

To Sell or Not To Sell, That Is the Question

If you are a business person, we are going to confront you with one of the most complex decisions in your life: Should you sell your company? What we will examine in this article is the possibility that on certain occasions, selling can be the best course of action for a company. But how can you know whether it is? Here are a few ideas.

Executive Summary

Is it better to keep plowing ahead, and if so, what should be done? It is difficult to forge ahead: in this case, to what extent is it possible to sell? This is probably one of the most difficult and important decisions in a business person's career. Studying the processes of company decline shows that management tends to show a certain attitude of self-deception. Seen from a distance, that is, objectively, from the outside, it is amazing that an entire managerial team can deceive itself through years of decline, living on a day-to-day basis with measurable variables that reflect a system in free-fall.

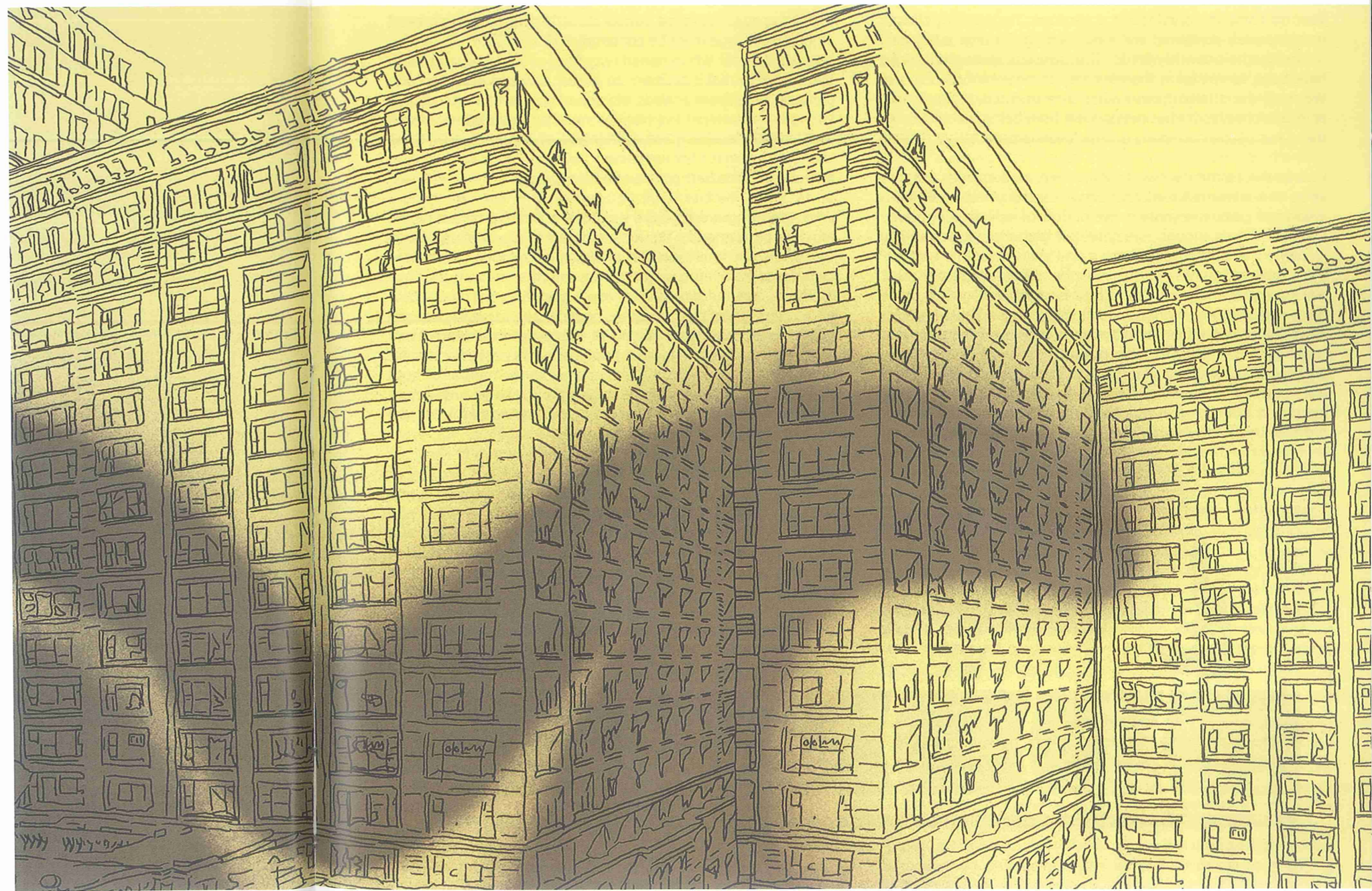
For a business person, it is difficult to ponder selling his or her company in a rigorous, objective way. Nevertheless, in many cases, selling may well be the best solution for both the company and the business person. This article does not attempt to prescribe selling at all costs, but it does strive to present the maximum number of crossroads at which decisive action is necessary and selling may be the best alternative. If this decisive action does not take place, the result could be the beginning of a process of decline, with a concomitant fall in the company's value, a process that may be irreversible.

From a standpoint of social responsibility, an entrepreneur's efforts to launch a new company are more satisfactory than a business person who decides to throw in the towel and sell his or her company. But when a company is sold, it is because there is another business person (the managerial team, another company) willing to buy it. This is the best of both worlds: somebody is going to keep struggling to keep the company afloat, and the business person who sells will have the value created with his or her enterprising efforts available to apply to other initiatives proportionate to his or her personal circumstances at the time. Obviously, the worst case scenario is when the company enters into decline, loses value, and ends up closing. Every day in the news we see cases of companies that have gone under.

The beginning

Creating a company is a process that entails a deep emotional commitment and oftentimes a certain degree of sacrifice for whomever is involved in it. Building a business may involve taking on financial risks, not to mention constant work and dedication. Thus, companies are often personal or family projects with an importance that goes beyond merely generating resources and creating wealth. Neverthe-

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How can I know if I should sell my company? Answer these questions...

Ownership and management

1. Am I over the age of 60?
2. Do I have a clear succession plan?
3. Do my heirs have the training, vocation and skills needed to keep running the company?
4. Are there any thorny conflicts between members of the next generation, or between my heirs and the professional managers?
5. Does my wealth depend substantially on this company? Do I have alternative sources of income?

6. In my company, is there a clear separation between family and business patrimony?
7. Does my company need to make major short-term investments in order to be viable?
8. Do I have the resources and risk tolerance needed to make a commitment to the investments needed?
9. Do I think that the company's continuity hinges on my presence? Do I have such specific knowledge that nobody could replace me?

Resources

10. Is my company's bottom line degenerating? Are its own resources falling?
11. Can I explain the reason for this fall in own resources? Is it related to an increase in investments to finance future projects? Conversely, is it due to the generation of losses in the main activities without any prospects for improvement?
12. Am I aware of the life cycle of all my company's key assets?
13. Have I identified which ones are most critical for its activity?

14. Do I have a plan to replace these assets gradually without this replacement affecting the pace of production?
15. Is my company's intellectual property the crux of its value (trademarks, patents, useful models)?
16. Is it likely for the value of this property to decrease in the short to middle term?
17. Do I have a plan for replacing this intellectual property?
18. What is the average age of key executives in my company? Is it over 50?

19. Have one or more young executives recently left my company, frustrated at the lack of possibilities for promotion?
20. Do I have a clear human resources policy for attracting, motivating, and retaining the most valuable staff with the greatest potential?

Proposal of value

21. Is my company reasonably profitable on a sustainable basis?
22. Does my company manage to generate enough cash

flow to sustain the growth needed (investments, money in circulation, R&D)?

23. If not, could we have access to funds provided by private or institutional partners? Would we be willing to do this?
24. Does my company have a differentiated portfolio of products or services?
25. Does my company have a solid brand name or a high reputation for quality, above that of my competitors?
26. Is my portfolio of products balanced (mature products as cash cows, yet also growth

27. Does my company have a cost advantage over its competitors?
28. If so, is this advantage sustainable in the long term?
29. Do I have a comprehensive business plan demonstrating the viability of my company?

Competitive environment

I. Distribution channels

30. Does the continuity of my company depend on access to exclusive distribution channels?

31. Is access to these channels adequately protected through contracts or agreements?
32. Is there a concentration of my products in the distribution channels? Is my market power thus diminishing compared to my distribution channel?

II. Customers

33. Is my company increasingly dependent on a few customers?
34. Do my customers increasingly have a wider range of suppliers or solutions to cover the needs that my products or service

less, no company operates in a vacuum. The social, political, technological, economic and labor settings change every day, following their own dynamic. The business ideas that might have been successful in the past are not necessarily so forever. We must avoid letting blind adherence to traditional practices or approaches hinder business people from being realistic about the status of their company and its future prospects.

Due to the emotional charge that often accompanies the creation and stewardship of one's own company, especially family-owned companies, often the option of selling is not even considered even though it may be the best alternative to allow its owners to obtain value from it and even ensure its continuity. A rational business person must be able to make a realistic assessment of the present and future value of his or her company, and to analyze at what point the changes in the environment and competitive status of the company can become a turning point in its value (either positive or negative). At times, an adverse competitive situation can be resolved through management measures, such as a restructuring of the staff, a new marketing plan, or cost rationalization. However, other times, the changes in the environment will be so profound that they

affect the very nature of the business, and in this case a more ambitious change must be contemplated.

To be able to make decisions to ensure the future of the company, an exhaustive analysis of each of the factors affecting its strength and competitive position must be undertaken, as well as a comprehensive, joint assessment of the impact of these changes on each of these factors, and an unbiased, objective reflection on the best course of action to take.

When studying a company's situation, a thorough examination must be performed of the factors determining its value. We all too often see how everyday management problems prevent companies from refocusing their mission, their fit with the environment, and the direction in which they are moving, or how excessively visionary managers neglect operational management. A good business person or executive must make every effort to detect the changes that will affect his or her company, including both those in the immediate environment and those in adjacent industries. Before deciding on a company's future options, a thorough analysis must be performed of all the factors determining its value.

Reasons for selling? Think about your company...

What factors might engender a change in the future prospects of a company and thus justify the need to think about selling? The change in situation can come about for different reasons, which can be characterized depending on to what extent they are intrinsic to the company or depend more on external factors. Usually companies will have a greater degree of control over the internal aspects of their running or definition, so that a transformation in these factors can be tackled with a wider range of instruments or resources than, for example, a change in the structure of the industry in which it operates or a fundamental change in the regulation of the sector.

1. Ownership and management

Companies must evolve to maintain their ability to compete and survive. At times, the business person or people that breathed life into them are not the best ones to move the business forward. This could be because their personal profiles, such as their ability to face risk or their leadership skills, are not the most appropriate for the needs of the company. In other cases, the structure of governance that is appropriate for the company at one time might become a source of conflicts when faced with the prospect of generational succession. For example, a business person with many children, or a childless one, may consider the option of hiring professional managers and a board of directors to ensure the future of the company. This decision could unleash conflicts between the new managers and the heirs once the company's founder is no longer around.

2. Resources

A company cannot perform its activity unless it has resources. The best managerial talent is worth nothing if it does not come hand-in-hand with financing, production teams, intellectual property, and qualified staff. A business person must always be aware of the status of the balance of resources in his or her company, in the broadest sense of the term. To ensure an optimal competitive situation, a good steward must ensure that the company's balance is healthy at all times, as well as that the production teams are the best for the company's activity and are changed at the right time to avoid interruptions in production.

Likewise, if the intellectual and human capital are crucial parts of the activity, ongoing development must be ensured, new

patents must be secured before the value of the existing ones diminishes, and efforts must be made to attract, motivate, and retain the best employees who identify with the organization's mission. Should the company detect a weakness on any of these fronts, the business person must decide whether the situation can be rectified internally or whether a more radical change must be considered with the help of third parties, such as new partners that provide capital, new suppliers on the production team, external researchers, or human resources consultancies. Should these shortcomings not be resolved through hiring, they may need to be dealt with by searching for a new owner, that is, by selling the company.

3. Proposal of value

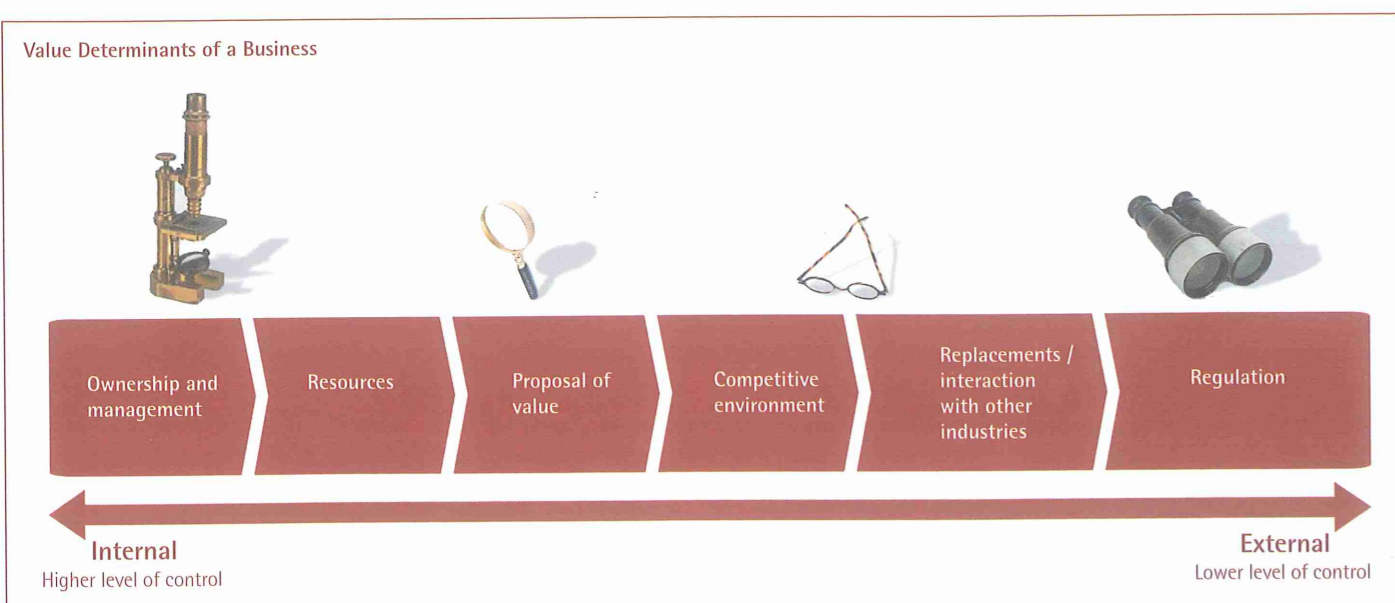
A business person must be aware of his or her company's key differentiating elements. He or she must know whether it competes in added value or costs, and whether its position is based on masterful design, a well-known brand name, or a solid reputation. Once the essential competitive advantage or advantages have been identified, the company must know to what extent it will be capable of sustaining these advantages in the long term. If it detects any change or basic risk in the elements that make up these advantages, the desirability of continuing to operate in the current way should be reconsidered.

4. Competitive environment

All companies must be aware of and monitor evolutions in the structure of the markets in which they operate. Companies must be cognizant of and anticipate, for instance, a trend towards concentration in their sector that might make it more difficult to compete. Likewise, they must always keep an eye on their position in the business value chain and detect early on to what extent their customers' or suppliers' competitive dynamics can irreversibly weaken their market power.

5. Replacements or interactions with other industries

The advent of new technologies or new ways of combining products or services that were previously independent can create threats for an industry as a whole, yet they can also create new business opportunities or make a company more appealing to potential buyers. A company must be able to anticipate how these dynamics will affect the appeal of its own industry. It must also understand to what extent it is prepared to endure these changes compared to its main competitors.



currently meet? (That is, is my market power diminishing with respect to my customers?)

understand the changes in my customers' business and accompany them on the journey?

35. Is the definition of my customers' business changing? For example:

37. Is my customers' cost of changing suppliers falling?

a) A shift in the importance of services compared to products.
b) Strategic repositioning: A shift from volume strategy to added value strategy.

38. Is there any trend among my customers to coordinate their purchases in order to secure better terms from their providers?

c) Change in target market: Leaning more towards exports; more sophisticated customer service; service to customers with a higher purchasing power.

39. Have there been any moves towards vertical integration between any of my customers and any competing company in my sector?

III. Intensified use of technology

IV. Suppliers

36. Is my company prepared to

40. Is my company's dependence on just a few suppliers increasing?

41. Is the relative importance of my company falling for my suppliers, making my market power decrease and worsening my negotiating position?

42. Are the costs of changing suppliers rising for my company?

43. Have there been any moves towards vertical integration between any of my customers and any competing company in my sector?

V. Competitors

44. Is the sector in which I operate undergoing a process of concentration? Have there been many mergers and acquisitions between competitors recently?

45. If so, is my company large enough to compete with the other companies in the sector in the long term?

46. Have any of my important competitors decided to leave the market recently? If so, can I explain this decision?

47. Are the majority of companies in my sector displacing their activities to countries with lower labor costs and/or more attractive tax regimes, following the current trend towards globalization?

48. If so, would my company be able to pursue this process? Is my company ready to manage a network of suppliers dispersed around the globe?

49. Does my company have the ability to pursue the process of internationalization independently?

VI. Technology

50. To what extent is it critical to have access to new technology in each of the areas of my business?

a) Internal management: Is it crucial to update my company's technology in order to ensure efficient management?

b) Product design and development: Does technology help to lower costs or increase added value? Is it an integral part of the company's proposal of value?

c) Supplier relations: Does technology help to lower supply costs?

d) Customer relations: Does technology help to give customers more efficient and personalized service?

51. Is activity sector undergoing a significant technological transformation in any of these dimensions?

52. Is my company spearheading this trend, or on the contrary, is it adopting a "follower" stance?

53. Is it possible to obtain the technology needed for my company by using external suppliers, or must it be custom-developed?

54. Does my company have the resources needed to make the

investment in R&D needed to develop its own custom technology?

Replacements / Interactions with other industries

55. Is the definition of my activity sector changing to include companies in areas that until now were not related? (Is the sector's porosity increasing; are new replacements appearing?)

56. If so, are the companies from contiguous sectors bigger or do they have greater financial muscle than those in my sector?

Regulation

57. Does my company's value

substantially depend on the regulation of the setting in which I operate?

58. To what extent is this legal setting solid and stable?

a) Is the regulation of my activity substantially different from what is in force in other countries or the rest of the European Union?

b) Is there any type of political debate on the advisability of changing these regulations?

c) Is my company large enough to be consulted or to influence any reform that might be considered?

59. Are the markets in which I operate protected by entry barriers (tariffs, standardization

6. Regulation

A change in the legal environment in which a company operates can have a huge effect on its value. In certain cases, the very definition of a company depends on its legal framework, such as for companies that operate as concessions. Thus, being aware of changes in regulations is a vitally important task. In other cases, regulation dictates barriers to inflows and outflows in the market. If the company is highly dependent on these barriers to keep up its competitiveness, it would do well to anticipate trends in legal reforms.

A business person must keep in mind each of these factors that affect the value of his or her company and anticipate the risks that might appear in each of them. Once the risks are clear and obvious to the company's owners, they will also be so to the potential buyers or the market in general, leading these problems to subtract from the company's value and thus from the price of an eventual transaction. Business people can and must use the information they have at their disposal, as they are in direct contact with the activity, to anticipate the problems that might arise for their company in its present guise and choose the most appropriate solution. It should be stressed that this does not necessarily involve concealing information from possible buyers. Perhaps the buyers are also aware of these problems but they think that they may be capable of changing the situation using instruments or strategies that are not available to the current proprietors.

The trees shouldn't prevent you from seeing the forest

Even though an analysis of the situation in each of the areas outlined above can be done independently, the consequences of this analysis must be assessed as a whole. Perhaps none of the elements that determine a company's competitive position is sufficient in itself to counsel selling the company, but the simultaneous appearance of several risk factors might make the scales lean towards the option of selling.

The head rules the heart

On occasions, even after having performed an exhaustive analysis and a thorough assessment of the company's situation, and noticing a predictable deterioration in its competitive position, business people may have difficulties facing up to the evidence and be incapable of undertaking an unbiased, objective analy-

sis due to emotional factors that have nothing to do with the company's situation. Often, too, business people do not even reach this point, as these very same emotional factors lead them to refuse to embark on this self-assessment process. This is understandable, as a company is a project whose goals go beyond merely generating resources for its owner. A company is a way of life that provides the owner with satisfaction and self-realization. For this reason, it is common for the founder of a company to feel a strong emotional tie with it and to resist acknowledging the reality of a changing environment through not very rational arguments.

Though it may be difficult for a business owner to take a step back from these emotional considerations, he or she must be aware that they undeniably exist and seek objective filters for revealing them. This objective perspective will most likely come from outside the company and almost definitely outside the family. A business person can benefit from assessing the situation with an independent professional. The emotional barriers erected by business people for decisions that affect their companies can only have the effect of delaying necessary actions, lowering the business person's negotiating power, and ultimately reducing the value that can be extracted from the company.

Emotional barriers to selling a company

Even though, having analyzed the factors mentioned above, business people may be aware of their company's difficulties in competing in the future, oftentimes their greatest fear is all the unknown factors involved in the sale process. Here we have compiled a sampling of the most common qualms among business people, although there are as many of them as there are people facing the dilemma of forging ahead with their activity as always or taking the sale route.

1. What will I do when I sell my company?

If valid sales options are rejected via this type of argument, one should be aware that one is paying to work instead of receiving money in exchange. What is more, with the sale of the company another different yet equally real problem will arise: how to administer the patrimony so that it is not squandered or harm the family, now that it is tangible. This is the shift that Americans refer to as "from the family-owned business" to "the family in business."

2. What will people say about me if I sell (social circles)?

Running a company can often be valued beyond its economic appeal due to the access it can provide to certain prestigious social circles, such as membership (or leadership) in associations in the sector. Selling the company entails not only losing one's everyday activity, but also closing the doors to these circles. Losing the status of business person can be a blow to one's pride and can result in a lower social status in one's milieu. Nevertheless, it should be borne in mind that it is better to not be a business person than to be an owner of a company with no future ahead of it.

3. It would be disloyal to my workers

Sometimes owners of companies feel like not just business people but also patriarchs and protectors of an "extended family" of workers. It can be psychologically difficult to give up this role. In any event, it is important to know that the affective tie is often unilateral (employees do not often feel like the business person's "children"), and that the purported "emotional damage" brought about by the sale might be less than what one expects.

On the other hand, if the company is not viable and its market position is irreversibly deteriorating, the business person is hardly doing his or her staff a favor by depriving it of the best options for ensuring the continuity of their jobs, such as what a carefully planned sale to another company could offer.

4. This company cannot be sold

This assessment is often due to a lack of imagination. In certain cases it might be true that, indeed, nobody would be willing to buy the company and continue to run it exactly the way the current management or owners run it, that is, selling the same products or services in the same markets and in the same way.

However, if this is truly the reason, the business person must accept that he or she has performed poorly, since nobody values his or her company at all or the negative aspects outweigh the positive ones. In any event, poet Antonio Machado said that "only the fool confuses value with price," and purchase offers are almost always possible. Management may be unaware that its assets, its intellectual capital, its patents, or its portfolio of customers might be better for another owner. A rational business person must always be open to studying these options.

5. If I put my company up for sale, I'll be jeopardizing its value

Many business people are afraid that if anyone finds out that a company is for sale it might be used to competitors' advantage. The business person might think that his or her competitors will try to steal customers, arguing that a sale might lead to lower levels of service or higher prices, and presenting themselves as the safest bet. A proper communication policy with the company management can help to dissipate these fears, and ongoing commitment to quality and good service can serve up facts to belie any negative campaign launched by the competition.

In many cases, what can most jeopardize the value of a company is simply refusing to think about selling. Likewise, letting the market know the possibility of selling might prompt possible buyers to perform studies or consider how the company for sale might fit with their business, and it thus might result in an increase in its value (as opposed to a decrease).

6. If I put my company up for sale, I am opening the door for my competitors to find out my secrets, and to endless negotiations that only seek to discover my position in the market

From the standpoint of the seller of a company, it is an ineluctable requirement for all potential buyers with access to confidential information about the company to treat this information confidentially. This confidentiality requirement is formalized by means of having potential buyers (and their advisors) sign a confidentiality pledge in front of the seller, which essentially forbids them from revealing this information to third parties (including their own employees, with the exception of those participating in the purchase process) and limits its use exclusively to analyzing the possible purchase. But the information that is really key may only be distributed when the commitment to acquire is very firm.

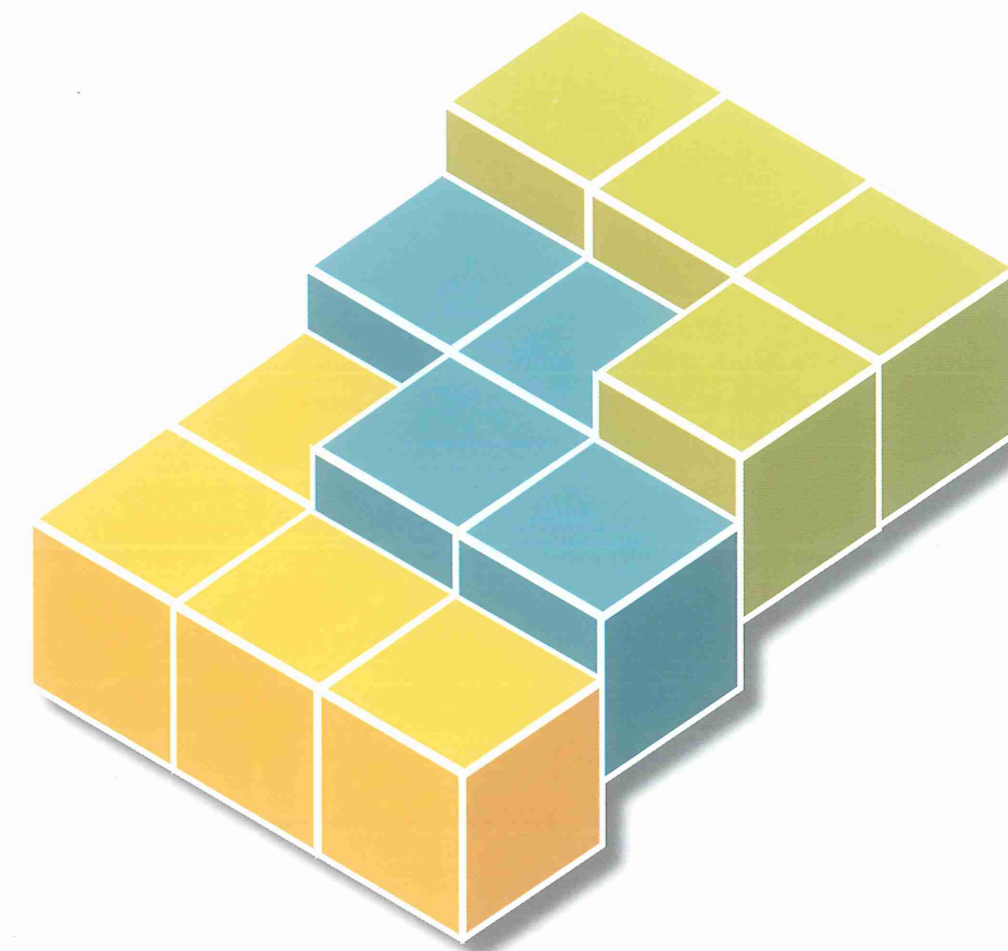
7. It's not the right time yet

The owners or managers of a company might believe that the project can move ahead and that they themselves might spearhead the change. In this case, we must wish them all the luck in the world. Then again, perhaps changes or reforms in the company are indeed needed before it is appealing for sale.

8. I'm too busy to deal with this now

The day-to-day activities involved in running a company often leave little time to consider its future. Nonetheless, it is extremely important to make time on your calendar to assess

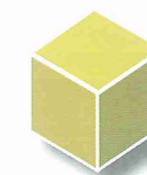
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requirements, technical standards, domestic ownership requirements, etc.)?

60. Is there a trend to eliminate these barriers?

61. Who is on the other side of these barriers? Is there a group of companies whose entrance is being artificially blocked (in Spain or abroad) and that are much larger or more solvent than my company?

62. Do I have a plan should the entry barriers to my market come down?

Final considerations

63. Do I know the value of my company?

64. Is it likely for the value of my company to grow?

65. If so, am I sure what might drive this growth?

66. With what degree of certainty do I expect that the conditions needed for my company to increase in value will be obtained? Do I want to and can I take on the risk that these circumstances would not be obtained?

67. Am I clearly aware of the most optimistic scenarios for the development of my company and the value associated with them?

68. Is the economy in a cycle of high liquidity? In the market, can I detect a high number of company transactions with values that seem very high?

Emotional barriers to selling

69. Am I afraid of not having enough to do after selling my company?

70. Am I concerned about the impact that selling my company might have on my public image or my social circles?

71. Am I resistant to the idea of selling due to the consequences that the sale might have in terms of a loss of face with my workers?

72. Am I concerned about the complications involved in entering into a negotiation process?

73. Do I think that my company could not be sold, without even having tried?

74. Am I concerned that people might even find out that I am studying the option of selling?

75. Am I concerned about the possible reactions of third parties if I sell (executives, society, family)?

76. Am I open to the possibility of selling to the highest bidder? On the contrary, would I exclude certain buyers (executives, competitors, foreign companies, investors with only financial gains in mind, employees)?

the company's strategy and reconsider its position, as avoiding these issues will do nothing more than aggravate the problem. ("Whoever doesn't plan plans for disaster.")

9. At any rate, I have to leave the company to my children

Even though family succession is a fully understandable and highly reasonable goal, on certain occasions it is not necessarily the best option. Remember that the goal of leaving the company to one's children is really about giving them the possibility of a secure future. The goal per se should not be for the children to run the company. In this sense, if succession is not clearly planned, the best way of protecting your children's future may be selling the company and letting each one direct their activities (and their own capital) towards the terrain that is most interesting for them.

10. If I leave this ship, it will sink

Even though the experience accumulated by a business person is unquestionably an invaluable asset to a company, one should not fall into the misconception that it is irreplaceable. At times it may precisely be that having spent years or even decades at the helm of a company hinders one from seeing new approaches or business opportunities that another person could clearly see. Once again, pride is a poor advisor when running a company.

11. The economy isn't very good right now

Many business people refuse to consider selling their company, thinking that the current economy or the situation in their sector is not highly favorable, and that thus the asking price of the company will be lower than what they could fairly and reasonably expect.

It may well be that the current situation in the economy or sector is indeed not favorable at a given time. However, if the other aspects of the business mentioned previously (ownership and management, proposal of value, competitive environment, replacements and regulation) are not favorable, it is highly unlikely that a better economy (whose arrival is always uncertain) will suffice to compensate for these shortcomings. In this type of situation, the business person would do well to consider selling the company despite the negative conditions.

12. Where should I invest my capital afterwards?

The business person may have a great deal of experience in his or her own business, but this does not necessarily translate into experience handling financial assets. In the majority of cases, one sells one's company with the goals of the future investment in mind already (such as a new company). In other cases, however, the best advice would be to seek a financial advisor who, based on your investment profile, would help you to define the range of possible assets along with their profitability, levels of risk and preferred period. The analysis of great family fortunes that have been able to sustain themselves through the years shows a notable level of diversification in investments. ■