

≈ SUMMARY ≈

A HYPOTHETICAL MODEL FOR SELLING A BUSINESS – A VENDOR PERSPECTIVE

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While there has been considerable research and theory development in the area of mergers and acquisitions from the buyer perspective, virtually no research exists from the vendor side. This paper brings together the insights the author has gained into this aspect of the trade sale from the vendor perspective from personal experience and from working with many entrepreneurs on preparing their business for sale to a strategic buyer.

In the development of a theoretical model for selling a business to a strategic buyer, the author has developed an Exit Ready Index that identifies 34 attributes in the preparation process. These can be grouped into three major areas; alignment of interests, strategy and risk reduction. This has been tested for face validity through many workshops with entrepreneurs, venture capitalist and professional advisors. From this exposure the author has developed a hypothetical model of strategic value creation for the proposed buyer. The model assists the vendor to develop a strategy for increasing the sale price.

The proposed model for creating strategic value includes risk reduction, enhancing strategic assets and competencies, reducing integration time, resolving succession issues and ramping up the exploitation rate. Unlike the strategy for improving the value on sale to an investment buyer, the proposed model does not include increasing the profitability of the vendor business beyond that necessary for survival and resilience.

Few entrepreneurs are confident of their ability to develop a strategy for selling their business. Many, in fact, had over this responsibility to a professional advisor or to a business broker and rarely does this exploit the underlying value in the assets and competencies of the business. Entrepreneurs need more guidance on how to prepare their business for sale, how to use their underlying assets and competencies to create strategic value for a buyer and how to manage the sale process itself. The model proposed in this paper should provide a much needed framework for a vendor driven strategy on selling a business to a strategic buyer.

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