WHAT IS INVOLVED IN THE SALES PROCESS OF A RECRUITMENT BUSINESS

Hi, welcome to my latest video podcast.

Today's topic is 'You've got your business ready to sell; how do you sell it?'

I have mentioned previously on my podcast that a lot of the people that come to me to set up a recruitment business, their eventual goal is to sell it. I've done quite a bit on that but the subject I haven't covered is how would you sell it when you get to that point. It's not as easy as sticking your house with an estate agent or advertising on the Internet. It's very complicated because the valuation of a recruitment business is a lot more intricate because you're buying something that has a lot of moving parts, like people that could leave, unlike a house that could fall apart. So, it's actually a lot more complicated than people think.

Why sell your business?

What I think is lost on a lot of people that have this dream of building a recruitment business is that, once you've built your recruitment business you will find a buyer. Fact. Well, that isn't the case. You need to find somebody who wants to buy your business, which may seem like a stupid thing to say, but why would somebody want to buy your business? Now, unless your business is, for example, £100 million turnover, it might be down to finding the right match, because if you've got a business that is of huge critical mass, then your market for who's going to buy it is more open to people like venture capitalists, people like that.

But if you're looking for a trade sale, so you're looking for a recruitment business to buy your business, there's got to be a match. This is why I mentioned before that the saleability of your business will be increased if you are more niche because quite often businesses will want to buy a niche rather than trying to move into that area themselves. So, the smaller the business, the more you're looking for the perfect buyer.

How do you sell your business?

Now you could sell your business two ways. You can have an unsolicited inquiry, from somebody to buy your business or you can actually take it to market and the podcast I'm doing today is about taking it to market. The unsolicited one you're just getting it out of the blue. If you're getting it out of the blue, you still want to get a corporate financier involved - who are the people that sell your recruitment business. They will help you with getting the valuation right, they'll help you with the actual sales process, and they are the experts.

At that point, if you do get an unsolicited offer, what I suggest you do, is to still take it to market anyway to see what the market's going to get for you. Having been through the sales process myself before, I know it was not at all what I expected. It was a lot harder than I expected and it was really painful, and it can be really stressful as well. So, I thought it was worthwhile doing a podcast explaining what it entails. So initially, what you do is you get your business, and you go to what's called a corporate financier. Now so you know, a corporate financier is the chap or lady that will represent your business in the market. They will take it to market and they will try and find would-be buyers so preferably it is somebody who knows the recruitment market.

Bring in the experts

What they will do before they take it to market is they do a sort of a forensic search of your business to put together something called an information memorandum and what that is, is a detailed report to give to would-be buyers that explain the metrics within your business, i.e. what turnover’s like, what the profit’s like; the number of staff, key accounts, marketing. It's a fairly thick document that goes to would-be buyers to explain what it is they're buying.

Because like I say, it's not like you're buying a house or a car. It's a lot more sophisticated than that. So, the corporate financier will go through your business in great detail and drag all the data that a would-be buyer will want to see. Now the would-be buyers are going to be very sophisticated businesspeople. They're going to know what they're looking for; they're going to know what they’re talking about, so the corporate financier should be pre-empting what they're looking for. Now I've been through the process myself, like I say, of putting together the information memorandum and it is really painful. They're going into so much detail. You think, ‘why do we need all this detail’, but it's really detailed. And one of the things you can do to make the information memorandum gathering process easier, is going back to the beginning - which I've said before in previous cases - is you build your business as if you're going to sell it so, if you do then take it to sale it's worth more money.

Gather your information

Part of what you need for your information memorandum is an awful lot of data. A lot of financial data, a lot of statistics, a lot of ratios, and a lot of numbers because most business owners buying a recruitment company will buy it by numbers. There will be interest in, clearly, things like culture and the personalities but a lot of what they're buying can be judged with numbers so it's having those really detailed reports on how the business is run, and it's building that into the business as you go along rather than trying to do it historically. You'll also find, certainly I found, is when I was putting together the information memorandum, the questions they ask opened your eyes to things that you should have been measuring and are important.

I know, for example, what percentage of your business is with a small number of clients, what is staff attrition, and what the exact staff attrition is. Where exactly your business comes from? I forget, there's an awful lot of questions that they ask you which helped me understand that ‘okay, well maybe I should have known those at the start of the process because those particular metrics are things as a business owner you should be measuring anyway. I've done various podcasts and marketing. Some of those are involved as well; some of them are things like average debtor days which you should know anyway but more accountancy-type stuff, so those are the things that you need to be aware of.

So, rather than go into too much detail on that because what I don't want to do is to make this podcast massive because the subject is massive, but I always try and keep your podcast to a reasonable length, about 15 minutes because I've I found that most people I think can get 15 minutes and then switch off a little bit, so I try and keep them short. So, with this particular one it is more of a taster. Also, I do caveat it, that what I'm doing is I'm generalising quite a bit. Because it depends on the size of the business, it depends on the market, it depends on what your motives are. There's an awful lot that goes into it, so you just have to bear with me. A lot of this is sort of generalist advice.

Negotiating the process

So anyway, you've gone to your corporate financier, you've got the information memorandum and then he'll discuss with you what the target markets are, and you'll take them to market. Now it could be, quite frankly, emails, it can be he makes phone calls to people, but he'll take it to would-be buyers. Then it gets to the point where you get some would-be buyers that express to the corporate financier, 'yes, I'm interested in that business'. And they have to sign an NDA to get the information memorandum to then see what the business is. 'I'm interested, I want a buyer's meeting', and I've been to these buyers' meetings because this is the process and again those can be really painful.

Because you are a self-made business owner and you're not used to answering to anybody else and then you'll sit in front of somebody or more often not, people, who will then rip apart your information memorandum,   ask you a lot of questions and sometimes it can be quite uncomfortable, that you don't feel you should be put under that kind of interview-type pressure. But you've got to understand, if these people are parting with millions of pounds, they're going to put you through the mill, so you have to swallow that. Once you've been through those buyers' meetings, that's when, hopefully, you're going to get some offers. Now those will be indicative offers and also what you have to steel yourself for, is some of them will be, quite frankly, a joke. We had a few of those.

And there also can be incredibly varied in the type on offer, because again if you've never looked at selling your business before and don't know a lot about it, it's not like somebody comes along, 'here's £5m, off your pop'. It tends to be, more often than not you get a chunk up front, and then the rest of it is on staged payments depending on your business hitting targets, which is called an earn-out. The earn-out tends to be when you stay within the business during that period to hit those targets. I was fortunate enough that I built the business to the point that I didn't need to be there at all and secured the buyout so I could just walk out the door that day. But that's not really that usual, although what you can do is if you have been successful with the succession plan, is you get a chunk up-front, then you get the staged payments, but you don't actually have to stay in the business, you're more retained as a consultant.

So yes, when you get the offers, they'll all be weird and wonderful, and you can narrow it down to which business you want to talk to. This is again where your corporate financier gets involved and this is where you narrow it down to who you actually want to speak to. Now, this is where the area becomes a little bit greyer because again it depends on the type of the business and how the sale is going to go through.

Getting into the nitty-gritty

What tends to happen at that point is you agree something called 'Heads of Terms' with the would-be buyer. A Heads of Terms becomes a case of, 'Right, we agree this is basically what the deal is unless there are things that come out further down the line that change that deal'. How things can change, is once you've got your Heads of Terms you go into a period of what's called due diligence. This is where the would-be buyer goes into real detail in your business forensically, way over the top of the information memorandum, looking at everything. What I have been told by the experts in this market, is a lot of the detail they go into, is to cover the lawyer's bums and the accountants' bums.

And more so, venture capitalists, but it is a case of satisfying the experts rather than necessarily the would-be buyers, but the would-be buyers must rely on the experts so they will go through massive detail in your business and quite often do that so they can chip you on the price. You might think that that doesn't happen when you're buying a business; it happens when you're selling a house or a car but it's more prevalent when you're selling a business. Somebody will go through it and say okay well here's a weak link, here's something we're concerned about, we want to adjust the price and that's when it can start to get really painful.

Let's talk about, I think it's deaths, marriages and divorce, the most stressful things you could experience. I've been through the sales process and it's massively stressful. I know other people have been through it and it is really stressful so it's not as romantic as you might think. That you just swan through this, somebody turns up and gives you a cheque and everything is lovely. It's hard work.

So anyway, they've been through all the due diligence and then eventually you agree a price and you've agreed a deal. That's when it comes to actually go ahead with the deal. When you get to the point of doing the deal, the amount of documents you will have to sign will be like a book signing. When I went to the solicitors to do the signing it was like a huge boardroom and it was just full of documents and the solicitor starts at the one end, said this is what this is. By the fourth one, I didn't care, I just want it all signed. So, you get all these documents signed and then you go into the period after that where you get your earn-out where you're working for the business to hit set targets. It can be as a consultant to get the money over a period of time; it could be you've had all of it upfront - it can be various things. That is pretty much where the process ends.

Prepare to be uncomfortable

This is where I'm going to give the caveats where there are some more of the reasons why I'm not necessarily the biggest fan of selling businesses. Certainly, if you're on an earn-out, you used to be a boss and you've got a boss and that is going to be uncomfortable. If that particular boss is changing things within the business that you don't, like people start to leave, it's incredibly uncomfortable as well. So, if you could secure an exit from the business such that you're not involved at that point, that is desirable.

But fast forward to that rather than give you another horror story of how that could turn out, obviously it's on a case-by-case. But there's also something that I think is very relevant to the people that have this idea of selling a business and sailing off into the sunset and retiring. I could speak from personal experience, that after I sold my business I went into depression for about three months and the reason for that is, obviously I had a reason for being, I had the ego and the chemicals that go with running a business when you walk into the room, people look at you because you own the business, the funniest guy in the room, you're busy all the time. It's who you are. You're a successful business owner and as much as I like to think I'm a humble person, it's nice to feel important. You can't deny it's not nice to feel important.

Personal impact

So, when I sold the business, I literally signed all the documentation, went to the office, packed up my box and left and that was it. I was gone, went on holiday, came back three weeks later, and loved it.

And then suddenly, it dawned on me. Monday is like Sunday. Now it didn't help the fact that I train a lot. I had an Achilles injury that meant I couldn't train. I had an elbow injury that meant I couldn't train. I couldn't really do any training and I didn't effectively have a job and I didn't develop a drinking habit; I don't like golf. But joking apart, the chemical drop that I had from feeling important because I was a businessman, being in an office and interacting with people just to working from home, doing a bit of non-exec work was a big drop.

I'm not getting the violin out and saying, 'oh I suffered mental health with that', it's very common. I've spoken to a number of people that sold the business and it is that 'okay I'm going to sell this, I'm going to move to the countryside, I'm going to do lots of walks and get fit and go on holidays and all that kind of stuff. The problem is, if you built a business to sell, you're a very highly driven individual, so that means you're used to being busy, it means you're used to making decisions. It means you're used to being important and then suddenly you're not. And that is a big change you've got to get used to. Now the way I can describe it is if you're driving 100 miles an hour, you're screeching to a halt. You have nothing.

The more sensible way is if you're easing out of a job rather than necessarily going from 100 miles an hour to nothing. I can't say that that is the case with everybody. Some people, I'm sure, have sold their businesses, have gone to live in the south of France, and have been happy as a pig in poo. I do know two individuals, who sold the businesses and that's what they did. Not necessarily move to France, but basically went on a holiday for the rest of their lives, and they loved it. So, it's not the same for everybody but what I would say is selling your business is maybe not as glamorous as you might think. It's a lot harder work than you might think. I'm not trying to put people off. As I say I don’t personally advocate selling businesses because my thought process is if you've got a business that somebody wants to buy, then it's not going to fall apart, it's recurring revenue, you're going to get four times profit if it's perm, maybe ten times, eight times profit if it's contract, something in between if it's both.

But if you've got a strong management team, then why not give them some equity, and tie them in so they can run it, so then you've got a cash cow going forward and they may have more energy, better ideas than you. You can stay as a CEO, so therefore you've still got some involvement in the business. You've still got that ego thing going on, which we all have. It’s difficult to switch that off.

You've then got the activity for your brain because you still have all the business to a degree, so that for me is a preferred option, but as I said earlier on, what I do with the businesses that I work with is we build them as if we are going to sell them. So, if you do want to sell them you can sell them but that structure that a would-be buyer wants, the constituent parts a would-be buyer wants, low staff attrition, your clients spread out, good financial accounting, great branding, strong management team, all those great things. These are the things you need in a successful business. So, you build it as if you're going to sell it, because that's a wise thing to do.

Conclusion

This particular podcast is to explain actually what you do if you're going to sell it because it's not quite as simple as people might think. As I said, there are a lot of people who sold businesses and have been happy and done that. I sold a business because I basically fell out of love with my job. I can also understand people that want to build a business to sell it because it's a sense of achievement. There are various different reasons. But what I've also found is the vast majority of people that sell businesses, not long after start doing it again. Now there's nothing wrong with selling the business to then doing it again but I would say is don't think that it is as seamless and as romantic a sort of thing that you might envisage.

So, I hope that helps if you’re thinking about selling your business. I hope it's not too negative because I'm a very positive person but there's no other way I can paint the sales process and taking a business to sale than the reality that it is. Also, your disposition affects how it affects you as to whether you’re the type of person that enjoys that kind of thing. And like I said it is quite stressful, but it's more the bit at the end where, once you've sold the business, what do you do next? So clearly if you can plan some sort of exit post-sale that isn’t necessarily just sitting in the sun. If it is going to non-exec, maybe do charitable work, maybe get involved with some smaller business. What I do now is help start-ups. What I do is I back recruiters, and help them build their own businesses. And quite frankly I’ve never been happier. Happier than I was running my own recruitment business. But it took me a few months to realise that’s what I wanted to do. So that's something to think of as well.