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ULTIMATE EXITS Workbook

*THE SECRET
BEHIND SELLING
ENTREPRENEURIAL
VENTURES AT
STAGGERING PRICES*

Published by:
Breakthrough Publications
RBN: B2173298N
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Windsor, Melbourne, Vic 3181

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McKaskill, Tom.

Ultimate Exits Workbook - The secret behind selling entrepreneurial ventures at staggering prices.
Companion work book to ISBN 978-0-9806458-7-3 *Ultimate Exits Workbook - The secret behind selling entrepreneurial ventures at staggering prices.*

Cover design: T. McKaskill

Page design and production: T. McKaskill

Introduction

The workbook sets out a process of preparing the business for sale in a series of Indices. The first evaluates the Awareness and Alignment of the shareholders and management (AAI). The Strategy Index (SI) guides the entrepreneur on the process of creating a sale strategy. Finally, the Operations Management Index (OMI) provides a means of guiding the development of the internal governance, management processes and systems which will be needed for an effective exit. Using these Indices, the entrepreneur can judge the extent to which the venture is prepared for sale.

The Awareness and Alignment Index (AAI) has been designed to capture the attitudes and preparedness of the entrepreneur, shareholders and management team of the business to a possible sale of the business. Using the AAI, the Entrepreneur can work through the issues which will confront the business as it assesses whether the management and shareholders are ready to embrace a sale.

The Strategy Indices (SI) help the entrepreneur manage the process of identifying and connecting with potential buyers, appointing advisors and preparing the business for sale. Strategy is more than simply cleaning up the business and engaging a Business Broker or Investment Bank. The entrepreneur needs to consider how best to create value for the buyer, package the firm for sale and attract the right buyers into a competitive bid. The SI will allow the entrepreneur to consider all the essential elements of constructing a robust strategy for the sale.

The last Index is the Operations Management Index (OMI) which should be used as a checklist in evaluating the quality of operations management in the venture. Its primary purpose is to provide a guide for the development of governance and operations management so that risk to the buyer is minimized. A business which scores more highly on the OMI will be a venture which is easier for the buyer to evaluate and will be better positioned for an early exit. Certainly those firms which achieve a higher score on the OMI will be more effectively and efficiently managed and so allocating resources to improve their situation according to the OMI would benefit day-to-day operations. The

OMI will help identify just how well developed internal processes of governance and operations management monitoring systems are and guide development work on their implementation and improvement. In many cases, specialist assistance will be required to implement changes needed to reach higher Index scores.

Preparing a business for sale is a process which needs to be managed over time. There are a series of actions which need to be taken both within and outside the firm to secure a premium on sale.

Each attribute of the Indices helps to define the state of readiness of the firm for an exit. It is unlikely any firm would have an ideal position on every item, however, the scoring will indicate where improvements can be made or problems addressed. The purpose of the Indices is to help the Entrepreneur evaluate their own chances of securing a premium on sale and to manage the process of managing the sale. It is thus a comprehensive and systematic way of preparing for an exit and should help isolate any serious deficiencies in the business and its exit strategy. Each question or attribute will provide an insight into the business and the work which will be needed to make it sale ready.

In many cases, the effectively managed firm will score highly on an attribute. In other areas, where no attention has been given to preparing the business for sale, little will have been done. By scoring these attributes, you will find out the status of the business and identify what needs to be done to prepare it for sale.

The Indices are constructed with an ‘attainment’ or ‘achievement’ scale of 1-5. To complete an Index, you should circle the description which is closest to the current position.

Nothing done	Little progress	Reasonable progress	Significant progress	Fully attained	N.A.
1	2	3	4	5	

N.A. = Not applicable

Once you have identified where the firm is on the attribute, you will be able to see from the later descriptions the actions which you need to take to turn this venture into one which will attract a premium on sale.



Awareness and Alignment

Alignment refers to the level of agreement and support for selling the business among the major stakeholders. If the different internal parties to the deal have different agendas, objectives or personal preferences which are at odds with a sale, or they do not support the sale of the business, it is unlikely that an effective sale can be achieved.

The objective of a Proactive Sale Strategy is to resolve issues prior to entering, or even thinking of entering into, an actual sale negotiation. Whatever arrangements or accommodations which need to be arrived at in order to create a firm base from which to negotiate, these need to be established well in advance of the start of the negotiations. This means understanding what the stance of each key player is and undertaking internal discussions to gain support and resolve issues.

Imagine entering into a business discussion about a possible sale of the business to a potential acquirer to then be told by a key shareholder that they saw the business as providing their future generations with employment. What happens if the sale would result in the relocation of the firm and a key shareholder thinks it is more important to provide local employment? It is far better to know these positions in advance of negotiations so that they can be tabled as concerns, impediments or constraints to the deal. In some cases, a key shareholder might mandate that their approval will be subject to certain commitments of the buyer.

Like any form of negotiation, every party to a decision will have an opinion. Some may even have veto power or be able to substantially undermine the process. If these positions are not known in advance, they can derail the deal during the process. It is easy to be held to ransom by a key party if they are able to hold the power position during the eleventh hour of the negotiation. Getting their agreement in advance on what is and what is not acceptable allows the negotiator to bring the deal to consummation.

The negotiator needs to establish for each key decision maker:

- Will they veto any sale proposition?
- What is the minimum set of business conditions which will gain their agreement?
- What would they like to see happen?
- What personal concessions will it take for them to agree (eg. Compensation)?
- What level of involvement in the negotiation do they want/insist on?
- What tradeoffs are they prepared to consider (eg. Pension vs. price)?
- What is their position on earn outs, options, escrow, warranties etc?

The most effective negotiation will occur where the firm's representative knows clearly what can and cannot be bargained in the deal. The more parties to the deal, the longer it takes and the less likely it is that the firm will be able to achieve an acceptable outcome.

A1. Company Directors agree to sell the business

Before commencing the sale of a company it is important that Company Directors understand both the method and timing of a potential sale. Ideally shareholders and Directors will have agreed a fully prepared sales plan.

Self Assessment

1. The Board of Directors has not considered the sale of the company.
2. Informal discussions have taken place with some directors but no consensus exists and no action has been taken.
3. The Board of Directors has considered the option of selling the company and no Director has voiced outright opposition, however, the activities associated with preparing the company for sale have not been given detailed consideration.
4. The Board of Directors has reviewed the issues associated with a sale and has taken action to prepare a plan for such an outcome. The individual Directors have been consulted and stated their concerns and desired outcomes.
5. A fully prepared plan has been created setting out the conditions which would need to be met for the Board to approve a sale.

A2. Shareholders agree to sell the business

Not all shareholders are created equal. Some have more influence over the affairs of the firm than others. For example, a preference shareholder may have veto power over a sale. Others may have a large holding and can effectively block the sale with their vote. Some might simply be of nuisance value, slowing down the negotiations until they get their issues dealt with.

In most private companies, a shareholders' agreement can be constructed so that only a certain portion of shareholders need to approve the sale. The others agree a 'follow on' arrangement where they agree to be bound by the approved decision. To enter into an efficient negotiation, the firm's representative needs to know in advance what position the shareholders will take and what terms and conditions are going to be necessary to get approval.

Self Assessment

1. Shareholders have not been consulted about a possible sale.
2. Directors and employees who are shareholders have been consulted about a possible sale and major external shareholders have been approached informally.
3. Directors and employees who are shareholders have agreed to approve a sale (subject to their personal issues being considered). Key external shareholders have approved a sale subject to their concerns and issues being met.
4. All shareholders have been approached and opinions noted. No individual or group of shareholders who could block the sale have objected to a possible sale. Professional advice has not been sought to review the legal and tax issues of the sale.
5. The firm is confident the shareholders will approve a sale and has had written confirmation from the important shareholders of their agreement to proceed.

A3. Personal objectives of key shareholders are able to be met by a sale

Clearly individual shareholders are going to be affected differently by a sale. Each individual will be concerned about their investment, their employment, the impact on their community and so on. The key to a successful negotiation is to construct a set of circumstances where all parties are motivated to work in the best interest of the sale outcome. This may mean, for some, an agreement on continued employment. For others, it may mean a generous retirement or redundancy package and/or assistance gaining new employment.

Key shareholders are often employed by the company. Thus putting together a customized package for them may make the whole process smoother. The buyer is going to be very sensitive to possibilities of unfair dismissal or hostility to redundancies. The more these issues can be addressed in advance, the easier the negotiations will be. It is also possible that addressing these issues may result in higher acquisition costs to the parties. This can be addressed in the negotiation and be seen as part of the purchase price absorbed by the seller or avoidance of risk and absorbed by the buyer.

Self Assessment

1. Key shareholders have not been approached about how they might be encouraged to actively support a sale.
2. Informal discussions have been held with some key shareholders and this has generated a list of issues which need to be addressed and some ideas of how support may be garnered.
3. A number of proposals have been considered with regard to how redundancies, retirement and future employment may be used to achieve positive support for the sale.
4. Personal customised solutions have been proposed to the key shareholders and their support has been achieved. No professional advice has been taken as to the legality and tax efficiency of the proposals.
5. Written agreements have been signed with all key shareholders and these have incorporated professional advice to the firm and to the parties affected.

A4. Senior management support the sale of the business

It is imperative that senior management is supportive of the sale process and will proactively work with Directors through the process. The conditions with which a sale would be acceptable to senior management should be agreed and documented.

Self Assessment

1. The management team has not considered the sale of the company.
2. Informal discussions have taken place with some managers but no consensus exists and no action has been taken.
3. The management team has considered the possibility of selling the company and no manager has voiced outright opposition, however, the activities associated with preparing the company for sale have not been given detailed consideration.
4. The management team has reviewed the issues associated with a sale and has taken action to prepare a plan for such an outcome. The individual managers have been consulted and have stated their concerns and desired outcomes. Issues associated with redundancy or continued employment have been identified and desired outcomes and options agreed.
5. A fully prepared plan has been created setting out the conditions which would need to be met for the managers to support a sale.

A5. Key employees support the sale of the business

Some key employees will be needed by the new owners after the acquisition to ensure that critical knowledge and key human resources are available to support the on-going operations of the business. These are generally people who have intimate knowledge of the firm's business and are able to assist in the smooth transition of the business to the new owner. This group is likely to include key R&D staff, marketing or supervisory staff who represent the main competitive competency that is being acquired. Securing their continued involvement may be a necessary pre-condition to the sale.

Self Assessment

1. Key employees have not been consulted about the possible sale of the company.
2. Informal discussions have been had with a number of key employees and their issues noted but no formal process has been entered into to inform them and get their views.
3. Key employees have been formally consulted and their views on continued employment have been noted.
4. Each key employee has been consulted and an arrangement arrived at in connection with their continued employment. Where key employees have indicated that they do not wish to continue with a new owner, a succession plan or replacement has been employed. Professional advice has, however, not been sought to ensure that these arrangement will satisfy legal commitments or be tax efficient.

5. The firm has taken professional advice and constructed a key employee plan which meets the requirements of the employees as well as providing the necessary support to ensure a smooth transition to a new owner.

A6. Post-sale changes in management are anticipated and accepted

With any merger or takeover, changes in organizational structure, personnel and reporting lines are almost inevitable. The newly acquired firm will almost certainly take on new conditions of employment, benefits, medical insurance and commission and bonus arrangements. The supporting IT infrastructure will most likely change and there may be changes in suppliers. In the case of a corporate buyer, there is likely to be some duplication of staff and/or some redundancies, realignment of job descriptions and new jobs.

Key stakeholders need to accept that the new owners will inevitably make changes which may alter fundamental aspects of the business. The firm will be sold on the basis that the buyer can exploit the potential of the firm and this may only be possible by changing the business. This may mean radical changes in the number and type of jobs needed, changes to products, distribution channels and, perhaps, even a change in location.

There is the potential for major redundancies, the sale of parts of the business, major structural change and even for closure of parts of the business. Key shareholders and Directors need to be able to walk away from the business once it is sold. Their obligations to the employees and to the community will not continue once the business passes into the control of other owners. While they might express their wishes to the new owners, they are powerless to act on those. They, therefore, need to accept that a sale of the business will inevitably lead to changes which they may not agree with.

Key shareholders and Directors may well decide they wish to limit the scope of changes imposed on the business after the sale and these can be negotiation points in a possible sale. However, the decision makers need to accept that these may limit the possible sale price or, in fact, deter potential buyers.

The more that key shareholders and Directors are willing to accept they have little or no say in the future of the business once it has been sold, the easier it will be to sell the business. The future is the responsibility of the new owners. The best protection for current employees is to sell a business with considerable upside potential, then the employees are valued by the new owner as the engine of the wealth to be created.

Self Assessment

1. No consideration has been given to post sales organisational changes
2. Some consideration has been given to changes but the discussion has been informal and patchy.
3. Consideration by the key shareholders and Directors has been given to post sales organisational changes but no resolution on what would be acceptable as an outcome has been agreed.

4. Key shareholders and Directors have considered the impact on the organisation of a possible sale and have developed various scenarios for possible changes but have yet to accept a sale without pre-conditions on the buyer.
5. The key shareholders and Directors have agreed to develop a sale strategy which will meet their short term objectives but impose no pre-conditions for the new owners.

A7. Corporate and personal tax structures have been optimized

When the firm was originally formed, there may have been personal circumstances of the owners which dictated or determined the shareholder and corporate structures. As legislation on capital gains tax, trusts, estates, pensions, benefits in kind and depreciation have altered over time, so have the optimum tax structures. However, since the legislation continues to change, what might have been optimal at one point in time may well be an impediment at another.

Retirement planning may have encouraged the owners to place business assets into trusts and across a number of private companies where the intention was to use the income from the business to build a retirement fund. Property holdings may reside in superannuation or pension funds or trusts, or the structure may have been set up with the intention of passing control and ownership across to younger generations.

Not only do the conditions for the various forms of tax change over time, but they are different from state to state and country to country. What is right for one time and place may be inappropriate for another. Taxes could include capital gains tax, personal exertion tax, estate or death duty, gift tax, wealth tax, stamp duty and so on. This is a mine field for the uninformed and generally requires a specialist to understand the implications and then devise a restructuring program to optimise the situation for minimal tax.

Since personal circumstances change, what was appropriate for a family situation at one time may be less than desirable at a later stage. What is the right structure for passing to the next generation may well be the wrong structure for an outright sale. Sometimes little can be done to unravel a situation set up many years before. At other times, some restructuring is possible, especially with the cooperation of the other shareholders and should be undertaken some time before any actual sale is contemplated.

Many private firms are managed to minimise corporate taxation and the business may have been used to expense personal expenses or a higher level of personal entertainment and travel expenditure than a public corporation would support. While the historical manner of managing the business may have been beneficial to the shareholders and managers in an on-going business, their attention now must be directed to restructuring the business and the way it is managed to maximise the proceeds of sale. Their attention needs to focus on governance and problem free operations.

Self Assessment

1. The firm has not considered the impact of personal and corporate expenses and taxation on the sale of the company.

2. The firm has recognised that personal tax planning and corporate profit and tax planning may be appropriate if the firm is to be sold. No investigation of what is required has been undertaken.
3. The firm has started the process of documenting their current structure and has sought professional legal and accounting advice to find out what their options are in minimising their personal tax exposure on the sale of the firm. The owners have also reviewed the level of expenses in the business and adopted new policies with regard to write-offs and travel expenses.
4. The firm has received legal and accounting advice on personal and corporate tax matters but has yet to implement the recommendations fully. New policies with regard to personal and corporate expenses and write-offs have been implemented.
5. The firm has implemented the tax advice received from professional advisors and these have been audited to ensure compliance.

A8. Key executives have a personal plan for post sale external roles

It is highly likely the entrepreneur and some of the key executives will not be required or not want to join the acquirer after the sale. However, while they might be keen to see the personal financial benefits which could come with the sale, they still may be reluctant to pursue a sale if they are not comfortable with their own plans for what they will do after the sale goes through and they anticipate being made redundant or not wanting to join the buyer's organisation. This may, of course, be speculative on their part and when the time comes and they are asked to join the new company, they may decide to do so. However, most senior executives are realistic about their own futures and many know that few senior executives stay with a buyer for very long either because they are not needed or the new environment is not for them.

This 'Exit Fear' is an important issue for many executives and needs to be addressed by the senior executive team if they are to work diligently towards a sale. Any hesitation or reluctance on the part of some members of the senior team will undermine the effort. It may be confrontational to ask a colleague what they are going to do if they are not wanted by the buyer but it is better that this is addressed during the formative planning stages than when it is too late. The firm may be willing to make a number of concessions in time, resources and funds to assist with the setting up of a new opportunity, a plan for retirement or retraining. Good preparation for selling the business should allow the reservations and uncertainties of individuals to be discussed and addressed by the firm.

Self Assessment

1. The senior executive team have not been asked about their concerns for post sales activity if they do not join the acquirer.
2. Senior executives have openly expressed concerns about what they might do if they were made redundant or did not wish to join the acquirer but this has not been addressed by the firm as part of the selling process.

3. Discussions with senior executives have uncovered a number who have expressed concerns with their roles after the sale and the firm has agreed to review individual cases to see what assistance can be offered with the transition.
4. The firm has been proactive in discussing post sale roles with senior executives and has asked individual executives to outline how the firm could help them to achieve personal objectives for new roles if they do not join the acquirer.
5. Individual senior executives who have concerns about their future roles post sale have been offered assistance appropriate to their individual situations. The overall outcome is a very positive attitude towards assisting with selling the business.

B

Strategy

Once the shareholders and Directors have an agreement on preparing the business for sale, the senior management need to undertake a through review of the business in the light of the new objective. Few businesses are managed with a sale in mind in the near future. The firm needs to develop a strategy for preparing the business for sale, set out the tasks which need to be done, allocate responsibility and timescales to each activity and then have a process for reviewing those activities to ensure progress is being made and the plan is on track to meet the sale objectives.

Alongside the internal activities, the firm needs to seek out potential buyers. Finding the right buyer is the key to achieving the best price for the firm. The best buyer is one that is 'identifiable, reachable, willing and capable of undertaking the acquisition before, during and after the deal'. The process of identifying, contacting and building a relationship with potential buyers is non-trivial and time consuming. The seller needs to have a clear understanding of the type of buyer the firm is seeking, work out how to make contact with as many potential buyers fit the ideal profile and try to build a relationship with them where a possible sale of the firm could be openly discussed.

The final price paid for the business will be a balance between the risk in the acquisition and the potential profit from the acquisition. Preparation for a sale requires the firm to work on both, not just one. The price will decline to the extent that issues associated with potential liabilities, problems, lack of systems and so on will cause costs, delays, stress or liabilities for the buyer. These need to be identified, resolved, mitigated or contained and, where they still exist, documented for presentation to the buyer.

While many of the activities involved in preparing a business for a financial sale are similar to those for a strategic sale, there are some activities which are very specific to each type of sale. In the following pages those activities applicable to a financial sale are numbered F1 to F20. Those activities involved in a strategic sale are numbered S1 to S18.

F1. Gross efficiencies and wastage in the business have been eliminated

As the business moves towards a sale, many of the prior management practices will need to be reviewed and tightened up. Thus more attention needs to be given to where money is being spent, more care taken with the use of company resources and closer supervision must be taken of activities which have high potential wastage. At the same time, resources which are not being used should be disposed of, sold or rented out. Inspections should be made of inventory and slow moving or obsolete inventory sold.

Activities within the business should be inspected to see if they are required, can be performed better by a different employee or could be outsourced. Purchases should be examined to see if they are being procured at the best price. Employment levels should be reviewed to see if employees' time is being used effectively and if manning levels are appropriate for the level of output achieved. Utilities and other services should be examined to see if they can be renegotiated to achieve a better price.

Basically, the firm should be put on a more efficient footing by doing the obvious things first.

Self Assessment

1. The firm has not undertaken a review of operations to identify obvious savings and efficiencies which could be implemented easily.
2. A basic review of operations has been undertaken by senior management and wastages have been noted and areas where efficiencies can be implemented have been identified. As yet no plan has been put in place to address these.
3. A basic review of operations has been undertaken which has identified some obvious efficiencies and these have been addressed.
4. A thorough management review has been undertaken of operations to determine where wastage can be minimised and efficiencies implemented. Some of these have been done.
5. Management and employees have undertaken a review of operations and have identified numerous areas where wastage is occurring and where the business could be more efficient. A detailed plan of action has been implemented and regular reviews are scheduled to monitor progress.

F2. A benchmarking program has been implemented

Benchmarking is a way in which the firm can measure its own performance against its competitors, others in their industry and world's best practice. Without undertaking benchmarking, a firm cannot really judge if it is operating efficiently and getting the best out of its resources. Benchmarking helps a firm establish performance measures, identify levels of performance which should be aimed for and shows what the better firms are achieving. Only by measuring performance, setting targets and monitoring activities against targets, can the firm establish whether there are areas of potential improvement. Benchmarking moves the firm to a performance culture. Benchmarking will also indicate to a potential buyer that the firm has put its operations on an efficient basis and has targets which are both achievable and sustainable.

Benchmarking data is available from many sources within most countries. Industry benchmarking studies are often supported by industry associations and many governments support benchmarking studies to encourage best practice. There are also private consulting firms that offer training and support to assist firms to implement benchmarking programs.

Self Assessment

1. The firm has not investigated benchmarking as a productivity improvement activity.
2. The firm is aware of the benefits of benchmarking and has made enquiries but has not acted on anything.
3. The firm has joined a benchmarking activity and has reviewed benchmarking data for their industry and other best practice studies and identified areas where improvement could be made but has yet to implement any changes.
4. The firm has actively worked on a number of benchmarking studies and has implemented improvements as a result. However, these have been done as isolated projects, no comprehensive program of benchmarking exists across the firm.
5. A comprehensive benchmarking program has been implemented across the firm and changes have been made as a result. The program is on-going and resources to ensure it is supported across the firm have been allocated.

F3. A program of continuous improvement has been implemented

Sometimes it is just attention to detail over a wide range of activities which lifts profit performance enough to make a difference to the valuation on sale. Many small improvements eventually add up to something which can have an impact. The objective of a continuous improvement program is to subject an activity to scrutiny and ask questions about how it could be improved. It is necessary, of course, to implement measures of performance and to have some view of what could be achieved. However, some improvement can often be made just by examining fluctuations in performance. By understanding the underlying causes of such changes, insights into how improvements can be made frequently occur.

The field of quality management has its basis in continuous improvement. Quality failures are very expensive to any business. Quality problems are not limited to manufacturing, they occur in all business activities. Thus quality reviews are appropriate to clerical and marketing activities as well as material handling and assembly.

Normally a firm would have someone trained in the project management of a continuous improvement program as there are many useful techniques which can be applied and careful attention needs to be given to change management.

Self Assessment

1. The firm has not investigated continuous improvement as a productivity driver.

2. The firm is aware of the benefits of continuous improvement and has made enquiries but has not acted on anything yet.
3. The firm has embarked on a continuous improvement program and has identified areas where improvements could be made but has yet to implement any changes.
4. The firm has actively worked on a number of continuous improvement studies and has implemented improvements as a result. However, these have been done as isolated projects, no comprehensive program of continuous improvement exists across the firm.
5. A comprehensive continuous improvement program has been implemented across the firm and changes have been made as a result. The program is on-going and resources to ensure it is supported across the firm have been allocated.

F4. A program to increase growth in revenue has been embarked upon

Sometimes growth can be stimulated just by examining activities within the firm which can help generate more customers and more sales to existing customers. The firm could also find additional channels to market by seeking out new strategic partners. An intention to grow at a continuous rate, even if that rate is relatively small, means that the firm needs to look to ways of increasing its sales. This could be done by putting more resources into marketing and selling, seeking out new distribution channels such as agents, distributors and joint ventures, or simply aiming to sell more product and services to existing customers.

A characteristic of high growth firms which has been well documented is that they use their existing customer base more efficiently than other firms. They have a strong commitment to providing excellent service to existing customers so that they maintain high customer loyalty, thus a high retention rate. This in turn leads to additional cross selling opportunities and a high rate of referrals.

Growth may also be achieved by putting more sales resources into the field, training sales and marketing people in more advanced techniques and by working with customers more to identify new product opportunities.

Self Assessment

1. The firm has no specific strategy to grow revenue.
2. The firm has decided to target specific revenue growth opportunities but has yet to put this into action and devote resources to it.
3. The firm has embarked on a revenue growth program and is seeking input from existing staff, customers and strategic partners on how to do this. Some additional resources have been put into sales and marketing and additional training of those staff has commenced.
4. The firm has been active in promoting new products and services to existing customers and has put additional resources into sales and marketing. New channels of distribution have been identified.
5. A comprehensive program has been implemented to improve customer retention, increase cross selling to existing customers, generate new customers and open up new channels of

distribution. Some new partnerships have been established which are having an impact on revenue levels. The firm has a on-going program to develop new products and services to supply to existing customers.

F5/S1. An advisor has been appointed to assist in preparing the business for sale

Selling a business is a specialist task and few entrepreneurs have been through it more than once, if that. Rather than second guess the best way to go about the process, it is worth bringing in an experienced advisor to help management understand the process and the activities they will need to undertake to achieve their sale objectives. An advisor can also set realistic expectations on the work to be undertaken, the timescales involved and the terms and conditions which will be attached to the sale.

Given the preparation work involved, a project plan should be developed with an advisor. It is expected that the advisor will need to assist with some of the tasks. The advisor should have ready access to lists of acquiring corporations within the industry, acquisitions completed in the sector and businesses currently looking for firms to acquire. The advisor can make discrete enquiries to industry participants on behalf of the firm without providing the identity of the firm itself. The advisor will also help the firm with the information (sale) memorandum and can advise on valuation.

Self Assessment

1. The firm has made no effort to appoint an industry knowledgeable advisor.
2. The firm has appointed an appropriate advisor but has not agreed a plan of activities for the firm and the advisor.
3. The advisor has worked with the senior management to set out a plan of activities and has started working on some activities to assist the firm.
4. The advisor has set out the information requirements for the information memorandum, reviewed industry data and generated a list of potential buyers and contacts and briefed senior management on the sale process.
5. The firm has implemented the recommendations of the advisor, completed the information memorandum and the list of potential buyers and contacts for senior management. The advisor has followed up and progressed industry enquiries.

F6/S2. A project plan has been created to manage the sale process

Preparing the business for sale will involve many activities. Some of these will be small and easily undertaken, some will be incremental improvements within the firm itself and will be undertaken by a variety of senior and junior staff but others will require dedicated effort by senior executives. It is critical that a plan be developed which sets out the various activities which need to be undertaken and these be allocated to the senior executive team. The plan must ensure that normal operations are able to be continued without disruption during the execution of the sale preparation process.

Self Assessment

1. No plan has been developed for managing the activities associated with preparing the business for sale.
2. The firm has reviewed the activities associated with preparing the business for sale and has agreed that a plan should be drawn up allocating responsibilities for the various tasks.
3. A detailed plan for preparing the business for sale has been constructed and individual tasks have been assigned to senior executives, however, no consideration has been given to how normal operations will be managed in their absence.
4. A plan of assigned tasks associated with selling the business has been prepared and agreed by the senior executives. Associated with this plan is a plan which identifies how responsibilities will be reassigned in the event that a senior executive is unable to deal with normal operational responsibilities.
5. The activity plan associated with selling the business has been reviewed by the firm's professional advisor. Additional management and administrative resources have been secured to cope with any anticipated overload situation.

F7/S3. A senior management succession plan has been established

It is highly likely that the entrepreneur will not stay with the new owner. Either they will be replaced as part of the handover or they will want to move on to a new venture. Also entrepreneurs typically don't make good employees as they are used to being the boss, having the freedom associated with ownership and being the one to set the vision and direction. Working for someone else doesn't always work for such individuals. At the same time, other members of the senior management team may wish to leave. This might be because they are cashed up with the proceeds of the sale, prefer working for a smaller company or want to move on to a new activity.

A sophisticated acquirer will expect most of the senior management team to leave soon after the acquisition thus the smart seller anticipates that concern and puts into place a succession plan to reduce the risk to the buyer. The owner needs to ensure that middle management is prepared to stay on with the new owner for sufficient time to effect a proper handover, thus special incentives might be put in place to encourage them to stay for some period of time. Succession planning also means that systems, policies and procedures inside the firm need to be documented so these can be handed over to the new owner. Contacts with suppliers and customers need to be handed over to other members of the firm who are expected to stay with the new owner. The task of the seller is to ensure a smooth transition of the business to the new owner and that the knowledge needed to manage the firm is passed over with the business.

Self Assessment

1. No action has been taken to put a succession plan in place for the senior management team.
2. The firm understands it needs a succession plan and needs to document knowledge within the firm but no systematic process has been embarked on to ensure this happens.

3. The firm has actively documented its systems, policies and procedures although no system has been implemented to keep this knowledge up to date. The firm has reviewed its succession issues but has yet to provide adequate coverage for senior management.
4. The firm has an on-going program to ensure that systems, policies and procedures are up-to-date. Succession plans have been implemented for senior management, however, some positions are still not adequately covered.
5. The firm has an on-going program to ensure that systems, policies and procedures are up-to-date. Succession plans have been implemented for senior management and adequate personnel are in place to ensure a proper handover to a new owner.

F8. Owner/Managers are actively engaged in industry associations

The majority of acquisitions are made by companies in the same industry and most often occur where there has been a prior formal or informal relationships between the parties. An owner wishing to be proactive about driving a sale process needs to use every opportunity to make contacts with industry executives in potential acquiring corporations as well as executives who might have a personal interest in buying the firm. Thus an active involvement with the industry through an industry association is an important part of this process.

Industry associations provide a useful meeting ground for executives from within the industry. This should be a gathering place for executives from potential acquirers, executives who might be thinking of buying their own business and entrepreneurs who have sold a business within the industry. Those who have sold might be willing to provide tips on what to do and not do, introductions to consultants who can help with business improvement projects and possible connections to companies seeking acquisitions. While the objective is to meet potential acquirers, this does not have to be the topic of conversation, it is sufficient to develop connections and become known. Later on, these connections can be used to open up discussions on selling the firm.

Self Assessment

1. The firm is not active in industry associations or industry events.
2. The firm is involved in industry events but has not taken an active part in the industry association.
3. The firm is a member of the industry association and senior executives occasionally go to events but have not taken a leadership role in the association.
4. The firm has been active within the industry through the association and its events and has used these occasions to systematically promote the business and to develop contacts for a later sale of the firm.
5. The firm has been actively promoting the firm through the industry association with the objective of eventually selling the business. Executives from the firm have taken a leadership role within the association and are well known to association members. Connections have been made with many executives within the industry which can be used to solicit potential buyers.

F9/S4. Owner/Managers are actively promoting the business through industry events, local business groups and the trade press

When it comes to generating potential buyers, networking is the most effective channel. The majority of acquisitions are made by people who have a prior relationship with the seller. This might be through a local chamber of commerce, charity functions, business associations or industry events. An owner wishing to be proactive about driving a sale process needs to use every opportunity to make contacts with industry executives and local professional services firms. Thus an active involvement with the local business community through local business associations, participating in industry events, attending and sponsoring charitable events and so on, are all ways of promoting the business and making connections to possible buyers.

Within the industry, the firm should actively seek ways of promoting itself and informing others in the industry of its products and capabilities. This can be done through speaking engagements, writing articles for the trade journals, public relations activities and sponsorship of industry activities. While the objective is to meet potential acquirers, this does not have to be the topic of conversation, it is sufficient to develop connections and become known. Later on, the firm's reputation and contacts can be used to develop a list of potential buyers.

Self Assessment

1. The firm is not active in promoting its business in the local community or within the industry.
2. The firm is involved in industry events and local business and community events but has not used these to actively promote the firm.
3. The firm has an active role in the local business community and actively promotes itself through the trade journals and trade events but has never used these contacts proactively to develop relationships with potential acquirers.
4. The firm has been active within the business community and industry events and has used these occasions to systematically promote the business and to develop contacts for a later sale of the firm. The firm has also been active in promoting the business through trade journals and local media.
5. The firm has been actively promoting the firm through industry events, trade journals and the local business community with the objective of eventually selling the business. Professional PR advice has been obtained on how to best position the firm to generate enquiries for a subsequent sale. Connections have been made with many executives within the industry and the local business community which can be used to solicit potential buyers.

F10. A database of individual and business contacts has been established

While luck plays a role in any business, this is one time when a deliberate strategy of building up a list of names of potential buyers is worth the effort. The list would include executives at larger corporations which have a history of acquisitions within the industry, names of private equity firms which have participated in turnarounds, buyouts, roll-ups and IPOs within the industry, executives from companies which have recently been acquired and industry executives who might help with contacts or might be interested in buying a business.

By working through personal contacts, business brokers, business advisors and partners of professional services firms which have assisted in acquisitions, a database of contacts can be established. The database can then be used to establish contact with companies, PE firms, investment funds and individuals which are actively seeking businesses to acquire.

The business advisor may also advertise that an unidentified business similar to the firm will be coming up for sale in order to generate a wider list of interested parties. Larger businesses might also want to undertake some investigation of potential overseas buyers, possibly by working through an international professional services firm.

Self Assessment

1. No list of contacts has been established.
2. The firm understands that such a database would be beneficial but, at present, it only has a list of industry contacts developed through the normal conduct of its business activities.
3. The firm has generated a database of contacts based on their knowledge of the industry and their informal industry networks. A list of businesses which the senior executives know has been created and names of firms which are well known to be acquirers in the industry have been added to the database.
4. The firm has systematically reviewed their industry and the M&A activity within it and established a list of contacts. A business advisor has been engaged to develop a further list of contacts within the industry and within the broking and professional services sectors.
5. A systematic process has been followed to develop a comprehensive database of names of individuals and companies which could be used to assist in selecting potential buyers. Business broking firms, professional services firms and PE firms active in the industry have been identified and added to the database. The business advisor has solicited further names through advertising in the trade and financial press. The company details have been added to several businesses for sale internet lists to help generate enquiries.

F11/S5. Industry knowledgeable and respected Lawyers have been appointed

Every industry has its own special set of problems and risks. The potential buyer wants to know that the firm is sensitive to these and has implemented policies and procedures to handle them. This might be wide ranging and include customers and supplier contracts, management contracts, employee IP agreements, license agreements, environmental compliance and so on.

The firm needs to appoint a respected and industry knowledgeable firm of lawyers as professional advisors some time before the acquisition. This way the legal firm has time to systematically work through the operations and ensure that no impediment exists to derail a possible sale. The buyer will be much more comfortable with the situation knowing that adequate professional advice has been sought and used prior to the acquisition. The firm's shareholders and management can also be more comfortable about giving warranties and representations knowing the firm has been professionally prepared for sale.

It can easily take six months or more for a legal review to be conducted and appropriate remedies implemented. This might involve renegotiating contracts and agreements, putting new controls in place, overhauling policies and educating staff. These simply take time and cannot be rushed. Allowing sufficient time allows the firm to proceed with these changes while not disrupting the business.

Self Assessment

1. The firm has made no efforts to appoint an industry knowledgeable or respected legal firm.
2. The firm has appointed an appropriate legal firm but the legal firm has not undertaken an audit of their operations.
3. An audit of the operations has been undertaken by a respected and industry knowledgeable legal firm and recommendations for changes have been received but not yet fully implemented.
4. Recommendations have been implemented where possible but some areas still need attention.
5. The firm has undertaken a review of their operations by a respected and industry knowledgeable legal firm and has fully implemented all their recommendations.

F12/S6. Industry knowledgeable and respected Accountants have been appointed

Each industry has its own special accounting and financial reporting rules for certain aspects of its business. This might be in the area of revenue recognition, inventory valuation, depreciation, costing and so on. These need to be implemented correctly for the financial reports to be valid. The buyer will wish to be able to rely on the financial systems to be able to assess the health of the firm. Any weaknesses in these systems will cause a good deal of hesitation on the part of the buyer as they work out how much work will be required to correct any deficiency.

The final valuation is often based on internal financial reporting systems, any errors in those will be translated into the final sales price. Later analysis which finds deficiencies can end up with one or both parties disputing the valuation. This is simply a fast track to court and to be avoided wherever possible. Warranties and representations can also be based in financial information. The vendor and the buyer will be more open to negotiating these where they can both rely on quality financial information.

Many smaller companies only undertake tax reporting and fail to implement complete financial recording systems. They also tend to use a local accountant to keep their costs down. However, this tends to be suboptimal as the lack of properly prepared and audited accounts can have a serious negative effect on a potential deal. This can result in potentially higher risk for the buyer and thus will either deflate the price or delay the deal. Either should be avoided where possible.

One of the most serious concerns of a buyer would be to find out that, because the firm used a local general practice CPA, the firm may not even be aware they have not complied with specific industry requirements.

Self Assessment

1. The firm has made no efforts to appoint an industry knowledgeable or respected accounting firm.
2. The firm has appointed an appropriate accounting firm but has not undertaken an audit of their operations.
3. An audit of the operations has been undertaken by a respected and industry knowledgeable accounting firm and recommendations for changes have been received but not yet fully implemented.
4. Recommendations have been implemented where possible but some areas still need attention.
5. The firm has undertaken a review of their operations by a respected and industry knowledgeable accounting firm and has fully implemented all their recommendations.

F13/S7. A Business Broker, Investment bank or Professional Advisor has been appointed to manage the sale

The actual sale of the firm will involve significant formal processes including a number of compliance, legal, tax and financial reporting issues. At the same time, the preparation work which the firm has undertaken should be reviewed for completeness by a party knowledgeable about sale processes and legal formalities. The sophistication of the professional service engaged will depend on the complexity and size of the firm's operations as well as the size and sophistication of the potential buyer. While a business broker might be appropriate for a small firm, a larger business might wish to appoint a large professional services firm or an investment bank to handle the transaction. The higher the risk for the shareholders, the more critical it is to have the best advice possible.

A firm considering an overseas buyer might best be served by an international investment bank or professional services firm. The firm should appoint a firm of professionals who have knowledge of the industry and experience in acquisitions and sales of firms within the industry.

Self Assessment

1. The firm has made no effort to appoint an industry knowledgeable professional advisor to manage the sale of the firm.
2. The firm has appointed a professional advisor but is yet to develop a strategy for selling the firm.
3. A professional advisor has been appointed and a selling strategy developed. Recommendations for changes in the firm have been implemented.
4. The professional advisor has reviewed the list of potential acquirers, developed a sale strategy and worked with the senior executives to coach them on how best to present the firm to interested parties and to conduct negotiations.
5. The professional advisor has developed a sales strategy for the firm, prepared senior executives for the process, met with legal and accounting representatives to coordinate activities and developed a timescale and action plan for the process.

F14/S8. Potential buyers are identified and relationships established

The best price for selling the business will be obtained by creating 'competitive tension'. This exists when there is more than one potential buyer. From the database of contacts and through an analysis of the likely buyers, the firm should develop a list of the most likely acquirers. This list might be supplemented by an active campaign by a business broker or professional advisor. A full analysis should establish a set of likely buyers from within and outside the industry which have the capacity and willingness to undertake an acquisition of this type of business.

Once the firm has identified its various business components, it may emerge that different buyers should be sought for segments of the business. This may provide opportunities for a phased exit strategy, selling off part of the business while retaining and developing the remaining parts.

Where possible the owner or senior executives of the firm should develop personal contacts with the individuals and/or senior executives of companies most likely to represent potential acquirers. Early contacts may be for the purpose of allowing the potential buyers to get to know the executives of the firm and its business. At some later point, these contacts need to be developed into serious acquisition discussions.

A significant portion of acquisitions are made where contact has already been established between the parties. This establishes a point of communication for when an acquisition proposition might be floated. It is much easier to bring up a potential acquisition when the parties have executives who know each other and where some level of understanding and trust has already been established.

A relationship over an extended time period allows the seller to quietly position the benefits of an acquisition. It is far better the firm be approached about an acquisition than they have to take the initiative. When it comes to starting discussions around an acquisition, the last comment the seller needs to hear is 'well who are these people anyway?', it is far better to have someone on the inside who can provide answers and speed up the evaluation.

It is not necessary to meet the M&A manager or the CEO or CFO to set up a channel for communications, but the contact should be of sufficient seniority and credibility that they can effectively open up the channel to the right people when the occasion requires it.

Self Assessment

1. No list of potential buyers has been generated.
2. The firm understands it would be better off with more than one potential buyer and has informally started to list possible buyers.
3. The firm has generated a list of potential buyers and has identified those which they already have contact with. A plan to establish relationships with the others has been developed.
4. The firm has systematically identified a list of potential buyers and has established contact with as many as possible. A business broker or business advisor has actively sought to extend the list of potential buyers.

5. The list of potential buyers has been refined in conjunction with a business broker or business advisor. The list of potential buyers has been screened to ensure they all have the capacity and willingness to enter into the specific acquisition which the firm represents. The firm has established personal contacts with the potential buyers.

S9. Strategic value to potential buyers is clearly identified

Often valuations are based on a simple return on investment (ROI) to the buyer based on the historical financial performance of the firm. To avoid this, the seller needs to establish the strategic value to the buyer. The buyer might already have this information from their own investigation, but the purchase price value of this may not have been communicated to the seller. The vendor needs to ensure the buyer appreciates the strategic value of the acquisition and acknowledges that the vendor is aware of its value to the potential buyer.

Strategic value may be different from buyer to buyer. What might be a solution to a threat for one company might be a scalable opportunity to another. While one buyer might want to buy underlying technology, another might want access to the seller's customer base. In some cases, the benefit will be the same to all potential buyers and this will make the analysis easier. For example, the firm might have developed a breakthrough technology which will generate a range of new products which have global market potential.

As part of the sale negotiation, the firm needs to have a clear picture of how they can benefit the buyer. If this can be translated into solving a problem or exploiting a well articulated and measurable opportunity, the negotiation around strategic fit will be considerably easier. It will also allow the seller to move the discussion away from a valuation model based on historical financial performance to the financial benefits which will accrue to the buyer.

Self Assessment

1. The firm has given no thought to the strategic value of the firm to a potential buyer.
2. The firm understands the value of strategic fit and has identified assets and competencies which it thinks it can leverage.
3. The firm has clearly identified the strategic value proposition for the buyer(s) but has yet to translate this into a purchase price argument.
4. The firm has reviewed potential buyers and has identified the strategic value for each and has translated this into a purchase price premium argument.
5. The firm has received professional advice on the sale price which takes into account the strategic value to identified potential buyers.

S10. Products/services have been designed/adapted to be attractive to acquirers

It is often the case that a potential buyer will want exactly what the firm has to offer. However, sometimes a current use of a component, an interface or technical standard, an underlying technology or process, a distributor or a price position, may inhibit a clean integration of the two companies. For example, in the software sector, one had a choice of relational databases, operating

systems and languages. The choice one made might well determine which potential buyers could be engaged. For many of these choices, one choice automatically locked out some potential buyers.

The same can be often seen in computer hardware products. Where multiple technical and interface standards are available, the choice may assist or inhibit a potential deal.

Companies which set out to be acquired will often research the market prior to making a choice of technical standards, interfaces and so on. Keeping the options open is critical to achieving competitive tension between potential buyers. Sometimes a firm will deliberately target a specific company as the potential buyer and build a product which closely aligns itself to that company's technical standards. This strategy may or may not work. However, early discussions with the potential buyers may suggest whether this approach may work.

Another strategy which has been followed is to set out to fill a gap in a potential acquirer's product portfolio. Building complementary products in order to be acquired has been a popular technique in the computer hardware and software sectors.

Conversely, the opposite applies. There is little point in building a competing product to a potential acquirer's unless this can be shown to have considerably superior performance or sales effectiveness. Since many companies have a 'not invented here syndrome', the firm has to make the benefits as enticing as possible and limit the issues which would inhibit adoption.

Once potential acquirers have been identified, the firm may wish to build additional strategic value for the buyer by undertaking specific product or process developments which could increase the acquirer's revenue opportunity.

Self Assessment

1. The firm has given no thought to how their products might be used by a buyer and what features might enhance or detract from adoption.
2. The firm accepts that some buyers will have preferences for certain interfaces, technologies and features but has taken no proactive steps to incorporate those into products or services.
3. The firm has reviewed their products for possible acquisition and taken steps to avoid adopting technologies which would clearly inhibit most buyers.
4. The firm has reviewed the technologies and other product and service specific requirements of potential buyers to establish how best it can meet the requirements of most potential buyers. Some changes in product design have been made to exclude the worst issues.
5. The firm has made deliberate design decisions to significantly enhance its product or services to meet the needs of potential buyers or has designed the product in such a way that issues of technology will not inhibit an acquisition.

F15. The potential of the business is able to be demonstrated with convincing evidence

Often valuations are based on the historical financial performance of the firm. Since this may not represent the future potential of the firm, the seller needs to establish the value to the buyer based on future projections of profit. The buyer might already have identified this from their own investigation, however, if the seller is only conversant with a historically based valuation model, this additional value will be to the buyer's benefit not the sellers. The seller needs to be able to show they are aware of the future potential and that prior performance is not indicative of the real worth of the business. This additional value, however, may not be passed onto the seller unless the seller can show they have convincing evidence to show the projections are justified.

As part of the acquisition negotiation, the firm needs to have a clear picture of how they can benefit the buyer. This needs to deal with the buyer's perception of the inherent risks in an acquisition, the issues associated with a handover of the business to the new owners and the ability of the new owner to realise the full potential of the growth possibilities of an acquisition. Thus, the proposal to the potential buyer needs to deal with each of these issues.

For a financial sale, profit projections from current customers, products and services needs to be substantiated through an analysis of the existing revenue base of the business and expense projections need to be based on proven expense control processes. Growth projections associated with investments in the Growth Platform will need to have convincing evidence of their realisation. Where adequate proof of potential is provided, this potential profit can be incorporated into a valuation of the business. It is only through a well documented business case that the seller will be able to move the discussion away from a valuation model based on historical financial performance of the firm to one based on the future financial benefits to the buyer.

Self Assessment

1. The firm has given no thought to how the value of the firm can be demonstrated to a potential buyer.
2. The firm understands the value of current and potential profit projections and has identified ways in which the current performance of the firm can be documented but has not been able to produce convincing evidence of growth potential
3. The firm has clearly identified the current and potential profit from the business and from additional investments in growth projects and is able to provide evidence of the profit capability of the firm but has yet to translate this into a purchase price proposal.
4. The firm has clearly identified the current and potential profit from the business and from additional investments in growth projects and is able to provide evidence of the profit capability of the firm and has formulated a purchase price based on the evidence taking into account the acquisition processes of the potential buyers.
5. The firm has received professional advice on the sale price which takes into account the current and anticipated profit growth in the firm and has formulated a sale proposal which would be acceptable to potential buyers.

S11. The strategic value of the business is able to be demonstrated with convincing evidence

Often valuations are based on the historical financial performance of the firm. Since this may not represent the future potential of the firm, the seller needs to establish the value to the buyer based on future projections of profit. The buyer might already have identified this from their own investigation, however, if the seller is only conversant with a historically based valuation model, this additional value will be to the buyer's benefit not the sellers. The seller needs to be able to show they are aware of the future potential and that prior performance is not indicative of the real worth of the business. This additional value, however, may not be passed onto the seller unless the seller can show they have convincing evidence to show the projections are justified.

As part of the acquisition negotiation, the firm needs to have a clear picture of how they can benefit the buyer. This needs to deal with the buyer's perception of the inherent risks in an acquisition, the issues associated with a handover of the business to the new owners and the ability of the new owner to realise the full potential of the growth possibilities of an acquisition. Thus the proposal to the potential buyer needs to deal with each of these issues.

In the case of a strategic sale, the manner in which the vendor can either eliminate a threat or generate a large revenue opportunity needs to be brought to the attention of the potential buyer, if it is not already obvious to both parties. To the extent that the benefit can be measured, the value to the buyer will be more easily proved. The vendor needs to consider what evidence the buyer might require in order to prove the market potential but also the scalability of the product or service.

Self Assessment

1. The firm has given no thought to how the strategic value of the firm can be demonstrated to a potential buyer.
2. The firm understands the strategic value of its business to the potential buyer(s) and has identified ways in which the strategic value can be documented but has not been able to produce convincing evidence of this potential
3. The firm has clearly identified the strategic value of the business and is able to provide evidence of the threat elimination or profit potential for the buyer but has yet to translate this into a purchase price proposal.
4. The firm has clearly identified the strategic value of the business and is able to provide evidence of this and has formulated a purchase price proposal based on the evidence taking into account the acquisition processes of the potential buyers.
5. The firm has received professional advice on the sale price which takes into account the strategic value of the firm and has formulated a sale proposal which would be acceptable to potential buyers.

F16/S12. Industry acquisitions activity is monitored

Every sector has some M&A activity. In some periods this activity is much higher than others generally due to the buoyancy of the economy and/or inflated values of share prices within the sector which enables listed firms to use their script to leverage deals.

Sometimes knowing when to sell is simply being sensitive to what is happening within the sector. Certainly the boom times in the internet space allowed a lot of small firms to sell out at considerable premiums. Understanding the relationship between buyer share price and their price earnings ratio (PE) and the impact the selling firm can have on the overall value of the combined entity, is very useful information going into the deal. The buyer must be able to justify the acquisition to their own shareholders as well as to the industry analysts. While fit and potential profit is a key to the seller's leverage, it is easier to gain a good price if the buyer has a high PE.

Most sectors have valuation models based on some underlying level of activity. This might be fee income, times EBIT, commission income, client appointments and so on. In mature low growth sectors, it is very hard to negotiate away from the conventional model. Generally little synergy exists in service sectors as they are so dependant on the fee income generated by hourly billings.

At any point in time there will exist a norm for valuation. These might be high in the case of emerging technology firms or firms with global potential. The seller needs to know what M&A activity is happening in their sector so they can position themselves appropriately. A firm with a wildly inflated estimate of their own value will generally be dismissed early in the sale discussions as the gap may be too hard to negotiate through.

The firm which clearly understands what the sector is paying for acquisitions and can see how their business can be leveraged to add real value to the buyer is in a much better position to negotiate. Smart buyers know the terrain and what M&A activity is happening. Buyers would rather deal with a realistic seller as this can speed up negotiations and they also know there will be no hostility after the event or post deal litigation around the purchase price.

There is nothing wrong with aiming high but it should be based on the generation of real value. The seller who understands the industry norm but can show why a higher price should be paid for their business based on its low risk and growth potential or strategic value, will be easier to deal with than the firm which is emotionally attached to a high price.

Self Assessment

1. The firm has little or no knowledge of M&A activity in their industry.
2. The firm is familiar with some level of activity through the trade press and/or informal networks but has no systematic method of collecting information.
3. The firm has systematically noted M&A activity in the industry and has a reasonably good knowledge of appropriate valuation models.

4. The firm has developed a valuation for the firm based on industry valuation methods and their best estimate of their growth potential or strategic value of their firm to a likely buyer. The firm has up-to-date information on M&A activity within their industry.
5. The firm has sought professional advice to understand valuations in the industry and to develop a valuation for their own firm based on conventional valuation models and the additional value they could attract based on their low risk and growth potential. The firm has up-to-date information on M&A activity within their industry.

F17/S13. Acquisition requirements and processes of potential acquirers are understood

Most companies which engage in regular M&A activities have clearly defined procedures for the evaluation of a potential acquisition and have defined processes for how the firm will be integrated into their mainstream operations. The evaluation process itself can often provide valuable information to a potential seller as to aspects of their own business which are of most value to the buyer and can indicate which attributes would prevent a deal from going forward.

Understanding the potential buyer's processes can allow the potential seller to know what their preferences are in terms of size, location, technologies, culture, valuation method, retention of staff and level of due diligence undertaken. Some buyers will mandate certain conditions while others will have a predisposition towards certain types of deals. Some buyers will buy for cash only, others for script only. Some will require an escrow in addition to warranties and representations, others will not. Some will leave current management in charge while others will always replace the top management.

The shareholders and management of the firm will want to achieve certain corporate and personal goals in the deal. Understanding the position the buyer is likely to take will allow the firm to work through their requirements prior to entering into negotiations. The less surprises there are in the negotiations and the less that expectations are unrealized, the more likely a deal can be reached.

Most companies that engage in regular M&A activities are willing to discuss their requirements with potential sellers. After all, they would much rather go into deal negotiation with a seller which understood their requirements and are less likely to waste their time in such situations.

Self Assessment

1. The firm has no knowledge of the acquisition processes or typical deal requirements of any of the potential acquirers.
2. The firm understands that some potential buyers will have their own preferences and specific acquisition processes but has taken no effort to establish these.
3. The firm is familiar with the acquisition preferences of some potential buyers from informal discussions in their industry networks or from informal contacts with some potential buyers but has not systematically evaluated this information.

4. The firm has reviewed the potential buyers and established information on preferences and processes through personal contacts and from industry sources. This has not been reviewed by their professional advisors.
5. Professional advisors have worked with the firm to establish the acquisition preferences and processes of the most likely potential buyers. This has been validated by contact with executives in the potential acquiring firms.

F18/S14. Industry norms for valuation are acceptable to all interested parties

Many deals are never concluded or, in fact, never proceed to substantial business negotiations because one party or both have quite unrealistic views about what the industry expects to pay for a particular capability. It is important that some common base is achieved in terms of valuation methodology before time is wasted. While it is always possible for alternative models to be used, it is unlikely that this will be acceptable in the early stages of the negotiation.

It is important that each party accept the norms of the industry. This way valuation does not get in the way of the business negotiations proceeding. Variations to the norm can then be negotiated based on an increased perceived value to the buyer or a shortfall or higher risks being passed to the buyer.

Since the purpose of this approach to planning and constructing a sale strategy is to move to a higher valuation position, it is important for the seller to know what the norm is. Without understanding the base starting point, it is difficult for them to logically argue for a high valuation.

Self Assessment

1. The firm is not familiar with the valuation norms which apply to their industry.
2. Valuation norms are known to the firm but they are not acceptable or understood.
3. Valuation norms are known to the firm but they are not sure how this information can be used to their advantage in the acquisition negotiation.
4. Valuation norms are known and acceptable as a base point from which a final valuation can be negotiated. How variations to the base method for potential growth or strategic value can be presented is, however, not clear. Nor is the firm clear on how adjustments for increased buyer risk or increased buyer benefits are to be translated into a sale price proposal.
5. The firm has sought professional advice on valuation methods and has received advice on how their personal circumstances may be best presented to interested buyers and how the potential benefits may affect the sale price. The valuation calculation is understood and acceptable to the firm.

F19/S15. Potential acquirers have been approached about an acquisition

Whether you want to sell, need to sell or simply want the option of selling at the right price, if no one knows of your intentions, it is unlikely that your firm will attract the right buyer. Achieving the maximum value for the firm may happen by luck or accident but that is not a strategy, that is an act of faith. A proactive sale strategy takes the initiative and sets up the relationships in advance and

establishes the value to the buyer before the negotiation starts. This means that, at some point in time, the potential buyers need to know the firm is available for acquisition.

The best position to be in is where the firm does not need to sell and the buyer needs to buy. While this may be an ideal situation, the firm can put in place a strategy which lets buyers know the benefits of acquiring and the terms under which a deal might be considered at a time when there is no pressure to sell. A firm which must sell is in a very weak bargaining position. This can only be mitigated if it can create competitive tension between potential buyers who are all willing and capable of executing a deal and have a strong desire to do so.

Various techniques can be used to establish that the firm is available for acquisition. The firm may have been set up with that in mind from the outset. In this case all the employees may be involved in that undertaking. Firms in the industry might then be informed over time through both informal and formal networks that an offer would be considered.

M&A managers of larger corporations can be approached directly and either formal or informal discussions held to solicit likely interest. Again, this is better done sometime in advance of when the firm desires to sell as it takes the pressure off the discussion. Simply opening up the channel of communication allows the potential buyer to know the firm is available. This might lead to an approach later when the onus is on the buyer to convince the firm to accept an offer.

Individuals or corporations which might be interested in buying the firm can be approached through the personal contacts of one of the senior executives from the firm or through a professional firm. At the same time that communications are entered into with the potential buyer, the firm can establish what might be non-negotiable conditions or situations which need to be handled with care. For example, the firm's shareholders may be concerned about continuing employment for staff, that the firm is not relocated or the firm might have specific needs around the retirement of key executives and be seeking an accommodation.

Self Assessment

1. No potential buyers have been approached about an acquisition.
2. The firm understands that establishing availability for sale to potential buyers might be advantageous but has not undertaken any deliberate activity.
3. Some informal contact has been made with potential buyers and contacts have been informed that an acquisition approach would be treated positively.
4. Formal contact has been made with senior executives in potential acquirers who have been told the firm could be available for sale under the right terms and conditions but this has not been discussed in any detail.
5. Potential buyers have been approached formally and discussions have been undertaken around a potential acquisition and the terms under which an acquisition would be positively considered.

S16. Formal trading relationships exist with potential acquirers

A formal trading relationship exists when the firm enters into a business relationship with a potential buyer. This might be customer, supplier, distributor, partner, joint venture shareholder, or consortium bidder. The form of the relationship has a bearing on the level of interaction between the two parties, but the fact that a formal link occurs is more important than the type of relationship.

When two firms enter into business relationships, they tend to establish deeper links between the two firms. Often multiple parties at different levels interact with each other. Executives inside both companies get to understand the products and services offered by the other and can see where synergies might exist.

Establishing a formal trading relationship legitimises the firm in the eyes of the other party. This improves communication and enables easier access to senior executives. Executives from each company can establish network relationships as part of the formal trading arrangements. These can later be used to introduce and pursue a potential acquisition discussion.

It has been very common for corporations to buy their distributors. Similarly, many suppliers have been purchased in order for the buyer to have control over a strategic component of their business. Often the fact that a firm has an established relationship with one partner will inform a competitor of the benefits which might accrue through an acquisition. Thus the relationships need not be established with all potential acquirers for the firm to gain credibility and strategic value in a potential acquisition discussion.

Self Assessment

1. No formal trading relationship exists with potential acquirers.
2. The firm sees strategic value in establishing formal trading relationships with potential acquirers but has made no progress on doing so.
3. Some formal trading relationships exist but these have not been used to leverage the possibility of an acquisition. These have not been pursued with a potential acquisition in mind.
4. The firm has consciously sought to develop trading relationships which might lead to an acquisition. Formal trading relationships exist with some potential buyers. Contact has been made at senior levels of the potential acquiring firms but these have not been used to discuss a possible acquisition.
5. Trading relationships have been entered into with the specific purpose of establishing a potential acquisition path. Contact has been established at the right levels of these companies and open discussion has been undertaken to point out synergies between the parties.

S17. Potential acquirers have Advisor/Director position and/or equity share

Establishing strong ties between the firm and potential acquirers can be very helpful in generating an acquisition offer. Companies which have an intimate relationship with the firm are in the best position to see the potential gains which can be achieved from an acquisition. They are also in a

good position to have already undertaken much of the due diligence needed to establish the quality of the products, management and internal infrastructure systems.

Many of the issues around acquisitions are associated with potential risks. Executives who are associated with the firm over time are in a very good position to assess the level of risks and the types of risks which might be confronted in an acquisition. These can then be planned for as part of the acquisition strategy. At the same time, exposure to products and services, often during the development phase, may give the potential buyer an inside view of the potential synergies which might be gained from an acquisition. Often this view can be gained a long time before such products are known in the marketplace.

A firm setting up a strategic sale strategy should be sensitive to establishing the right kind of relationship with potential acquirers. In some cases a role on a Board of Directors or Board of Advisors will generate the right level of contact. Other times, the firm might want to tie the potential buyer in more tightly with a minority equity position.

In establishing such relationships, the firm needs to be sensitive to building linkages for a potential acquisition as well as potentially excluding or denying other opportunities.

Self Assessment

1. No formal relationships exist with potential acquirers.
2. The firm appreciates the value of formal relationships with potential acquirers but has not achieved any such status.
3. The firm has external directors and/or advisors and/or external shareholders who are industry based and these provide some networked access to potential buyers.
4. The firm has some Directors and/or advisors and/or shareholders who could establish formal linkages with potential buyers but these have not been used to establish potential acquisition discussions.
5. Formal relationships at Director/Advisor/Shareholder level with potential acquirers have been used to discuss a potential acquisition.

F20/S18. The business is formally offered for sale and bids received

The last part of the process is to formally solicit bids for the firm and close the sale. This would normally be managed through the offices of a professional firm as they are used to such transactions. They will also ensure due diligence is undertaken on the buyer and all the necessary paperwork is available to complete the deal.

Other professional services, such as accountants and lawyers, need to be prepared for the activity as they will need to assist with the due diligence, contract review and negotiation. Employees who will be involved in the due diligence will need to be involved. The potential buyers may wish to question a list of customers and suppliers and this process will have to be managed with care.

Self Assessment

1. The business has yet to be formally offered for sale.
2. The business has been formally offered for sale and the firm is awaiting expressions of interest.
3. Individuals and others who are interested in examining the business have expressed an interest. Information needed by them for their initial evaluation has been sent. No short list has been developed.
4. The selected potential buyers have been contacted and arrangements have been made for due diligence reviews. Discussions of valuation have been started and preliminary terms and conditions have been proposed.
5. The formal bids have been received. Final negotiations on terms and conditions and price have been completed.



Operations Management

The Operations Management Index (OMI) has been designed so that an entrepreneur can measure the quality of governance and operations management within their firm. It can be used to evaluate the quality of the internal systems as well as provide a tool for measuring the progress of preparation of the business for sale.

A business can only be run effectively if it has the measurement and reporting systems in place to set targets and review performance. The use of KPIs, budgets and proper reporting systems are critical. Governance issues deal with compliance and risk management and can be seen in good relationships with customers, suppliers, bankers and so on. Operational excellence should be an objective of the entrepreneur as this can positively contribute to the value of the business at the time of sale.

As part of the vendor due diligence of the firm, the OMI can help the professional advisors assess potential risks in the sale process. When a firm is acquired, the buyer is exposed to the trading risks of the firm. They are also exposed to any current or contingent liabilities, current and potential employee disputes, customer issues and supplier disputes.

The buyer can be expected to have arrangements in place where they will monitor risks and exposures in the acquisition. However, this is little comfort to the buyer after the deal is done. Pre-existing conditions may be underwritten somewhat through warranties and representations and failure of the business to perform may be somewhat mitigated by compensation from the sellers, but this is little comfort to the buyer which has purchased a lemon.

The entrepreneur and the professional advisors need to establish the level of risks associated with the firm before they enter into a sale negotiation. An extensive investigation should be undertaken to uncover any skeletons which may lie in wait for the buyer. Depending on the size and complexity of the firm, this process can take many months and be very expensive. The buyer will be trying to estimate the costs and time needed to be devoted by the remaining management, executives from the buyer's organization and external advisors to bring the potential acquisition up

to the quality needed for an ongoing stress-free operation. As items are uncovered, the buyer will need to estimate the time and cost which will be incurred to resolve each issue. Of course, some may not be that simple, cheap or quick to resolve. Other items may be serious and there may not be an easy way to estimate the likely damage or cost to resolve. This is particularly true with contingent liabilities, intellectual property ownership doubts and unclear customer obligations which have not been fulfilled.

At some point, the potential buyer may decide that the level of risk is too high to proceed, or they might decide that it will take too long and be too expensive to establish the level of exposure in the outstanding issues.

Clearly a firm which appreciates the concerns of the buyer, has closely managed its operations and risk exposure and ensured it has fully complied with industry regulations, is a good candidate for an acquisition.

The ultimate due diligence test which could be used by a buyer is the following:

Can I leave the acquisition alone to continue managing its operations without incurring any unreasonable level of risk?

Can I achieve my required ROI in the acquisition investment by devoting my effort to where I can add the most value without being distracted with having to clean up problems first?

Not all issues will be resolved by the firm in advance of a sale, but the more the firm can do prior to negotiations commencing, the easier it is for the buyer to complete the due diligence investigation and move to consummate the purchase agreement. A firm which is prepared for due diligence is a major advantage for a prospective buyer.

The initial investigation can provide the entrepreneur with a checklist to be used to plan the sale preparation work. An entrepreneur keen to achieve a trade sale should be sensitive to the positive impact a clean bill of health on the OMI will have on the potential exit value of the firm.

In a trade sale situation where the potential buyer is a corporation, aspects of the acquirer's due diligence will deal with the actual integration of the two companies. This will involve reviewing the costs, problems and delays of merging the acquired business into their own organisation and will involve such things as personnel systems, benefit systems, IT infrastructure and so on. The only way the firm can prepare for this possibility is to ensure that they use industry standard processes wherever possible.

C1. Monthly financial and key performance indicator reporting exists

The existence of a comprehensive reporting system is important for several reasons. These are:

- It demonstrates the firm is well managed.
- It shows that management is effective.
- It shows attention to detail.
- It demonstrates that an underlying infrastructure is in place.
- If comprehensive, it should show that problems are identified early and addressed.

The financial reporting systems should produce balance sheet and income statements, cash flow projections, aged debtors and aged creditor reports.

More sophisticated systems go beyond monthly financial reporting. Every business has key performance indicators (KPIs) which demonstrate health and competitive alertness. Reporting systems should be able to demonstrate that the company is operating efficiently in all major areas of operations. For example, in sales, reporting systems might examine tenders received, tenders sent, contracts under review, contracts received and revenue to estimates. In production, it might refer to actual production versus planned production, overtime hours worked, rework hours, inventory levels and so on.

In a due diligence investigation, the buyer will be attempting to estimate the level of intervention required after the purchase. To the extent that good management systems are in place, this should considerably reduce the buyer's concerns.

Self-assessment

1. Internal reporting systems are unsophisticated and incomplete.
2. Monthly financial reporting exists but is not comprehensive.
3. Monthly reporting exists but few KPIs are tracked.
4. Monthly reporting systems and KPIs are tracked but have not been audited for completeness and effectiveness.
5. Comprehensive monthly financial and KPI reporting exists. Professional advice has been taken to ensure completeness and effectiveness.

C2. A formal business plan has been prepared and is updated periodically

Most business people would agree that business plans are outdated as soon as they are printed. However, the discipline of preparing the business plan captures the holistic nature of the enterprise. This is one of the few times where management have the opportunity of rethinking the vision, goals and strategy of the firm. It is by pulling it all together that they will gain insights into areas of weakness and opportunities where the business can be improved.

For the buyer, a good business plan provides insights into the business. For example:

What is the vision and how is this translated into strategy?

What are the competitive assets and competencies of the firm and how are these being leveraged into competitive advantage?

Which markets do they compete in and how are they placed?

What are the assumptions behind the numbers and have these been validated?

What risks are present in the business and how are these being addressed?

What is the worst case scenario?

Do they understand their underlying cost and revenue structures and has this been translated into a breakeven analysis and a breakdown of recurring and new business?

Can they demonstrate clearly where the business comes from and why?

Do they have clearly articulated marketing and sales plans with identified targets?

Has business growth been translated into a headcount plan and a funding plan?

The business plan demonstrates that the management team understand what it takes to be successful. It should be more than a spreadsheet, it is an explanation of why the business is successful and should be backed up with validation of assumptions.

The question that should be asked by the buyer is:

Can this business be run successfully without me having to intervene to make it work?

It may not be the buyer's intention to leave the business the way it is, after all, part of the reason for selecting a specific acquisition is to leverage the potential in the firm. However, the buyer should be trying to estimate the level of effort it is going to take to improve the operations management. If the business can be left alone to run itself for some period of time, the buyer can concentrate on future plans for the business without having to shore up normal operations.

The business plan may also indicate where additional potential lies. This helps the buyer to evaluate the opportunity and perhaps see how the opportunity may be developed with additional resources or assistance.

Self-assessment

1. A business plan does not exist.
2. There is a business plan but it is out-of-date and/or incomplete.
3. There is a comprehensive business plan but it simply projects past trends and is not a strategy document.

4. A comprehensive business plan exists and is up-to-date but does not have the depth or validation needed to provide a good explanation of strategy or how the business might perform in the longer term.
5. A very comprehensive business plan exists which is of professional quality and fully explains the business strategy, the capabilities and the likely outcome of the business in the longer term.

C3. A formal budget is prepared and actual performance is monitored against budget

The preparation of formal budgets (profit & loss, cash flow and balance sheet) serves a number of purposes including:

- quantification of the formal business plan.
- identification of projected profit and loss and cash flow.
- a basis for financial discussions with external parties such as debt and equity providers.
- a basis for monitoring the actual performance of the business against the business forecast.
- a basis for performance evaluation of key staff and departments.

The budget should provide the basis for monitoring actual performance against budget and should link the formal business plan to the actual performance of the business.

Budgets should be prepared and monitored on a monthly basis. Budgets should be prepared on a geographic and department basis in order to properly assign responsibility and facilitate the management of variances.

Preparation of a formal budget and analysis of actual performance against budgeted performance should provide the following benefits to the business:

- assist in identifying under or over performance against budget.
- enable timely actions to be taken where actual performance is significantly different to forecast performance.
- ensure key financial information is monitored at various levels throughout the business.
- promote accountability of key individuals and departments.

Evidence of regular budget to actual analysis by the business will provide the buyer with greater comfort that the business has been actively monitored and proactively managed and that business risks are being assessed on a regular basis.

Self-assessment

1. A budget is not prepared and analysis of actual results to budgeted results is not performed.
2. There is a budget but it is out-of-date or not regularly monitored.
3. There is a summary budget but it is not detailed enough, does not link to the business plan, ensure accountability of key staff/departments and is not regularly monitored.
4. A budget exists which partly assists in monitoring actual to forecasts of the business (including accountability of key staff/departments).

5. A comprehensive budget exists which supports the formal business plan and is a major tool in the ongoing monitoring and assessment of business performance including monitoring accountability of key staff/departments.

C4. Full compliance with regulatory issues (e.g. environmental, health and safety)

The buyer will be investigating the health of the business in terms of the quality of its underlying systems. These will include all the compliance areas. These will vary from industry to industry but may include:

- tax reporting (income, payroll and sales tax (BAS, VAT, GST, etc))
- company financial reporting
- corporate governance (shareholder tracking, board minutes, etc)
- employment law reporting
- mandatory insurance
- health and safety practices and accident reporting
- environmental compliance
- industry-specific regulations.

These areas are critical in a review as they can point to weak management, lack of concern for potential exposure and the possibility of litigation and penalties. The exposure may not only be for ongoing practice, but may be retrospective in more severe cases such as environmental issues.

Self-assessment

1. Compliance is not treated seriously and is inconsistently implemented.
2. The firm is concerned about compliance and has some systems in place but a comprehensive program does not exist to ensure compliance or to ensure completeness of coverage.
3. Compliance is treated seriously but is left to individual managers and there is no system in place to ensure that all areas are covered and full compliance is occurring.
4. A full list of compliance issues exists, responsibilities are defined and some areas have reporting systems to ensure that compliance is being adhered to. Professional advice is being sought to undertake an audit in order to put a comprehensive reporting system in place.
5. Compliance reporting is comprehensive and effective and is audited by professional advisors on a periodic basis to ensure completeness and effectiveness. No outstanding or anticipated litigation exists.

C5. Customer relationships are managed to minimize litigation

Litigation and potential litigation occur when aspects of the business are not conducted fairly, transparently and according to accepted standards of good conduct. It is not sufficient to hope that external and internal relations are managed well. The buyer will examine whether the firm has policies, procedures and systems in place to ensure they are doing so.

In the case of customers, the firm needs to conduct its business so that customers clearly understand the obligations of the firm, customer expectations are clearly understood and

performance to documented and implied contractual conditions is monitored. Products and services need to be fit for purpose, of merchantable quality and sold with clear explanations of intended use. The firm should be prepared to assist customers to ensure that effective intended use can be readily achieved. Failure to understand the customer's needs and intended use exposes the firm to potential complaints, wasted resources and possible litigation.

The firm should have in place fair and reasonable contracts or agreements with customers, effective complaints handling processes and monitoring systems to ensure obligations are met.

Buyers will be concerned about potential risks. Poor customer handling and poor internal processes suggest exposure to potential litigation, workplace unrest and/or loss of customer respect and retention. These seriously damage the company as a place to work or do business, potentially threatening the viability of the business. The buyer does not want to inherit problems which may distract from achieving the objectives of the acquisition. A firm with underlying potential litigation can severely disrupt the firm and will probably exclude it from a successful trade sale. The buyer may be better off to walk away from the investment than to take the risk.

Self-assessment

1. Special effort is not taken by the company to avoid litigation in external customer relationships. Accounts are not reviewed for current or potential problems on any systematic basis. An escalation process does not exist to deal with unresolved issues.
2. The firm acknowledges that it can do better. Staff have been advised of the implications of unresolved customer issues. A complaints system is in place.
3. A formal customer complaints system is in place with proper escalation procedures. Formal agreements exist with customers which deal with outstanding problems.
4. Professional advice has been taken on establishing formal systems of dispute resolution, complaints handling and problem escalation. Contracts have been reviewed by professional advisors. Relationship management training has been given to staff where appropriate.
5. Formal review systems are in place for all agreements with customers. The firm is proactive in dealing with customers to ensure that expectations are set correctly and are monitored on an ongoing basis. Formal complaint handling systems and dispute resolutions systems are in place with staff trained and advisors available. Professional advisors review any serious disputes and provide advice on problem resolution.

C6. Supplier relationships are managed to minimize litigation

Good supplier management is essential for the efficient operations of a business. Litigation and potential litigation occur when aspects of the business are not conducted fairly, transparently and according to accepted standards of good conduct. It is not sufficient to hope that external and internal relations are managed well. The buyer will verify that the firm has policies, procedures and systems in place to ensure they are doing so.

Some suppliers are more critical than others where they supply essential parts, there are no effective substitutes or switching costs of moving to another supplier is high. Managing supplier

relationships is essential for the health and ongoing effective operation of the business. The firm should have fair and equitable agreements with suppliers and these should be industry standard wherever possible. Supplier relationships should be managed by people in the company who understand that relationships are more than simply placing purchase orders and negotiating the best price.

The firm needs to be able to demonstrate to the buyer that goodwill exists in those relationships, the business values their suppliers and issues and complaints are dealt with in a timely and reasonable manner.

Acquirers are always concerned about potential risks and disruption. Poor supplier relationship management and poor internal processes to resolve problems suggest exposure to potential litigation, workplace unrest and/or potential loss of key suppliers. Failure to monitor payables and resolve disputes may also affect credit rating. No buyer likes to inherit problems which may distract them from achieving the potential of the acquisition. An investment in a firm with underlying potential litigation can severely disrupt both the firm as well as the acquiring business which may have to become involved to resolve the situation.

Self-assessment

1. Special effort is not taken by the company to avoid litigation in supplier relationships. Accounts are not reviewed for current or potential problems on any systematic basis. An escalation process does not exist to deal with unresolved issues.
2. The firm acknowledges that it can do better. Staff have been advised of the implications of unresolved issues. A complaints system is in place.
3. A formal complaints system is in place with proper escalation procedures. Formal agreements exist with suppliers to deal with outstanding unmet obligations and disputes.
4. Professional advice has been taken to establish formal systems of dispute resolution, complaints handling and problem escalation. Contracts have been reviewed by professional advisors. Relationship management training has been given to staff where appropriate.
5. Formal review systems are in place for all agreements with suppliers. The firm is proactive in dealing with suppliers to ensure that expectations are set correctly and monitored on an ongoing basis. Formal complaint handling systems and dispute resolution systems are in place with trained staff and advisors available. Professional advisors review any serious dispute and provide advice on problem resolution.

C7. Employee relationships are managed to minimize litigation

The buyer will want to know that good management practice systems and fair and reasonable workplace conditions are in place for effective employee management. Employees should understand clearly what is expected of them, be provided with opportunities to provide feedback on their experience and be given performance appraisals to ensure they understand how they are meeting expectations. Processes should be in place to deal with harassment and discrimination in the workplace. Only through effective and systematic performance monitoring and corrective

action can the firm adequately deal with dismissals without creating situations which might lead to unfair dismissal claims and possible litigation.

Every business is dependent on its employee's goodwill and motivation. If the workplace conditions are not fair and reasonable at a minimum and if justice is not done and seen to be done, this creates a poor working environment. It is inevitable that the firm will go through a series of changes of management, systems and direction after the sale. This is going to take a lot of goodwill and support from existing staff. A buyer doesn't wish to start off this process at a disadvantage. In addition, poor performance management processes expose the company to claims for unfair dismissal or discrimination. No buyer wants to be exposed to potential unquantifiable future litigation costs and damages. Contingency liabilities are normally the death of a future trade sale.

Self-assessment

1. Special effort not is taken by the company to avoid litigation in employee relationships. Workplace issues are left to local supervisors and local management to resolve. There are no full-time or dedicated employees responsible for compliance or to assist in resolving workplace relationship issues. A systematic process does not exist to set and evaluate performance.
2. The firm acknowledges the need to introduce more formal processes. Job descriptions are in place for most of the employees and an evaluation process is used for performance review and setting pay increases.
3. Performance targets and formal reviews of achievement are in place. A member of management is responsible for compliance. Management has been briefed on workplace issues of harassment, discrimination and performance review documentation and dismissal processes. However, these are not systematically followed.
4. Formal processes exist for defining job descriptions, setting and assessing performance targets and dealing with employee workplace issues. Management has been trained on all aspects of compliance and workplace performance and dismissal processes. No external professional advice has been sought to audit the quality of the processes.
5. Systems and procedures are fully documented and audited to ensure full compliance with best practice in performance reviews, dismissal handling and workplace incident handling. The company has professional internal staff and/or external advisors to assist with any serious incident.

C8. Credit worthiness with suppliers is excellent

The quality of external relationships is often an indicator of the quality and integrity of the management team and the culture of the firm. As the business grows some level of disruption to the business is likely to occur. During this period, the goodwill of suppliers is going to be necessary so that additional problems don't create crisis events. By reviewing credit payment performance information and interviewing suppliers, the buyer can obtain a measure of the way in which management has dealt with issues in the past.

Few companies are able to avoid fluctuations in their cash flow. However, problems can often be mitigated by good relationships with suppliers. Suppliers who are normally paid promptly and dealt with fairly are often willing to extend additional credit for short periods during difficult times. This is especially true if the firm has dealt with them honestly and shown past behaviour of bringing situations back to prompt payment.

Those firms which keep their suppliers informed, proactively tell them about impending issues and show good management skills in correcting problems promptly, are much more likely to be given extended credit to cover short-term situations. A review of supplier credit performance will help the buyer gain an independent measure of the quality of management and their culture and values.

Self-assessment

1. The firm deals with suppliers at arms length and makes no special effort to value their relationship. The firm makes no special effort to keep in regular touch with them or to keep them abreast of business issues.
2. The firm is sensitive to dealing with suppliers and pays when possible on agreed terms. However, suppliers are only contacted when payments are already late.
3. The firm has processes for reviewing credit with suppliers and keeps them informed of any issues where extended payment may be taken. The firm has a member of management who meets with them on an informal basis when the occasion arises.
4. The firm actively informs suppliers of account status and will pay early if cash permits. Suppliers are kept informed of the level of likely business which will be placed with them. When payments have been delayed, senior management will personally contact the supplier to review the situation.
5. Professional advice has been sought on credit worthiness best practice and systems implemented. Senior management keeps suppliers informed of any payment issues well in advance and before payments are overdue.

C9. Banking relationships are excellent

The quality of a firm's relationship with their bank is a very good indicator of the way in which they conduct most of their business. External relationships are often an indicator of the quality and integrity of the management team and the culture of the firm. With any significant business development which can be expected after the sale of the business, some level of disruption to business is likely to occur. During this period the goodwill of suppliers, customers and bankers is going to be necessary so that additional problems don't create crisis events. By reviewing formal and informal contact with the bank, the buyer can determine the manner in which management has dealt with issues in the past.

Few companies are able to avoid some fluctuation in their cash flow. However, problems can often be mitigated by good relationships with suppliers and by working closely and honestly with the bank. Those firms which keep their bank informed, proactively tell them about impending issues

and show good management skills in correcting problems promptly, are much more likely to be extended a line of credit or a loan from the bank to deal with short-term fluctuations. By examining how the firm has dealt with issues in the past, the buyer can gain an independent measure of the quality of management and of their culture and values.

Self-assessment

1. The firm deals with its bank at arms length and makes no special effort to value the relationship. The bank is simply treated as a facility and the firm makes no special effort to keep in regular touch with the bank or to keep it abreast of business issues.
2. The firm is sensitive to dealing with its bank, however, the bank is only approached when a need arises.
3. The firm has processes for reviewing its pattern of business with its bank and keeps it informed of any issues where cash flow might be seriously affected. The firm has a relationship with a named bank officer and meets with them on an informal basis when the occasion arises.
4. Informal arrangements are in place with the bank to review business performance and banking requirements. The firm also has periodic formal meetings with the bank to review their banking arrangements and banking facilities.
5. The firm has established formal meetings with the bank on a regular basis where current and future banking requirements are reviewed. Senior management of the firm are known to the bank and informal social relationships are encouraged by the firm.

C10. Customer interaction, contracts and agreements are industry standard

A firm incurs problems and costs when obligations under contracts are unclear, incomplete, harsh or generous. Risks escalate when procedures for handling disputes, complaints, claims or clarification are not clear or not followed. When customers can make claims on the company which cannot be substantiated internally, where the obligations are not clearly set out and where the terms of payments are unclear, the firm can be exposed to potential litigation, loss of resources or significant under payments.

A situation in which contracts can be customized to suit the customer becomes an administrative burden. Few firms have the processes in place to track individual contracts where obligations and terms vary from one contract to another and so the likelihood of making a mistake in this situation is very high. Problems can be greatly exacerbated if contracts are voluminous or held at a place away from where activity is being undertaken.

Buyers want to see a smooth administrative operation. If the contracts are not standard or vary from contract to contract, costs increase. Risks may occur if personal undocumented knowledge is required to manage the relationship. If the person with that intimate knowledge leaves, so does the ability to handle issues which arise.

Policies for dealing with customers should be clearly set out and staff trained in the various activities which require interaction with customers. Errors are easily made where inconsistencies in processes are allowed to occur.

Self-assessment

1. Interaction, contracts and agreements with customers are informal and vary in approach, terms and conditions.
2. Staff are advised on how to deal with customers but this is not formally supervised or reviewed. Contracts and agreements with customers are mostly written but variations exist and these are not well documented. Formal sign off of customer contracts is not in place where complex projects are undertaken.
3. Staff are trained to deal with customer issues. The firm has policies in place for most customer interaction but these are out-of-date and compliance is not reviewed formally. Formal contracts and agreements are used with customers but variations are common. Variations are well documented and agreed by both parties. Formal progress monitoring is in place and sign off occurs at key stages in projects.
4. Formal policies are in place for interaction with customers and staff are trained on these. Compliance is monitored and issues dealt with promptly. Standard contracts and agreements are in place with customers and progress on long-term projects is monitored. However, steps have not been taken to ensure that contracts are industry standard and best practice for monitoring are in place.
5. Professional advice has been taken and recommendations implemented to ensure contracts with customers are industry standard and progress monitoring and sign off procedures are in place and being followed. Periodic audit of customer contracts and progress tracking are in place. Formal policies for dealing with customers are in force and are regularly monitored.

C11. Supplier contracts and agreements are industry standard

A firm incurs problems and costs when obligations under supplier contracts are unclear, incomplete, harsh, or generous. Risks escalate when procedures for handling disputes, complaints, claims or clarification are not clear or not followed. When suppliers can make claims on the company which cannot be substantiated internally, where obligations or the terms of payments are unclear, the firm can be exposed to potential litigation, loss of resources or significant over payment.

A situation in which contracts can be customized for each supplier becomes an administrative burden. Few firms have the processes in place to track individual contracts where obligations and terms vary from one contract to another and the likelihood of making a mistake is very high. This situation is exacerbated if contracts are voluminous or held at a place away from where activity is being undertaken.

Buyers are looking for efficient administrative operations. If the contracts are not standard or vary from contract to contract, smooth operations are not possible. Further risks may occur if personal undocumented knowledge is required to manage the relationship. If the person with that intimate knowledge leaves, so does the ability to handle issues which arise.

Self-assessment

1. Interaction, contracts and agreements with suppliers are informal and vary in approach, terms and conditions.
2. Staff are advised on how to deal with suppliers but this is not formally supervised or reviewed. Contracts and agreements with suppliers are mostly written but variations exist and these are not well documented. Formal sign off of supplier contracts is not undertaken where complex projects are undertaken.
3. Staff are trained to deal with supplier delays, missing or incomplete orders, quality issues and relationship problems. The firm has policies in place for most supplier interaction situations but these are out-of-date and compliance is not reviewed formally. Formal contracts and agreements are used with suppliers but variations are common. Variations are well documented and agreed by both parties. Formal progress monitoring is in place and sign off occurs at key stages in projects.
4. Formal policies are in place for interaction with suppliers and staff are trained on these. Compliance is monitored and issues dealt with promptly. Standard contracts and agreements are in place with suppliers and progress on long-term projects is monitored. However, steps have not been taken to ensure that contracts are industry standard and best practices for monitoring are in place.
5. Professional advice has been taken and recommendations implemented to ensure contracts with suppliers are industry standard and progress monitoring and sign off procedures are in place and being followed. Periodic audit of supplier contracts and progress tracking are in place. Formal policies for dealing with suppliers are in force and are regularly monitored.

C12. Contracts can be assigned to an acquirer

Companies which are expected to be sold must have the ability to assign the rights under their contracts, licenses and agreements to the new buyer. Agreements which do not allow this inhibit the ability of the new owner to operate the business. Some agreements have clauses which allow assignment only with the permission of the other party. This agreement should be obtained prior to going into an acquisition discussion.

Many agreements do not allow for assignment to a competitor. This is not an unreasonable condition if such a change could potentially harm their business. In this case, the firm needs to have a contingency plan to be able to replace that part of their business if it is critical to their operation. Where such an agreement might stop the acquisition from happening, the best action is to terminate the agreement and replace it prior to preparing to sell.

Self-assessment

1. The firm is not aware of this requirement and does not know what the status of its various agreements are in this regard.
2. The firm acknowledges that this would be desirable but has not reviewed the contracts for compliance.

3. Contracts have been reviewed and those which do not allow assignment have been identified and responsibility given to an executive to renegotiate this condition.
4. Contracts have been renegotiated (where possible). The firm does not see any situation which would inhibit an acquisition. Contracts have not been reviewed by professional advisors.
5. Contracts, licences and agreements have been reviewed by professional advisors and no critical impediment remains to assignment of rights.

C13. Intellectual Property is able to be traded and is appropriately protected

Intellectual property (IP) covers those knowledge assets of the company which can be sold independently of the people who created the knowledge. Knowledge in the heads of employees which is not documented cannot be sold without the employees who have it. Documented knowledge, where the ownership may be in dispute or where ownership is unclear, cannot be effectively traded. Other IP rights which are purchased and are critical to the operation of products or services, need to be able to be sold or assigned to a new owner. Any contractual impediments to the use of internal or purchased IP will seriously inhibit a firm's ability to exploit the IP and may seriously damage the potential of a sale of the business.

Many acquisitions are targeted at acquiring competitive advantage through the acquisition of firms which hold patent rights. Patents which have considerable revenue generating potential can attract litigation over ownership rights if this has not been carefully managed from the outset of a research and development project as any employee who has worked on the project could potentially claim an ownership share. The only way for the firm to protect itself from such a claim is to have employees assign all rights of any inventions, or those relevant to their workplace, to the firm. Alternatively, rights could be assigned to the firm with acknowledgement of an ownership share, this leaves the firm in a position to have full rights to exploit the patent subject to a royalty based on an agreed formula.

Another aspect of IP is that the firm must ensure the IP was adequately managed throughout the development process. IP management must ensure that IP does not infringe any other IP rights, the IP is appropriately registered and rights are kept current. Since many IP rights require registration in other countries, the firm needs to have documentation of the extent of the registered rights and be able to show how these may be further protected in any acquisition negotiation.

Self-assessment

1. An IP management program does not exist.
2. The firm acknowledges the importance of IP management but has no formal system to register or protect it.
3. IP management is considered important and the firm has registered various IP but the ownership trail is incomplete and may be subject to dispute by current and/or past employees.
4. Formal IP management processes are in place. Rights are registered in countries deemed appropriate for the business. Employees are required to sign over IP rights as a condition of

their employment. IP acquired externally and used in the business will be able to be traded by a new owner.

5. The firm has undertaken an audit by a professional advisor and implemented system and procedure recommendations to ensure full protection of its IP rights.

C14. Post acquisition changes in employment are planned for

Detailed consideration of the organisation structure following a possible future acquisition will indicate which roles will need to change and which roles will be redundant. Rather than leave this issue for the new owner to resolve, the firm can negotiate potential changes with those employees who are likely to be affected and put in place agreements which will smooth the transition.

A future buyer will almost certainly be confronted with the need to make organisational changes. These will involve changes of management, redundancies, roles and reporting lines. Many of these changes could potentially effect compensation packages. Implementing these changes and avoiding unrest, disruption and de-motivation will be challenging. The potential for litigation is present where current conditions of employment are at odds with the new situation. An employee who feels he or she has been misled or feels constructively dismissed through the changes, may feel compelled to seek legal advice.

Managing expectations, providing acceptable options for employees who are effected and preparing staff for the likely change, is all part of preparing to sell the business. Some employees may decide to take early retirement or seek alternative employment. Others may see the change as beneficial and want to stay on. Key employees need to be retained and need to be handled carefully so that there are incentives for them to stay during a transition period. Others may need to be given incentives to leave where their roles are being changed significantly or where they are being made redundant.

In anticipation that the business will be sold in the future, the firm should put in place employment conditions which will ease the path to sale and transition across to a new owner. For example, current terms and conditions of employment may include the option for the business to make the employee redundant on transfer of ownership and state the level of compensation to be paid. Alternatively, a retention bonus may be specified for key employees to encourage them to stay. Benefits may be able to be changed on sale of the business.

Self-assessment

1. Attempts have not been made by the firm to implement changes in employment conditions to facilitate the future sale of the business. Discussions have not been had with employees about post acquisition roles.
2. The firm has reviewed its organisation structure and determined those positions which are likely to be changed, made redundant or are critical to the transition. Some informal discussion at management level has occurred. Formal changes have not been made to employment conditions.

3. The firm has constructed a post acquisition scenario and identified employees who will be effected. Retirement, redundancy and key employee incentives have been constructed. Employment conditions have been changed to reflect the possible future sale of the business.
4. Key employee conditions have been discussed with key staff and as a result their conditions of employment have been changed to incorporate a retention bonus. A termination package has been incorporated into all employment agreements to cater for redundancies. Bonus, commission, profit schemes and share purchase arrangements have all been modified to lapse on change of ownership. Professional advice has been sought on the arrangements.
5. Changes and incentives necessary to ensure a smooth changeover to a new owner have been reviewed by a professional advisor and fully implemented.

C15. Employment conditions, salaries and benefits are industry standard

Following any future acquisition of the firm, employees of the acquired firm will normally be integrated into the employment, health benefits and bonus systems of the parent company. When this happens, any deviations between the two schemes will have to be resolved. This is normally a time of considerable change in the acquired firm with employees fearful of their jobs. The less change that is imposed, the smoother this transition will be.

Where remuneration systems are industry standard, few problems tend to arise. Staff are neither paid too much or too little. If the health insurance is standard and bonuses are in line with industry standards, these can normally be continued or transferred. However, if (say) vacation entitlements are overly generous, this can create problems where they need to be curtailed or need to be continued alongside fellow employees who receive less.

Self-assessment

1. Little or no effort has been made to ensure employment conditions are industry standard.
2. The firm has no formal process for setting pay scales or for performance evaluation. They believe they are paying reasonable levels to attract and retain employees.
3. The firm recruits employees at competitive rates but internal procedures for advancement are not checked with industry norms.
4. The firm is familiar with remuneration in their industry and tries to follow industry norms. An external review has not been made of their practices.
5. The company uses an outside firm of specialists to assist in setting pay scales and conditions of employment.

C16. Option schemes and benefits are compliant with stock exchange regulations

Many smaller firms offer incentives to attract and retain key employees. These include options, share purchase schemes, bonuses, share allocation and so on. Often these deals are done privately between the owner and the new employee. Sometimes advice is not sought on the long-term implications of these schemes on a possible sale of the firm.

Share purchase schemes and option schemes have attracted attention by both the financial reporting agencies and tax authorities around the world and so there normally exists a vast body of regulations governing these schemes. While a scheme might be legal and even appropriate for a small unlisted firm, the same scheme might be non-compliant for a listed company. Since most acquisitions are by listed companies, this can be a real problem for a future sale of the firm to a listed corporation. An employee will not be happy losing benefits and may well resist any such change if they have a contract in place which protects their benefits.

Self-assessment

1. Little or no effort has been made to ensure option schemes and benefits are compliant with stock exchange requirements.
2. The firm is familiar with the need to have compliant schemes but has made no effort to have their own schemes checked for compliance.
3. The firm has sought professional advice to check the degree of compliance of their schemes and to advise of changes which may be necessary.
4. The firm is implementing changes to their schemes to bring them into compliance.
5. Option and benefit schemes are compliant with stock exchange requirements.

C17. Due diligence files are complete and up-to-date

The purpose of due diligence is to check the health of the firm and to identify any potential risks. It also checks that the information provided by the firm is complete and accurate. Checks will include:

- supplier and customer contracts
- licences, patents, trademarks and IP management systems
- leases, distribution agreements and hire-purchase agreements
- employment contracts, health insurance and bonus systems
- complaints processing, dismissal processes and warranty systems
- quality control systems
- financial reporting systems, aged debtors and aged creditors
- reference checks with customers, suppliers and professional advisors
- background checks on key executives
- R&D, manufacturing and distribution processes
- banking relationships and loan conditions
- shareholder agreements, option schemes and share-purchase schemes.

The information required for a due diligence investigation is extensive and very time consuming to collect and collate. Often there are documents missing or incomplete. However, it is through this process that the buyer will uncover internal and external risks which can cause problems with their investment. A check of the documents themselves can often be a long and exhaustive process. Every contract, lease and agreement is sometimes checked to ensure that it does not overly expose the acquirer. To the extent that professional advice from industry-knowledgeable legal and accounting

firms has been used, this process can be dramatically shortened. Sometimes only a sample needs to be reviewed.

Self-assessment

1. The firm is not conversant with a due diligence process and preparations have not been made.
2. The firm is aware of the requirements of a due diligence process but does not have internal policies to ensure that records are complete and up-to-date.
3. The firm has a policy of maintaining complete and up-to-date files but has not had this process audited or checked for compliance with this policy.
4. A professional audit of the accuracy and completeness of records has been conducted and recommendations are being implemented.
5. A complete and up-to-date file has been assembled to enable a full due diligence audit to be undertaken.

Awareness and Alignment Index

Nothing done	Little progress	Reasonable progress	Significant progress	Fully attained	N.A		
1	2	3	4	5			
Item	Attribute	1	2	3	4	5	N.A
A1	Company Directors agree to sell the business						
A2	Shareholders agree to sell the business						
A3	Personal objectives of key shareholders are able to be met by a sale						
A4	Senior management support the sale of the business						
A5	Key employees support the sale of the business						
A6	Post sale changes in management are anticipated and accepted						
A7	Corporate and personal tax structures have been optimized						
A8	Key executives have a personal plan for post sale external roles						

Financial Exit Strategy Index

	Nothing done	Little progress	Reasonable progress	Significant progress	Fully attained	N.A					
	1	2	3	4	5						
Item	Attribute					1	2	3	4	5	N.A
F1	Gross efficiencies and wastage in the business have been eliminated										
F2	A benchmarking program has been implemented										
F3	A program of continuous improvement has been implemented										
F4	A program to increase growth in revenue has been embarked upon										
F5	An advisor has been appointed to assist in preparing the business for sale										
F6	A project plan has been created to manage the sale process										
F7	A senior management succession plan has been established										
F8	Owner/managers are actively engaged in industry associations										
F9	Owner/managers are actively promoting the business through industry events, local business groups and the trade press										
F10	A database of individual and business contacts has been established										
F11	Industry knowledgeable and respected Lawyers have been appointed										
F12	Industry knowledgeable and respected Accountants have been appointed										
F13	A Business Broker, Investment Bank or Professional Advisor has been appointed to manage the sale										
F14	Potential buyers are identified and relationships established										
F15	The potential of the business is able to be demonstrated with convincing evidence										
F16	Industry acquisitions activity is monitored										
F17	Acquisition requirements and processes of potential acquirers are understood										
F18	Industry norms for valuation are acceptable to all interested parties										
F19	Potential acquirers have been approached about an acquisition										
F20	The business is formerly offered for sale and bids received										

Premium on Sale: *Factors which increase final sale price*

In your opinion, in determining the contribution of your assets or capabilities to a possible sale price of the business, where are the major sources of strategic value to a potential buyer? For each of the factors set out below, indicate the extent to which you think they contribute to a premium on sale of your business. Mark up each potential buyer individually (e.g. a, b, c, etc.)

Item	Factor	Not Significant	Significant	Very Significant
1	Revenue potential of seller's products in buyer's customers or distribution channel			
2	Revenue potential of buyer's products into seller's customers or distribution channel			
3	Intellectual property (patents, brands, copyrights, etc) that could leverage significant new revenue for buyer			
4	Intellectual capital (knowledge, networks, experience, skills, etc) that could be leveraged by buyer			
5	Contractual rights (mining, forest, accreditations etc) that could be leveraged			
6	Significantly reduced time to market for new products or processes (build vs buy)			
7	Counter a threat to buyer from competitor			
8	Could resolve a significant internal weakness of buyer (access to new technology, ensure compliance, etc)			
9	Removal of competitor			
10	Removal of possible risk where buyer is dependent on seller, or at risk, where seller is a supplier, customer, distributor or partner			
11	Deny access of a competitor to new products or processes			
12	Other:			

Strategic Exit Strategy Index

	Nothing done	Little progress	Reasonable progress	Significant progress	Fully attained	N.A					
	1	2	3	4	5						
Item	Attribute					1	2	3	4	5	N.A
S1	An advisor has been appointed to assist in preparing the business for sale										
S2	A project plan has been created to manage the sale process										
S3	A senior management succession plan has been established										
S4	Owner/managers are actively promoting the business through industry events, local business groups and the trade press										
S5	Industry knowledgeable and respected Lawyers have been appointed										
S6	Industry knowledgeable and respected Accountants have been appointed										
S7	A Business Broker, Investment Bank or Professional Advisor has been appointed to manage the sale										
S8	Potential buyers are identified and relationships established										
S9	Strategic value to potential buyers is clearly identified										
S10	Products/services have been designed/adapted to be attractive to acquirers										
S11	The strategic value of the business is able to be demonstrated with convincing evidence										
S12	Industry acquisitions activity is monitored										
S13	Acquisition requirements and processes of potential acquirers are understood										
S14	Industry norms for valuation are acceptable to all interested parties										
S15	Potential acquirers have been approached about an acquisition										
S16	Formal trading relationships exist with potential buyers										
S17	Potential acquirers have Advisor/Director position and/or equity share										
S18	The business is formerly offered for sale and bids received.										

Discount on Sale: *Factors which reduce final sale price*

In your opinion, if the business was approached by an acquirer now, identify those attributes or factors below which could reduce your value to a buyer and thus reduce the possible sale price (Mark each item with an X). If it has no effect, leave the item blank.

Item	Factor	Not Significant	Significant	Very Significant
1	Outstanding litigation			
2	Unresolved employee, supplier or customer complaints which could potentially result in litigation			
3	Undocumented or unclear outstanding contractual obligations to customers			
4	Intellectual property where ownership or rights are unclear or in dispute			
5	Worn out equipment, old stock, buildings needing refurbishment etc			
6	Out of date products, or processes, significant time and or cost to make competitive			
7	Pressure to sell			
8	Uncertainty of the commitment of key staff			
9	Poor internal infrastructure for budgeting, financial reporting and performance management			
10	Rights under agreements not easily able to be transferred to buyer			
11	Unresolved employee, supplier or customer complaints which could potentially result in litigation			
12	Significant time and/or cost to integrate the business			
13	Unusual or non-standard remuneration, commission plans, health plans etc			
14	Other:			

Operations Management Index

Nothing done	Little progress	Reasonable progress	Significant progress	Fully attained	N.A		
1	2	3	4	5			
Item	Attribute	1	2	3	4	5	N.A
C1	Monthly financial and key performance indicator reporting exists						
C2	A formal business plan has been prepared and is updated periodically						
C3	A formal budget is prepared and actual performance is monitored against budget						
C4	Full compliance with regulatory issues (eg. environmental, health and safety)						
C5	Customer relationships are managed to minimize litigation						
C6	Supplier relationships are managed to minimize litigation						
C7	Employee relationships are managed to minimize litigation						
C8	Credit worthiness with suppliers is excellent						
C9	Banking relationships are excellent						
C10	Customer interaction, contracts and agreements are industry standard						
C11	Supplier contracts and agreements are industry standard						
C12	Contracts can be assigned to an acquirer						
C13	Intellectual property is able to be traded and is appropriately protected						
C14	Post acquisition changes in employment are planned for						
C15	Employment conditions, salaries and benefits are industry standard						
C16	Option schemes and benefits are compliant with stock exchange regulations						
C17	Due diligence files are complete and up-to-date						