Is your business a saleable asset?

by Michael Kerr, Managing Director, Kerr Capital

There is no doubt your industry is undergoing fundamental change.

One of the consequences is that right now many owners of Conveyancing Practices, large AND small, are considering their long term plans.

Amongst the many questions they will be asking themselves there will be these 3 very important ones;

- Should I merge with another practice? This way I might be able to share infrastructure costs in the short term and lock in a partner to buy me out in the medium to long term.
- Should I outright buy another practice? This is an effective way for me to grow, increase profitability and enhance the attractiveness of my business to a potential buyer in the medium or longer term.
- Should I just sell now?

So whether you have started business sale planning or not, the probability that you will get a call from another business is now much higher.

How would you handle that call if it came through tomorrow?

What should you say?

What shouldn't you say?

What information should you share with an existing competitor who might be a potential merge partner?

There are definitely some do's & don'ts . There is also a correct process that you (or your business sale advisor, if you have one) should follow. This is too much detail to cover in this article but I will do that in an upcoming edition

Prior to the next article and irrespective of whether you have or haven't started the business sale planning process you will benefit from understanding 2 things.

1. In the vast majority of cases most buyers or potential merger partners will come from your industry (or an industry closely allied such as Law).

So who might they be?

- A larger practice looking to grow through acquisition,
- Another similar sized practice looking to merge (perhaps another practice in a nearby suburb?),
- A Law Firm,
- An experienced staff member looking to take the next step to running their own business,
- A newly qualified conveyancer looking to get established in their own business.

In all cases it is safe to assume that they know a reasonable amount about the mechanics of the industry and, that if they've done some homework (e.g. looked at your website and/or your promotional material, fee schedules), they should already have a reasonable idea about what your business does.

Initial discussions shouldn't just be one-way traffic with you answering all their questions and providing intimate information about your business. The discussions need to be two-way with your focus, as the potential business seller, on finding out;

- Who exactly they are?
- Whether they have a legitimate need, the capability and resources (financial and non-financial) to make a transaction happen within a timeframe you consider reasonable?
- Whether you think you can actually do business with them? Whether it's about a merger or a sale you'll need to work closely with the buyer and if you don't trust them personally it will make the ongoing discussions and negotiations very challenging.

Requests to see your tax returns and share detailed information about your client base are way too premature. This detailed and confidential information should only be released when the discussions have progressed to the stage where there is an indicative offer. If a potential buyer insists on seeing this very early in the process then I'd be very wary.

And by the way if the buyer is from outside of the above group (even if they have floated a really attractive price) then in all likelihood they will end up getting "cold feet" and will instead waste a lot of your time and burn up energy.

2. That even though the buyers will come from the same or an allied industry each will have a different reason for being interested in your business. And therefore they will each have a different and unique view of the value and attractiveness of your business.

The following table will outline in simple terms for each of the potential buyers we identified above;

- The likely rationale for buying or merging with your business, and
- The potential value attributes that your business would bring to them.

The implications for you are that the value they are prepared to pay and the type of deal terms they are prepared to offer can and will vary quite significantly.

By understanding the 2 key points I have outlined you will work out far more quickly whether there is a potential deal there and whether it is worth spending more time on. You'll save yourself a lot of money, time and stress in the process.

Please feel free to contact me with any questions or to obtain a free copy of the e-book 10 Things You Must Know Before You Sell Your Conveyancing Practice

Buyer type	Rationale (for buying or merging with your business)	VALUE YOU BRING	VALUE THEY GET
1. A larger practice	Looking to grow faster through the acquisition of businesses with a client base, brand and staff (they might consider this is a faster and more effective way than organic growth).	• Lower cost of client acquisition (than organic growth) • Faster client growth • Established local market knowledge & connections	• Increased profit from same turnover (reduced overheads)
2. Another similar sized practice (perhaps another practice in a nearby suburb)	Looking for growth or business partner to "share the load" through merger	• Established local market knowledge & connections • Partner for operating the day to day business	• Increased profits • Your expertise & support
3. A Law Firm	Business growth and/or service or product diversification	• Faster client growth / faster revenue growth • Established local market knowledge & connections • Client cross sell opportunities	• Increased profits • Lower cost delivery • Revenue diversification
4. An experienced staff member	looking to take the next step to running their own business	• Low risk business opportunity (they already know the business well)	• Fast start to in their own business
5. A newly qualified conveyancer	looking to get established in their own business	• Low risk business opportunity (avoid the pain, risk & costs of starting up)	• Fast start to in their own business