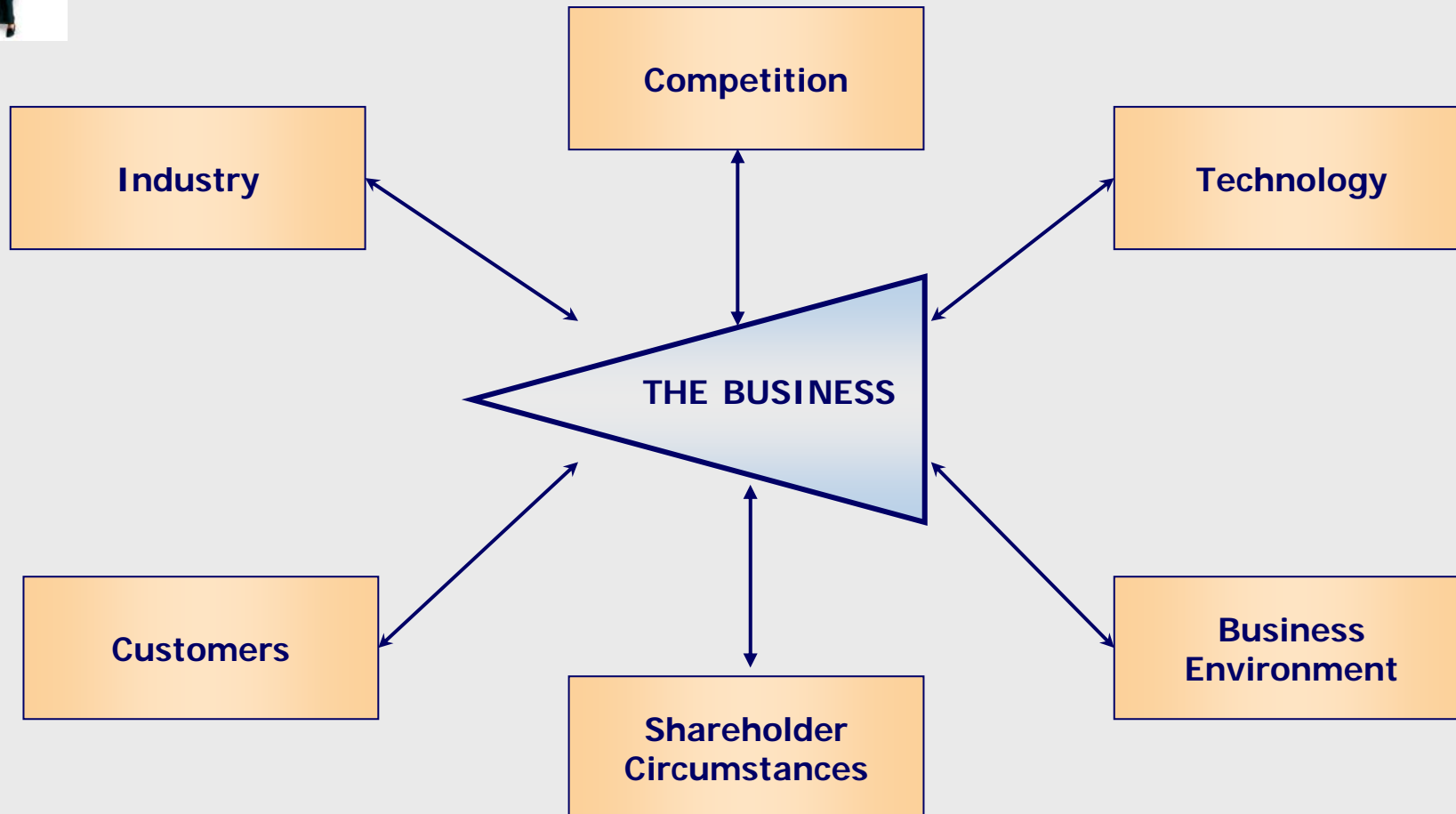


RAN ONE Framework Business influencers





RAN ONE Framework Business influencers





The Steps In Developing A Strategy

Understand Current Position



SWOT Analysis



Generate Ideas



Evaluate Ideas



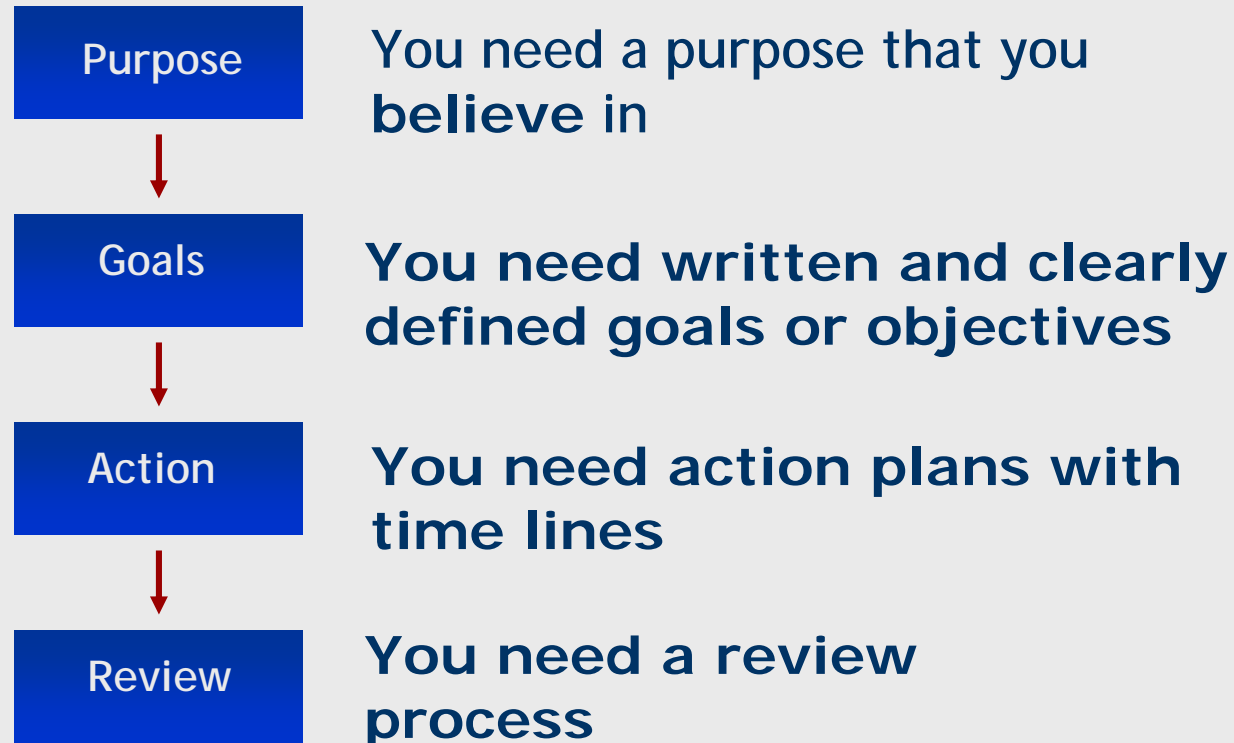
Develop Plan & Milestones



Manage and Monitor



How to prepare the Plan





The Process

- Strategic objectives
- Products and markets
- Reporting and roles
- Financials
- Action plan
- Review process



The Process - Objectives

What do you want for yourself and your business?

- Personal objectives
- Business objectives
- Agreed strategic objectives



The Process - Products and Markets

What are you selling and what is your customer profile?

- Present and future products, services and customers
- Market, competition, pricing, image, branding, resources etc
- Protecting what you've got



The Process - Products and Markets

Where are you going?

- Anticipating and managing change
- Exploring your sales opportunities
- Marketing and sales planning



The Process - Reporting and Roles

Have you the resources?

- People, operations, finance
- Owners roles
- Management information Systems
- Location



The Process - Finance and Action

- Action plan
- Review process
- Financial plan



How to prepare the plan

- Finish by clarifying how you will make this happen
 - Validate the forecast against your goals
 -to verify they match
 - Agree action plan
 -to achieve the goals
 - Agree a review process
 -to monitor and benchmark your progress



What are the benefits

- Time away from operational
- A chance to talk
- A chance to listen
- Focus
- Clear planning
- Profit Ideas
- A feeling of greater focus & control



What are the benefits? Time away from operational

- We all spend too little time on planning
- The reasons are often the constant demands of attending to trading and operational matters
- One of the benefits of a taking time out to plan is that it gives you a full day away from the grindstone
- Get yourself a new mindset
 - Believe you can
 - Think the unthinkable



What are the benefits? A chance to talk

- Where a business has more than one owner, it can often be very difficult to have quality time to talk to co-owners
- Where a business has just one owner, there may be nobody to talk to
- Taking time out gives a real chance to talk about key issues



What are the benefits? A chance to listen

- The art of communication is listening
- Be prepared to listen to your colleagues
- Taking time out is a great opportunity to really listen to what your co-owners think



What are the benefits? Focus and clear planning

- Structured review
- Focus on key aspects of your business
- Strategic Planning is all about planning for what you want not more of what you already have



What are the benefits? Profit Ideas

- Look at key drivers of profit in your business
- Inevitably you will find new ideas or fresh approaches to increase profitability
- Nearly all businesses find that Strategic Planning unlocks the potential to greater profitability



What are the benefits

Focus, direction and control

- Focus – comes from your structured review of your business
- Direction – comes from clearly determining your objectives
- Control – is about making it happen through a review process

So now let's look at making it happen...



The Implementation process

- Successful planning needs
 - A review mechanism
 - Progress benchmarks

- Regular review meetings
 - Monthly/quarterly
 - Board meetings

- Annual strategy update



The Implementation process – Making it happen

There are two ways to achieve a sustainable implementation and review process

- Discipline yourself
- Use a mentor / non-executive director



What a non-exec/mentor adds to a business

- Ensures that a regular review process takes place
- Objectivity and impartiality
- Challenge to management information and decisions
- A sounding board, providing counsel and advice
- Helps the business to develop connections
- Helps the business to find solutions and expertise
- A stick!



Qualities needed in an non-exec/mentor

- Broad business experience – knows best practice
- Ability to assess people and situations analytically and dispassionately
- Persuasiveness
- Financially literate and legally aware
- Personality fit
- There to add value – knows when to leave!



In Summary.....

Give your business the best chance to prosper

- Plan strategically
 - Your goals
 - Your opportunities
 - Financial projections
 - Your actions

- Implement your plans
 - Discipline your self or
 - Use a mentor



Next Week ...

- Leadership and Culture
- Customer Centricity
- Business Excellence
- Continuous improvement
- Performance measurement



For next week

- Identify 10-12 **Key Performance Indicators** (KPIs) for your company which we will investigate further next week.
- Consider your **Business Vision**. Score it on a scale 1-10 (1 being undefined, 10 being clear to all stakeholders)



Thank You!



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October 2006



Profit Improvement – managing through KPIs

Key Performance Indicators



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Humphrey Walters

'In business and in sport it's about doing 50 things 1% better'

England won the Rugby World Cup

(Humphrey Walters worked with Sir Clive Woodward and the England rugby squad)



'Key Performance Indicators'

KPIs are: -

- Essential units of measure to monitor progress
- Financial and non-financial
- Unique to each business situation
- Macro ('total business'), micro (functional) and personal



'Key Performance Indicators'

KPIs must be:

- Understood by all
- Simple and clear
- Readily obtainable
- Accurately reported
- Issued on time
- Apply to all disciplines and functions
- In the company culture



'Key Performance Indicators'

KPIs carry accountabilities:

- Corporate
- Personal

KPIs may influence

- The 'family tree'
- HR, pay rates, bonus schemes
- Training and Management Development programmes



KPIs – some first thoughts

- Sales volume and prices
- Supply chain
- Manufacturing methods
- R&D
- Labour productivity
- Overhead recovery
- Working capital
- Cash and treasury

The list is endless



Miracle Cure Limited

			Volume Price		KPI Changes			SPS P&L	SPS Challenge effect	
					Current P&L	Price/effic.	Volume			
SALES	Product	1	500	1000	500,000	10%	-10%	495,000	113,300	5.2%
		2	2000	500	1,000,000	-5%	20%	1,140,000		
		3	3500	200	700,000	2%	-5%	678,300		
				2,200,000			2,313,300			
MATERIALS	Product	1	500	700	350,000	-3%	-10%	305,550		
		2	2000	150	300,000	-10%	20%	324,000		
		3	3500	100	350,000		-5%	332,500		
				1,000,000			962,050			
					45.5%		41.6%			
LABOUR	Product	1	500	200	100,000	-5%	-10%	85,500		
		2	2000	150	300,000	-8%	20%	331,200		
		3	3500	20	70,000		-5%	66,500		
				470,000			483,200			
					21.4%		20.9%			
TOTAL COS				1,470,000			1,445,250			
GROSS MARGIN				730,000			868,050	138,050	18.9%	
				33.2%			37.5%			



Workshop 3 – 18th October

'Leaving without Tears'

What makes an attractive business

What buyers don't like

Valuation

Preparing for sale

The Sale process

Exit without selling

Workshop leader – Martyn Fray



Why Exit?

Personal

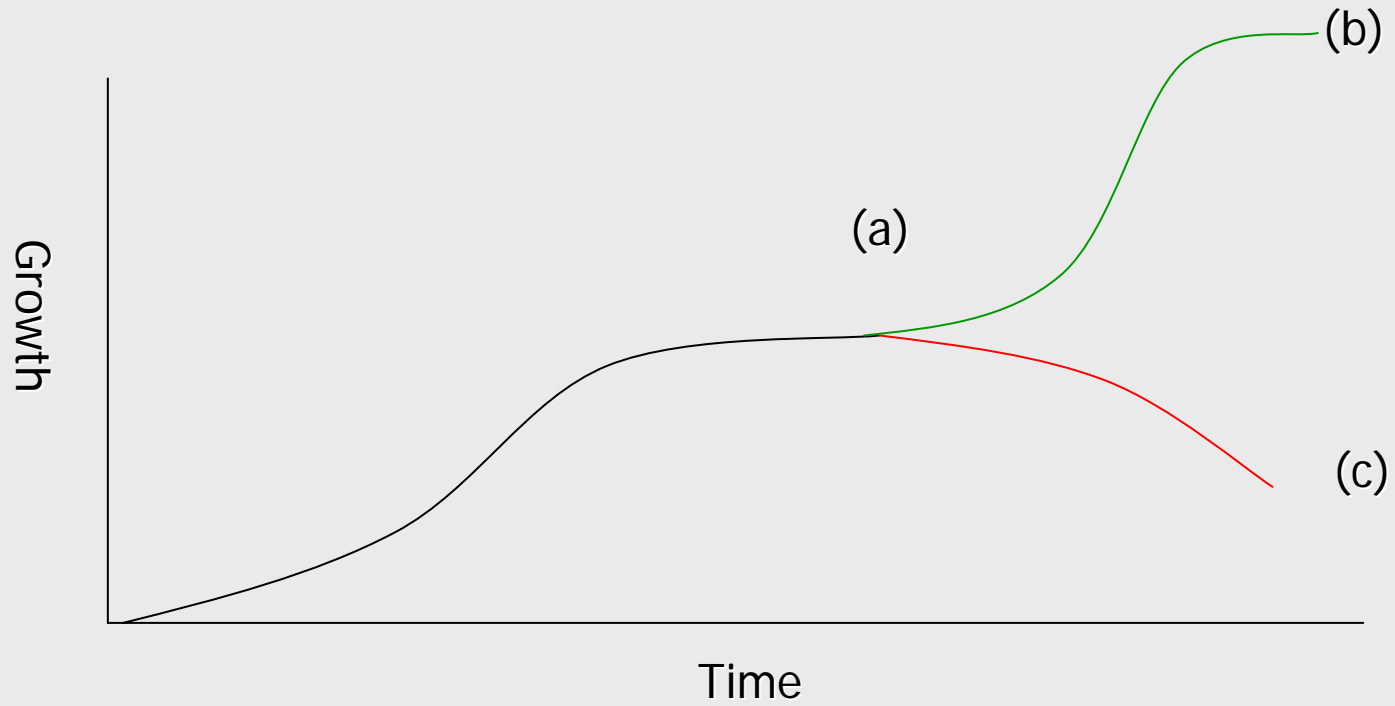
- Do something different
- Man for all Seasons
- Time
- Retirement

Business

- Life-cycle
- Technology
- Capital investment
- Market opportunities



Life Cycle





Who is effected?

- You
- Your family
- Other Shareholders
- Co-directors
- Employees



Exit options

Retained

- Non-exec

Disposal

- Family
- Management
- IPO
- Trade sale



Planning is essential

- The business needs to **GROW**
- Standing still is not an option
- Growth increases shareholder value
- Growth brings security
- Growth creates options



Retained Option – Who takes over?

- Family?
- Existing director / manager?
- Someone new?



Retained Option – Family Charter

- Strategic Plan
- Family involvement
- Succession management
- Board of Directors
- Share ownership, distributions, voting rights
- Non-family Directors and Senior Managers
- Family meetings
- Disputes

Blood is thicker than water – but get it in writing



Retained Option - Management

- Natural successor
- Balanced team
- Competences
- Motivation
- Remuneration
- Longer-term objectives
- 2nd tier management void

What's in it for them?



Retained Option – Someone New

- Personality and team-fit
- Background and competence
- Motivation
- Remuneration
- Defined role
- Long term objectives

What's in it for him?



Retained Option – Transfer of Power

- Customer relationships
- Supplier relationships
- Knowledge

***Give your management the tools
Don't leave a void***



Retained Option – Protect your interests

- Your role
- Independent non-exec. Director
- Decision tree

***Give your management room
Keep your distance!***



Retained Option – Surplus Assets

- Needs of the business
- Freehold property
- Other Fixed assets
- Trading assets
 - Stock-in-trade
 - Debtors
 - Creditors
- Cash balances

Liquidate and repatriate



Disposal option – Possible Routes

- Stock Market Listing (IPO)
- Management Buy Out (MBO)
- Buy in / Management Buy Out (BIMBO)
- Management Buy In (MBI)
- ***Trade Sale***



Selling a Business

- Sale of an owner-managed business can be difficult
- No established market place
- Business built around skills and experience of the owners
- Time-consuming process
- Need to create trajectory

Selling a business is a full-time job



'Business For Sale'

(Advertised in Sunday Times 01/10/06)

Niche Transport & Storage Business (Entertainment Industry)

- £1.4m Turnover
- £250k Net Profit
- Stand Alone or Ideal Bolt-On
- 25 Staff
- Excellent Management Group
- Significant growth potential
- Price: £1.25m
- Southern Base

For further info contact:
xxxxxsales@hotmail.co.uk

What does this real-life advertisement convey?

Spot the 'Cardinal Sin'?

Anything else?



'Business For Sale'

- It's probably the biggest financial transaction in your life
- This may be your first experience
- Your decisions impacts on others
- Complex transaction
- No 'Off-the-Shelf' model
- No two transactions the same

Take advice early



Specialist Advisers

- Must have:
 - Accountant
 - Lawyer
- Others will come along
 - Financial Services Adviser
 - Pensions Broker
 - Property Agents
 - Patent Agents
 - IPR lawyers
- Consider
 - Business Brokers
 - Specialist Corporate Finance Accountants
 - Independent Corporate Finance Boutiques
 - Banks



Specialist Advisers

Good advice is not cheap

- Beauty parade lead advisor
 - Appoint in good time
 - Identify team, lead advisor will help
-
- Personality fit is vital
 - Check on relevant deals
 - Take up references

There's no substitute for good advice



Finding a Buyer - Routes

- Personal Contacts
- In the Trade
- Networking
- Accountant, Lawyer, Banker
- Private Equity
- Venture Capitalists
- Business Angels
- Advertise (DIY)
- Business Broker
- Corporate Finance Specialist



3 Key factors in a successful sale

- Bidder competition
- Acquirer motivation
- Preparation, Preparation, Preparation

***Selling a business is a
SALES not an ACCOUNTING process***



Sales not Accounting process

- Generate a 'prospect list'
- Look overseas
- Think laterally
- Think through ***the eyes of the acquirer***

The best purchaser may not be considering an acquisition



Bidder Competition

- Create a market
- Maintaining momentum
- Achieving the price
- Dictating the terms

Controlling the process



Acquirer motivation

- 'Maintainable profit'
- The value of intangible assets
- Synergies
- Business opportunities

***When 2 plus 2 equals –
a lot more than 4***



Preparation, preparation, preparation

- Communication and confidentiality
- Documentation
- Wash and brush-up
- Objectives
- Negotiating
- Skeletons in the cupboard
- Marshalling the assets
- Minority shareholders

Stay in Control



Features of an attractive business – products and markets

- A clear and proven strategy
- Sustainable products and identifiable advantages
- Expanding market
- High barriers to entry
- Scalable business model
- Effective sales process
- Customer/client loyalty not owner-dependent

Predictable performance



Features of an attractive business – internal

- Low staff turnover
- Good 2nd tier management
- Low customer concentration
- High repeat order levels
- High margins
- Positive cash flow
- Sound financial controls and management information
- Steady financial performance over at least 3 years

Low risk acquisition



Common frustrations

- Dependent on owner
- Poor financial track record
- Negative cash flow
- Technology threats
- High market share
- Customer concentration
- Adverse market trends
- Low barriers to market entry
- Under-investment
- Untried, untested and/or weak management
- Poor employment record



Grooming the business for sale

- Understand valuation techniques used by purchasers
- Make best of earnings trend and growth prospects
- Reduce gearing, increase net asset value
- Review disposal options and property
- Cease loss-making activities / long payback initiatives
- Review overheads
- Deal with minority shareholders
- Review management structure

Undertake a Business Diagnostic review



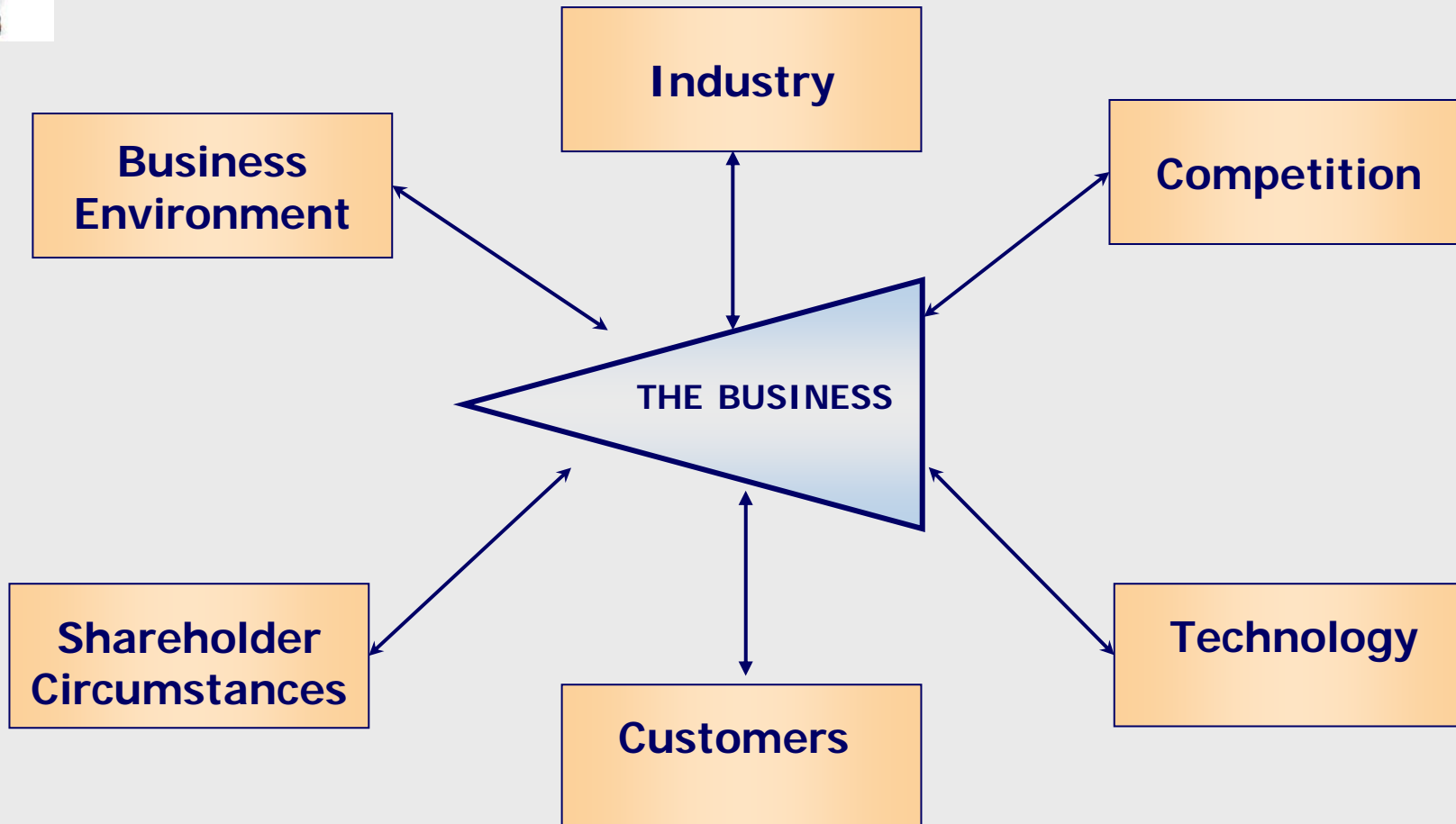
Grooming for sale – Business Diagnostic Review

A **Business Diagnostic Review** is intended to:

- critically ascertain the current business positioning
- Identify opportunities and threats presented by the external environment
- identify and document internal strengths and weaknesses

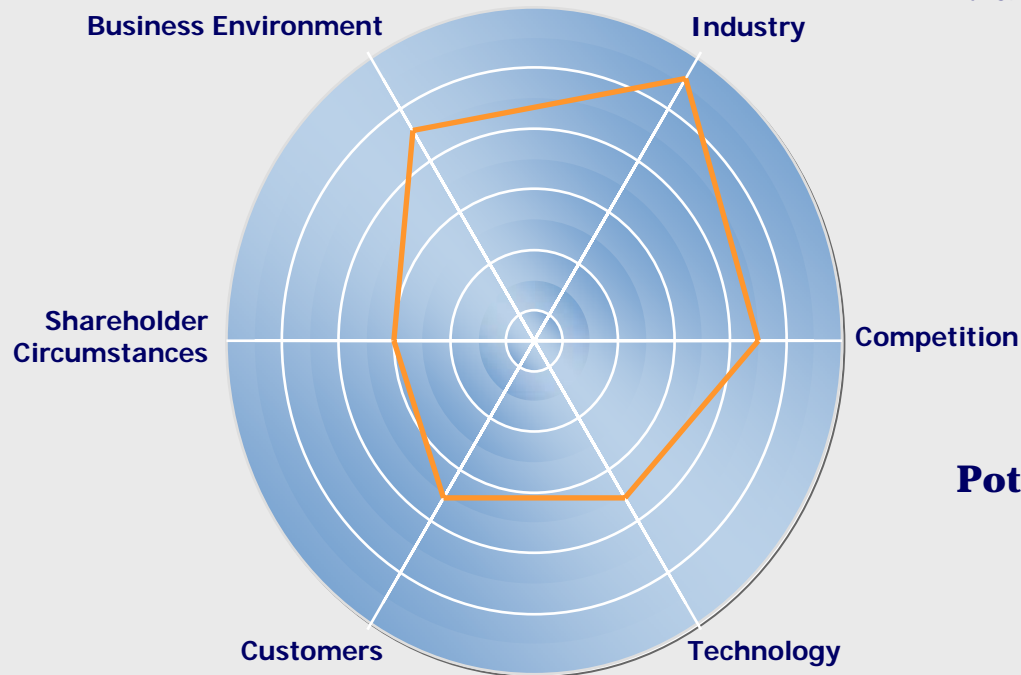


RAN ONE Framework Business influencers





BD Case study: Business assessment - External Factors



Main Opportunities:

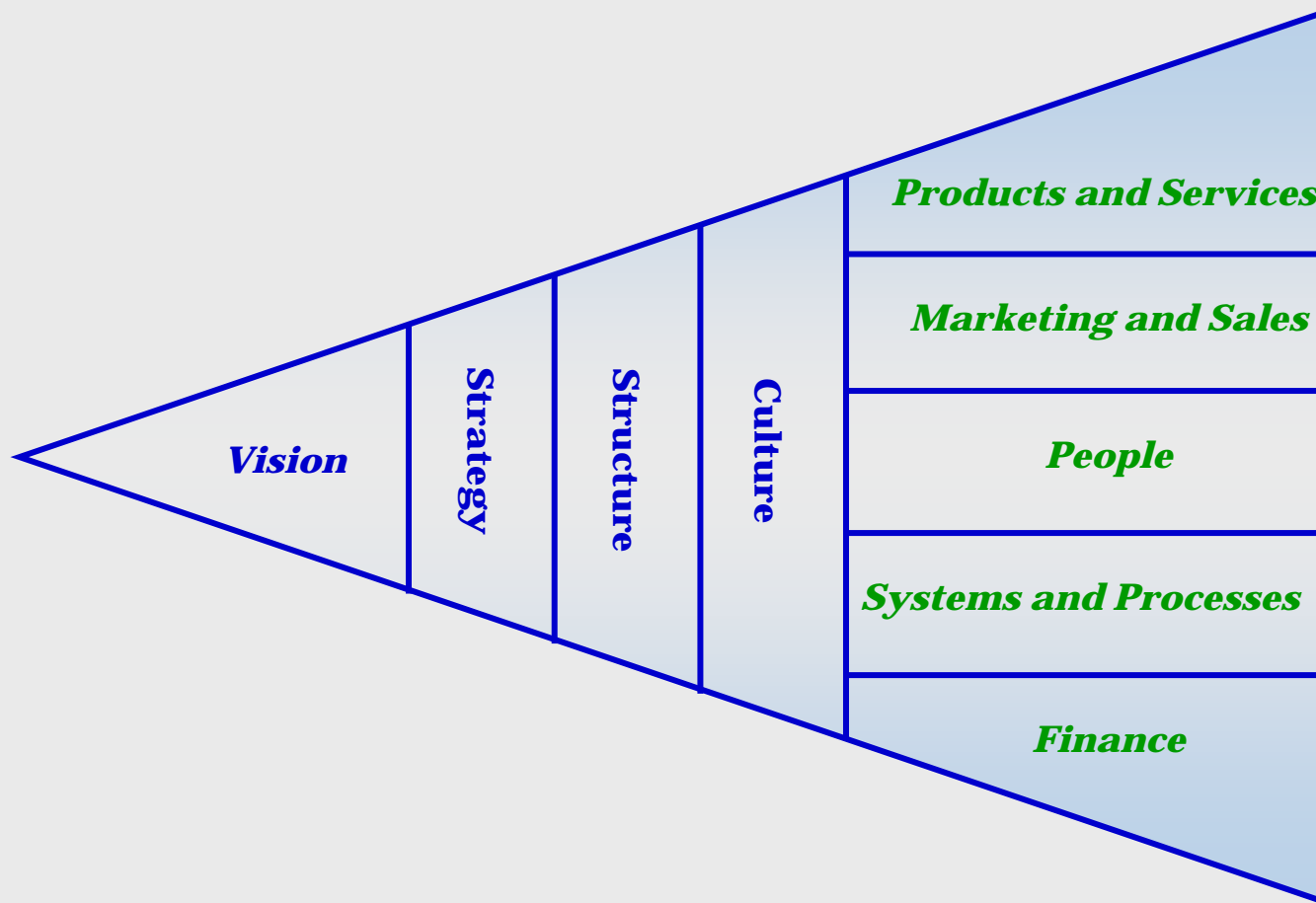
- Long-term industry growth expected
- Wider product range
- Value pricing
- Supplier alliances
- Financially strong customers
- Export potential
- Strategic acquisitions
- Regulation
- 'Green' issues

Potential threats:

- Low market entry cost for new players
- Technology changes affecting alliance partners
- Economic slowdown limits corporate capital spend

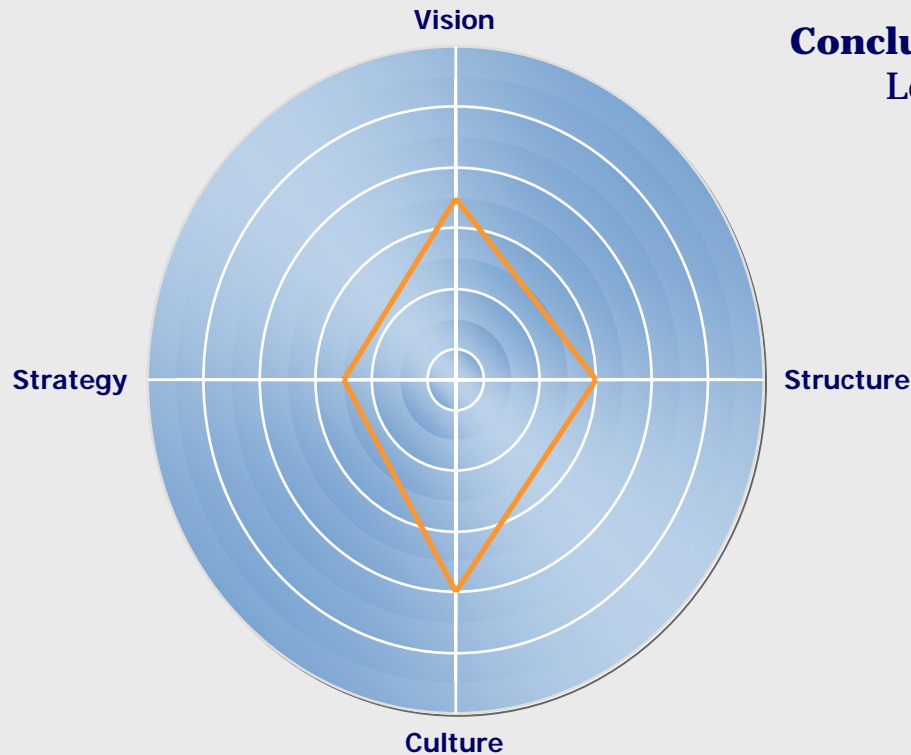


RAN ONE Framework The 'Rocket'





BD Case Study: Business Assessment – Vision, Strategy, Structure and Culture



Conclusions:

Long-term goals are not clearly defined resulting in:

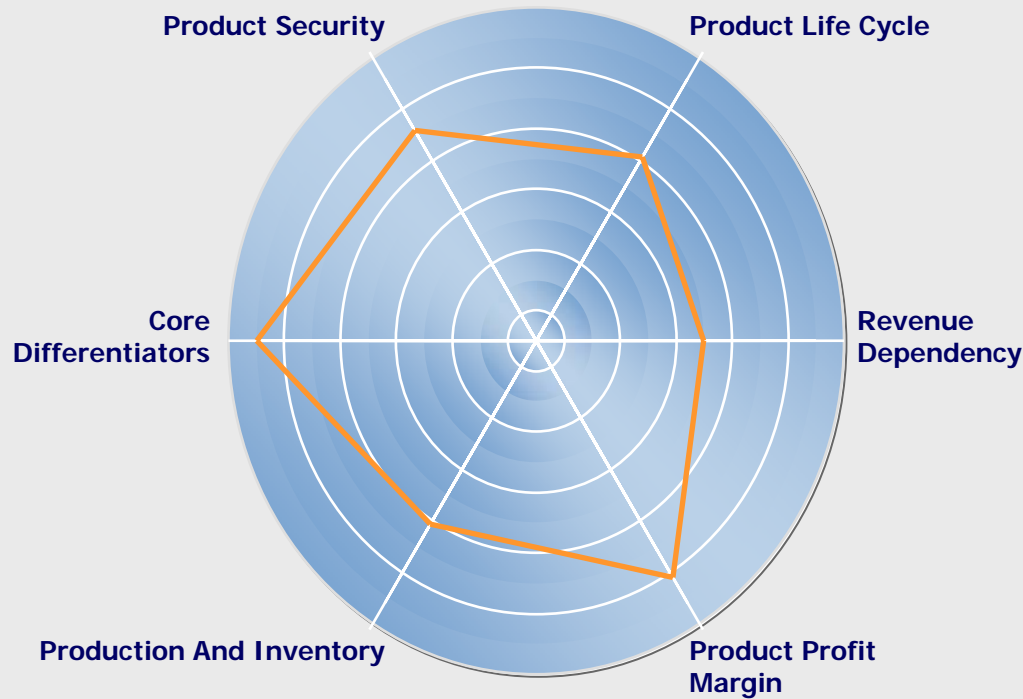
- Tactical decision process, not strategic
- Limited employee buy-in
- Uncertain employee career proposition
- Corporate structures 'evolve', are not driven
- Decisions passed up the line
- Unduly owner-dependant
- Short term-ism

'He who aims at nothing is bound to hit it'

- IBM motto



BD Case Study: Business Assessment – Products and Services



Strengths:

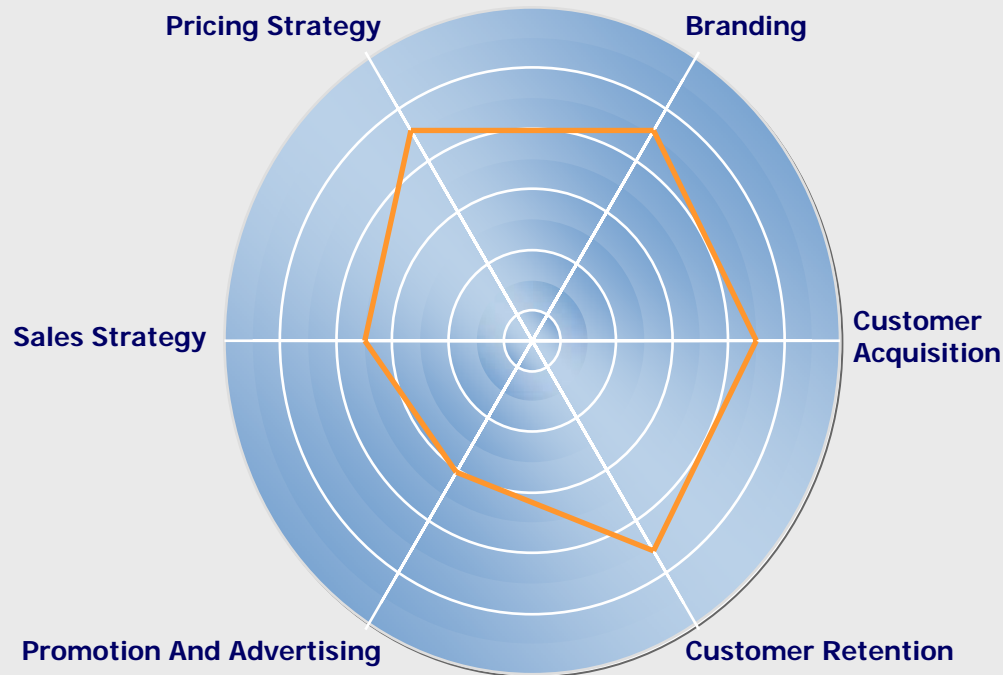
- Worldwide rigor on safety issues
- ‘Green’ product solutions
- Sustainable, high margins
- New product opportunities
- Training schemes
- ‘Independent’ operator
- Un-regulated environment

Weaknesses:

- HR constrained
- Owner dependant
- Limited product offer



BD Case study: Business Assessment - Marketing And Sales



Strengths:

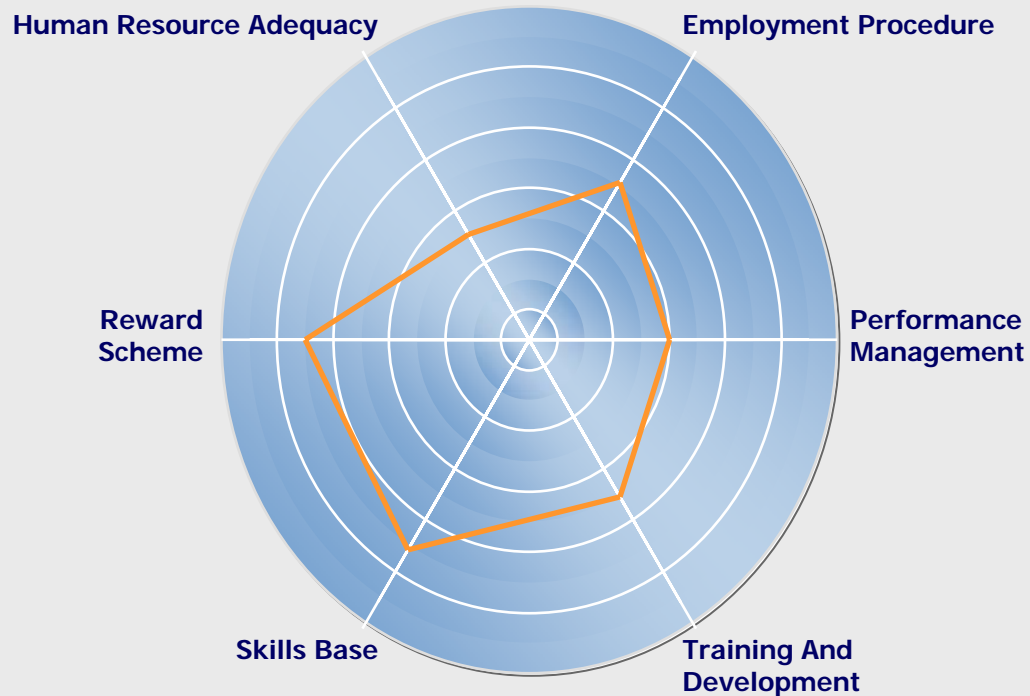
- Well known in niche market
- Trusted and highly regarded
- Technically knowledgeable
- High quality customers
- Low cost customer acquisition

Weaknesses:

- Marketing function low on resource



BD Case study: Business Assessment - People



Strengths:

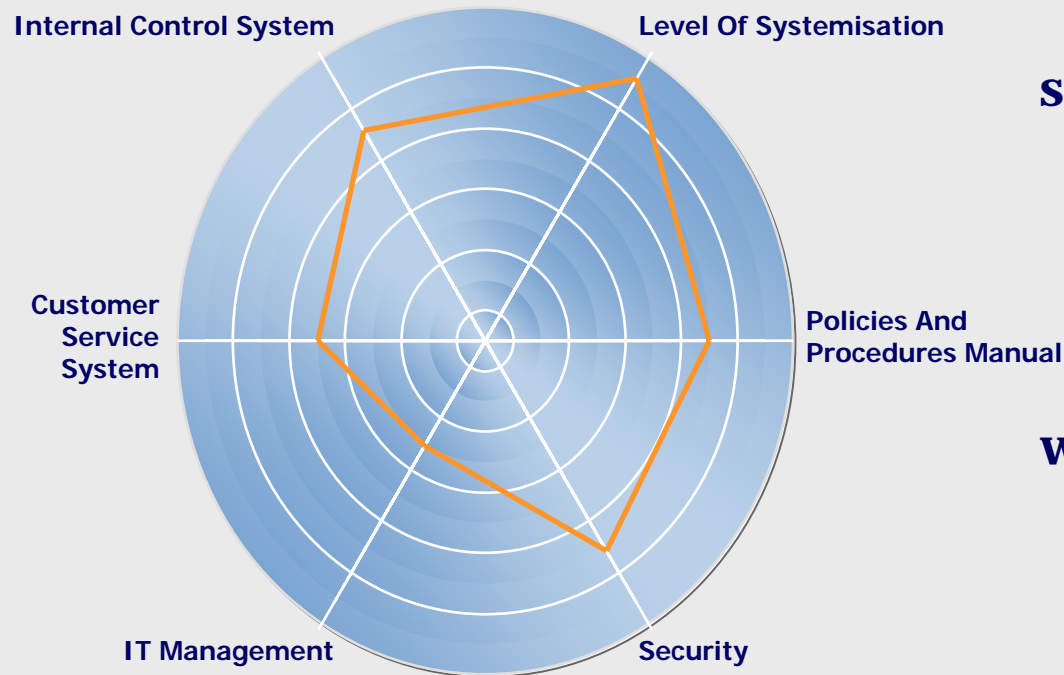
- Strong skills base
- Results oriented remuneration schemes

Weaknesses:

- Poorly defined engagement and retention policies
- Irregular performance review process
- Generalised personal performance targets
- No formalised training process
- Insufficient sales resource



BD Case Study: Business Assessment - Systems And Processes



Strengths:

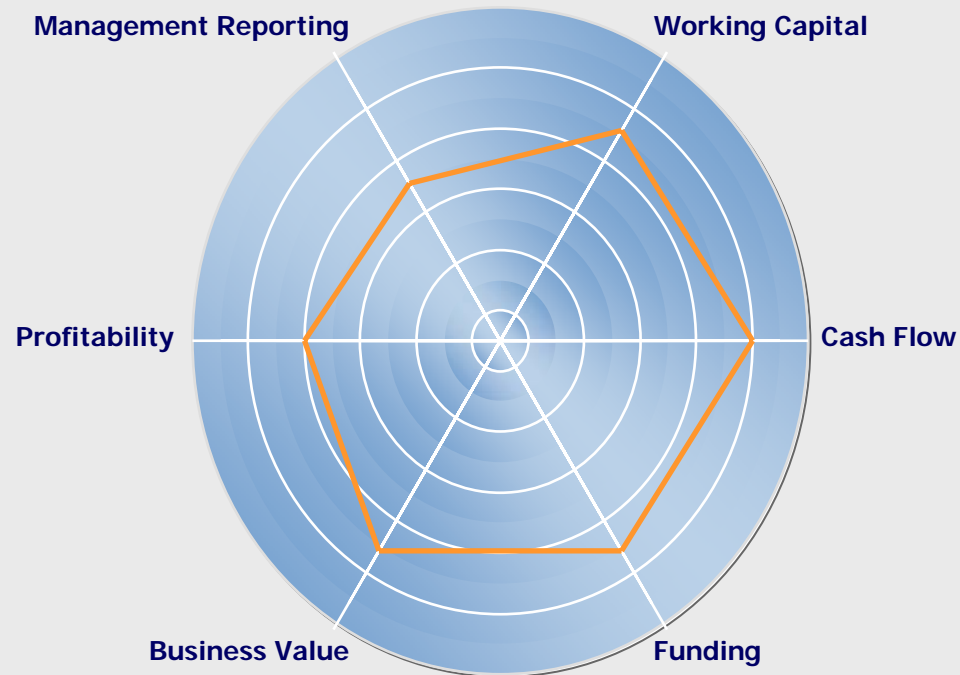
- Straightforward and systemised internal processes
- Documented and well understood
- Asset security systems in place

Weaknesses:

- No long-term IT strategy
- 'Neutral' customer monitoring and feed-back processes



BD Case study: Business Assessment - Finance



Strengths:

- Cash flow well managed
- Satisfactory working-capital ratios
- Business does not carry inventory
- In-hand cash balances
- Profitable

Weaknesses:

- Management reporting systems



BD Case Study – Key Strengths and Opportunities

- Industry is in good shape and expected to grow.
- Customers are financially strong, large corporates presenting scope for further sales and cross-selling opportunities.
- Client solutions are high perceived value (security comfort factor), enabling sustainable high margins.
- Regulatory environment, corporate responsibility and growing awareness of 'green' issues provide significant opportunities for CellCare, if actively pursued
- Technically knowledgeable, well known, trusted and highly regarded solutions provider
- Enviably profitable and growth trends
- Strong Balance Sheet with in-hand bank balances and no borrowings
- Excellent Cash Flow management
- Zero inventory investment



BD Case Study – Key Areas for Improvement

- Long-term goals are ill-defined and poorly communicated leading to reactive not strategic management
- High degree of owner-dependence is strangling profitable growth
- Staff shortages in key area (industrial sales and account management)
- Weak HR processes
- Moderate reporting and monitoring systems, both financial and non-financial
- Limited performance targets and reporting processes at corporate level and for individuals



The Sales Process

- Confidential Information Memorandum
- Valuation
- Due Diligence
- Taxation
- Plan 'B'



Confidential Information Memorandum

- Location, contacts, auditors bankers
- Company history
- Shareholding, ownership
- Reason for sale
- Activity, products and services
- Competitive edge
- Sales and marketing information
- Not owner dependent
- Key staff
- Future growth
- Benefits to the Buyer
- Financial overview

It sells a meeting, not the Business



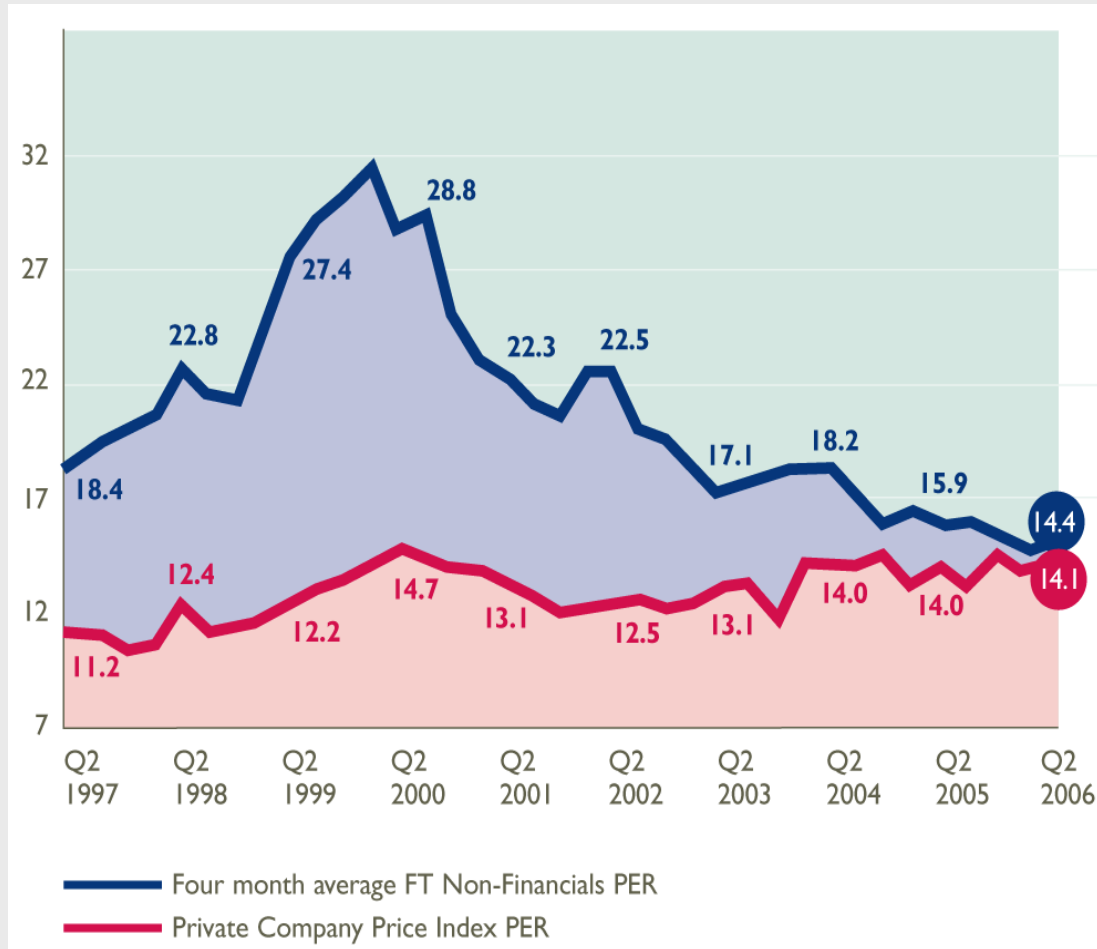
Traditional Valuation Techniques

- Entry costs
- Net Assets
- Industry norms
- Discounted cash flow
- *Multiples of earnings*

Valuation is not an exact science



Private Company Price Index



Note the differential collapse

- High level of interest
- Private Equity Funds

'Private Equity' is medium to long-term finance provided in return for an equity stake in potentially high growth unquoted companies.

Source: BDO Stoy Hayward



Reading the Private Company Price Index

- Reported profits suppressed by expenses, non recurring under new owner
- Av. deal size over 6 years is £15m. Deeper discount on smaller deals
- Different Sectors have different ratings

Two year rolling average of p/e ratios Jan 02 to May 06

Healthcare & Education –	DOWN 25%
Business Services –	UP 13%
Retail –	UP 49%

Source: BDO Stoy Hayward



Valuation is a minefield – beware!

- Significant subjective assessments
- Difficult to find appropriate comparatives
- No two businesses are the same
- Special factors – such as
 - Key customer, supplier or employee
 - Volatile earnings
 - Intellectual property
 - Brand

***A business is worth what a buyer will pay,
not a penny more, not a penny less***

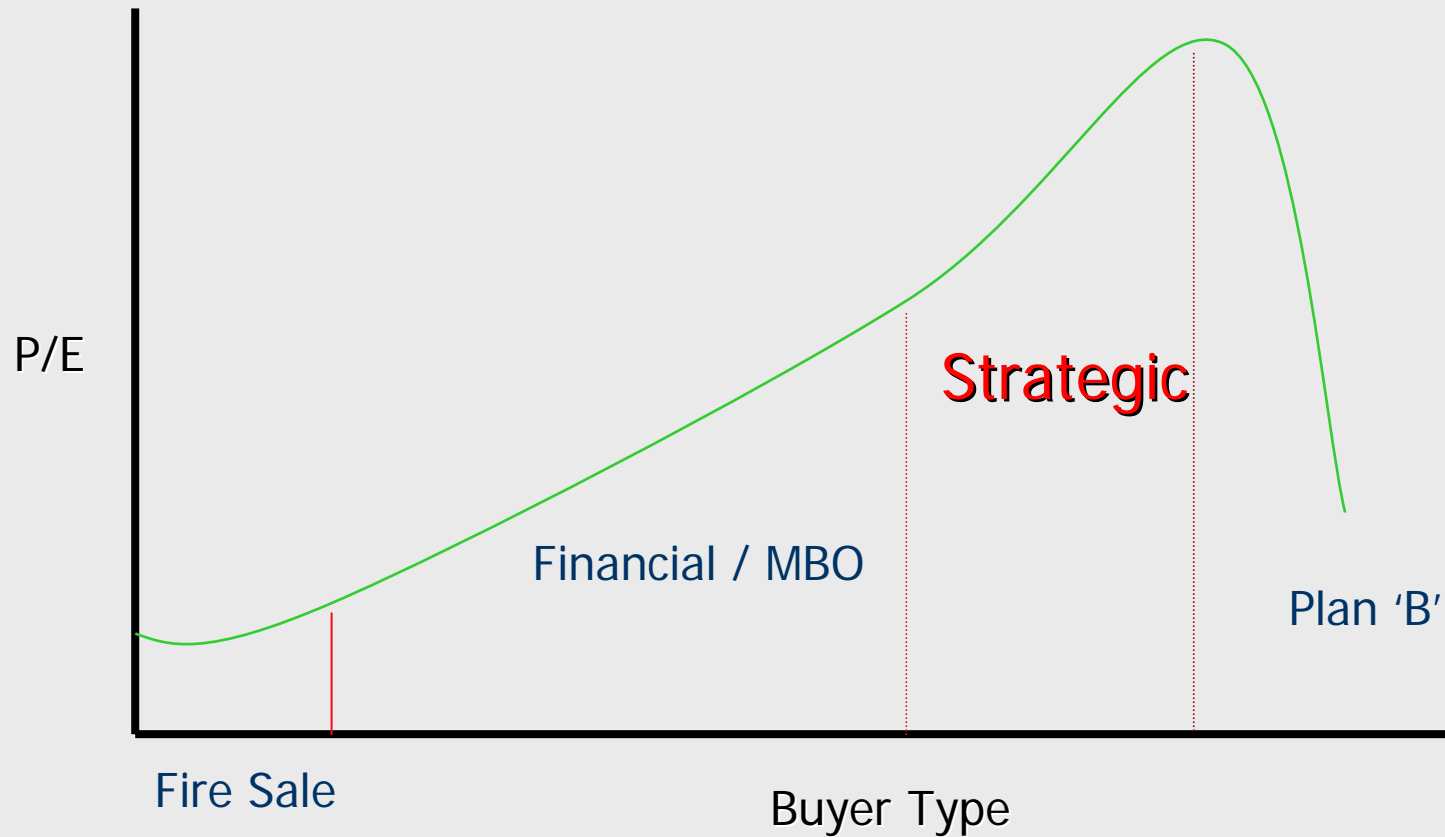


Valuation and Price

- Buyer and seller perspectives
- Look at it through *the eyes of the acquirer*
- Price is guided by value, but is the result of negotiation



Buyer types and values





Buyer types significantly effect Price

- ***Gannets*** buy in distress situations
- ***Financial buyers*** are motivated by numbers alone

- ***Strategic buyers*** may look beyond historic figures



'The eyes of the acquirer'

- Curiosity
 - I would like to know more
- Interest
 - Analysis, planning, what if's
- Enthusiasm
 - A great opportunity – we should do it!
- Reality check
 - What if we don't do it
- Fear
 - What if it goes wrong
 - What damage could it do
 - Paying too much
 - Do I know enough about it
 - Will it integrate

Help the buyer through his fears



Manage the Buyers Aspirations

£'000	Last year	This year	Post sale		
			Year 1	Year 2	Year 3
Scenario 1 - Organic sales inc. - New products - No sale	£832	£1,278	£1,948	£2,843	£3,432 
Scenario 2 - plus Owner Premium	£832	£1,758	£2,428	£3,323	£3,912 
Scenario 3 - plus Sales pull-through	£832	£1,800	£2,771	£4,009	£4,941 
Scenario 4 - plus efficiencies	£832	£1,800	£3,254	£4,824	£6,047



Prospect Lists

- Horizontal integration (consolidation)
 - Vertical integration (customers, suppliers)
 - Complementary businesses
 - Overseas businesses seeking a market presence
-
- Our sources
 - Corporate finance advisers



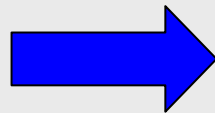
Prospect Lists

- Research long-list – could be 300
- Prepare short-list – could be 30



The Sale Process

Ready



Aim





The sale process

- Contact Short list
- Agree Confidentiality
- Issue Confidential Information Memorandum
- Initial meetings
- Review Indicative Offers
- Shortlist
- Further meetings
- Receive firm offers
- Identify preferred bidder
- Heads of Agreement and commence period of exclusivity
- Due diligence
- Completion



Heads of Agreement

- Include key terms
- Include a timetable
- Limit period of exclusivity
- Prepared by corporate lawyer



Due diligence

- Commercial (agree scope)
- Legal
- Financial
- Tax clearances

- 'Data Room'



Due Diligence

- Industry information
- Strategic plan
- Competition
- Legal Overview
- Products
- Product Development
- Manufacturing Operations
- Facilities
- Sales & Marketing



Due Diligence

- Distribution
- Environmental Issues
- Historical Financial Information
- Projections
- Accounting responsibility and Function
- Financing, Supplier & other agreements
- Budgeting system
- Capital Expenditure
- Operating and Capital Leases



Due Diligence

- Employees, Management and Director
- Unions
- Legal
- Tax
- Government Regulations



Areas of Conflict

The lawyers' field-day! Common problem areas:

- Vendor warranties
- Non-compete clauses
- Outstanding litigation
- Environmental surveys
- Director service agreements
- Staff employment contracts
- Pension schemes



Taxation issues

- What is being sold?
- Capital Gains Tax on chargeable gains
- Corporation Tax on chargeable gains

Take specialist advice before you start



Taxation issues

- Consideration for the sale
 - Cash on the nail
 - Earn outs
 - Paper for Paper
 - Loan Notes

Take specialist advice before you start



Pre-sale Tax Planning

- Reduce charge to CGT on gains
- Maximise taper relief
- Family transfers
- Pension schemes
- Pre-sale dividends

Take specialist advice before you start



Don't underestimate

- Time – it may take a year or more
- Attention – it will absorb an enormous amount of your time and personal effort
- Cost – professional advice is not cheap
- Staff - have an uncanny knack of sensing something's afoot
- Confidentiality – 'leaks' and rumour

You have just one shot at goal



Wisdom -

- Start early – maybe 2 years
- Appoint Professional Advisers
- Have Plan 'B' in place

Don't be greedy

The Best Deal is a Good Deal for everyone



Thank you -

We hope you have found the Director
Development Programme thought-provoking

Phase 4 – ‘One-on-One’ meeting

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Enjoy yourself – you've deserve it!

