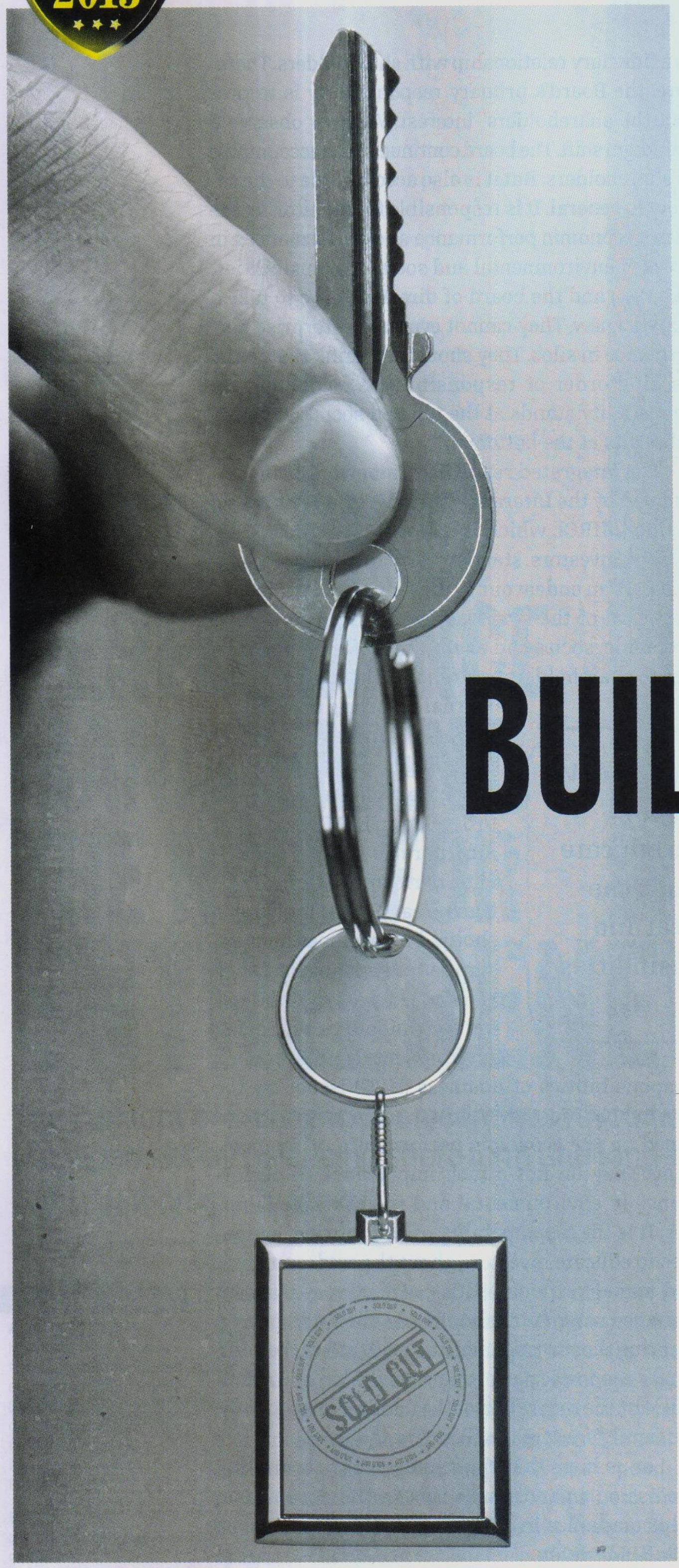


# STRATEGIES FOR COMPANIES BUILT TO SELL

**Focus on generating profits. The more a company makes profit, the more lucrative it becomes to the buyers**

BY PRATIBHA SHARMA

Theories of complementary assets (Teece 1986; Gans and Stern 2003) and disruptive innovation" (Christensen 1997; Christensen and Raynor 2003) are two most dominant theories in the commercialisation of innovation. These theories underlie the importance of organisational structures and complementary assets in creating measurable value from innovative ideas. Accordingly, some firms embellish the value of their firms by creating assets and organisational structures that attract strategic acquirers.

Bazee.com was started by Avinash Baja in 2000. It ran as a pure auction site till 2002. Baja understood the value of market dominance and acquired Bidorbuy to reduce competition. Bazee .com also changed its revenue model, offered fixed price to bring in more transactions and expand the categories to more than 1500. In early 2003 Bazee.com faced couple of legal challenges and gained media attention. Bazeee.com strongly cultivated the image of pioneer. In 2004 Bazee.com reached about 90 crore with revenues just under 9 crore, the highest EBIT in the industry. eBay brought out Bazee.com in 2004.

SlideShare, was founded in 2006 with three founding partners with loads of experience. SlideShare recognised the need for sharing slides. It brought on board angel investors who are blue blood of academia. To gain reach, they targeted at colleges and public speeches of politicians to gain traction. Initially the focus was on growth, pursued freemium model to increase the network and in a sense had no formal business model. With 3 million funding from Venrock, part of Rockfeller foundation, the company grew from 1,530,000 million users in 2007 to 60,000,7000 million users in 2011. LinkedIn acquired SlideShare in May 2012.

An expanding business offers potential for numerous growth opportunities. Managing and sustaining this growth is a challenge in terms of developing required skills and financial resources. The main question here would be, if the owner is building the company for big money or to run a solid and steady growing business for the future. It becomes essential to begin a journey with a destiny. The way the business should grow should be aligned to the objectives set when the company was started. Business strategies to exit should always begin with an end, clearly define the outcome and plan accordingly to realise the desired results.

Companies should strategically plan for a profitable exit. This is true in today's scenario when early exits are an attractive option for many companies within two to three years of inception. For example, Flickr was acquired by Yahoo within two years of its commencement of business. YouTube, created by three former PayPal employees was also sold to Google within 2 years. Some companies might take a longer time to achieve an optimum exit. Effectively planning, executing and monitoring an exit would increase the entire value of the business. Some unique aspects to be considered for companies having a well planned strategy to exit would be:

**Profitability and predictability are major strategic levers directing the business:** For companies built to sell, the prime focus is on generating profits. To create a business with predictable revenue on periodic basis, a company needs to create opportunities and business models so as to keep the revenues coming and expect continuous returns. The more the company makes profits by reducing its costs, the more lucrative it becomes to the buyers. The efficient utilisation of resources and minimal wastage with good quality are key elements to create a profitable and attractive business. For example, Subzero Holdings, an established Australian mines services firm always emphasised on profitability. It maintained its expansion and growth in pre-2012 mining boom and continued to maintain predictable and positive revenues. Recently, SVC acquired Subzero. Seeking out profitable and predictable acquisition targets is a classical approach

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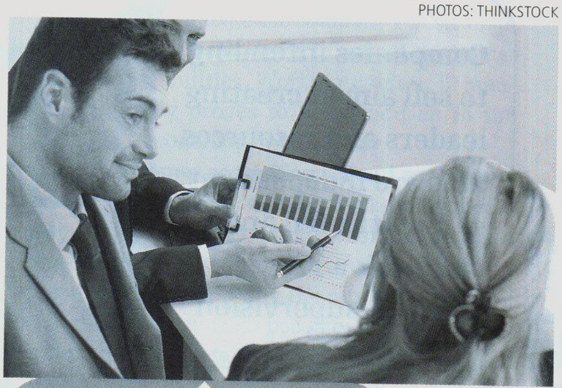

Managing and sustaining the growth offered by expanding business is a challenge in terms of developing required skills and financial resources

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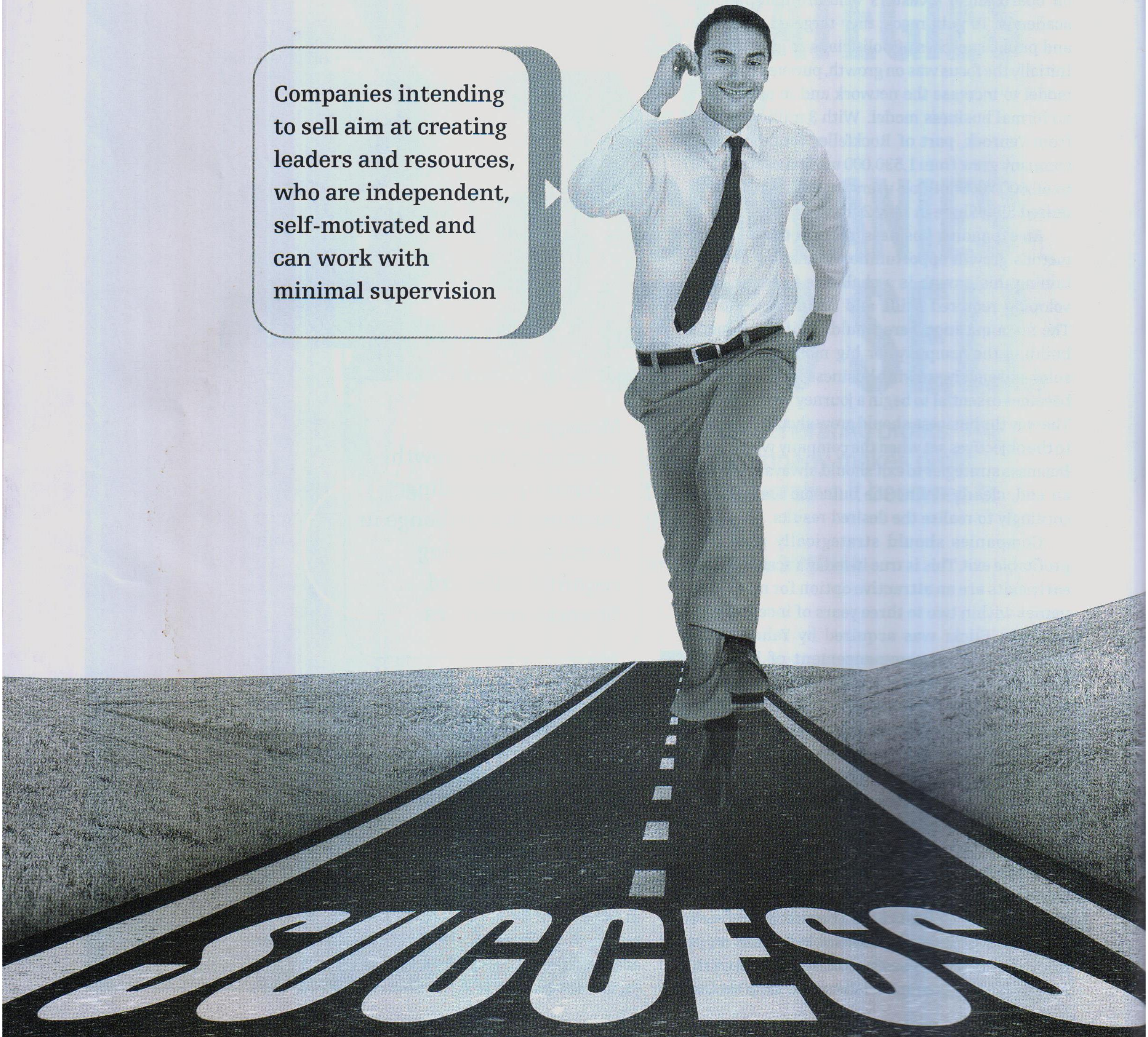
many companies adopt for global expansions. The suitors (acquirer) build their business growth on reasonable profitability and high sustainability. Impulsesoft acquisition by Sony and Donaco Intl acquisition of iSentric are good examples.

**Identify markets and products which could be an aid to big companies:** In number of markets, consumers have to buy multiple products to derive utility. Therefore the products used are highly complementary and the value is derived only from joint consumption. Because of this, there is always interdependence in supply, quality and variants of the products. Companies built to sell explore opportunities in markets and products which can be complementary to the products from the bigger companies. Identifying the white space and areas where there is less competition would help companies create a foothold in the market and attract bigger companies to acquire them for their benefit.

**Single product focus:** Companies usually try to

Companies intending to sell aim at creating leaders and resources, who are independent, self-motivated and can work with minimal supervision



develop variety of products/ services wherein the focus on selling and marketing these products/ services get diluted thereby leaving less scope for growth in a particular market, region or segment. Companies built to sell would focus on generating maximum revenue, expansion of customer base and specialising in one product and in a wide market. Dedicated resources and strategies to increase and grow a single product prove to be advantageous as well increase the reach and give a proper direction to the company. For eg: Educational insight, founded by Burt Cutler was a company that built educational tools for K12. While it offered about 750 products all were tailored to the same market. Tutorvista, another educational company acquired by Pearson again showed the value of single product (and sometime segment) focuses. Alfa Laval acquired Niagara Blower company because of its engineered-to-order niche efficient solutions primarily for use in oil & gas processing industry. Excelling products and services white-spaces in industry makes the company attractive to large incumbents.

**Identify and build scalable products/services:** Companies plan to sell products/ services which can meet the current requirements of the customer and at the same time foresee and satisfy future demands. These products are scalable and are able to accommodate and make changes according to the changing requirements. Buyers would look for products which could be easily scaled, altered with minor changes and minimal investment. Products which are easy to use and adaptable are an advantage to companies as they require minimal investment and are popular because of their ease of use. Every customer is looking for products where the task performed could be simplified, automated or eliminated. Example, Disney was striving to get into gaming, a market that was expected to grow in subsequent years. Disney found the investment attractive as it was simple and easy to use and least technological investment required. Another example could be: Rod Drury, the entrepreneur who had built a sold Glazier system realised that human capital can be a limiting factor to growth and wanted to build scalable business. His next venture, Aftermail, which he sold to Quest Software was built for scale.

**Focus on EBITDA, revenue growth, reduction in operating cost, liquidity ratios:** Companies built to sell focus would be on generating maximum revenue and increased profits by making efforts to reduce the costs and generate maximum benefits with the available resources. The reduction in operating cost of a company is the primary financial objective for many good companies. Non-value adding activities are eliminated and expenditure that have an impact on the financial performance or revenue of the company are considered. The profit to sales ratio when compared to historical results and industry averages tend to be favourable signifying efficient management of revenue and costs. Creating positive cash flow cycles is a prerequisite as buyers need not commit their capital to fund daily operations and positive cash flows do not incur financial expenses. The favourable liquidity ratios indicate the company's position in leveraging the current assets to pay off the immediate/ short liabilities. Working capital, if managed efficiently proves to be an add-on in the buyer's list to consider the company.

**Focus on customer acquisition without any encumbrances:** Customer satisfaction and keeping the interest of the customer in mind would be of prime importance to any organisation. However giving in to demands and modifying the products/ services to suit the customer needs become important to win the customer and retain them. Companies built to sell would standardise their offerings so as to restrict projects with complex work contracts and customisation. Customisation and clauses in work contracts bind the company to various activities which might not be acceptable or in good taste with the buyer. The buyer would look at contracts which are hassle free, less binding and ease of execution. The objective is to reduce difficulty in execution and customisations that would make the activity/ process cumbersome.

**Emphasise on revenue streams that can increase predictability year-on-year:** Revenue generated from the particular product/ service needs to be continuous and yield constant returns. Therefore most companies today rely on the AMCs (annual maintainence cost)/ subscription model than license selling to maintain and confirm steady and periodic returns. Buyers also would be attracted to companies which have a predictability of revenue and can assure them constant returns. Income which can be forecasted is always a real incentive to the buyers.

**Priority invest in sales and marketing. Build a public image:** Investment for long term is on a low and priority is on building the brand and creating awareness about the products/ services. Companies built to sell would have above average spend on branding, marketing and other activi-


ties that could trigger sales and generate increased revenue for the company. The purpose is to create an identity for the company and position the company in the market.

**Sales led by senior professionals:** To increase visibility of the company and to target the right kind of customers, it becomes very important for the company to hire experienced professionals who could project the organisation in the right manner, network with the right kind of people and increase the value and business of the company. Experts and experienced sales professionals add credibility to the organisation by connecting the right dots and bringing interested parties together. These resources need to be continuously motivated, incentivised to retain them, maintain stability and long term commitment in the organisation.

> Instead of developing generic products where competition is neck deep, companies exploring areas where the market is yet to assess the potential has a first mover advantage

**High leverage of network:** Having eminent professionals on board (management) and being associated or alliances with market renowned institutions add extra mileage or push the company requires positioning itself in the market or related industry. Companies often get noticed because of their management or investors. These professionals/ institutions play a major role in the market perceptions about the company and its credibility. Leveraging the standing of these entities or persons, the company can signal the market about its arrival, potential and capabilities.

**Avoid investments in duplication of assets like**

**manufacturing facilities and high vertical integration:** As discussed earlier, these companies do not invest on long term assets or capital with long term obligations. These companies focus on short term/ immediate investments which would yield quick returns and liquidation. Duplication of manufacturing facilities and vertical integration would make the organisation heavy on assets/ capital, making it difficult to be sold and easily liquidated.

**Simple, delegation led structure:** Companies intending to sell aim at creating leaders and resources, who are independent, self-motivated and can work with minimal supervision. Delegation of work reduces the dependency and de-risks the organisation's growth from its resources. Companies standardise their processes, de-centralise authority and automate activities to reduce reliance on resources. They intend to build companies that can scale independently irrespective of the staff, management or any particular resource.

**Acquisition of companies:** Acquiring companies which are similar or complimentary to the parent is advantageous as it helps the business to grow and at the same time indicates to the market on the activities conducted to grow the business. It also indicates the potential and opportunities within the industry. This signals the investors and buyers to have a close look at the company as it moves the attention towards the prospective growth and perceives the company's position in the industry to rise. Example, in a way that was how autonomy also tried to create visibility in the market by going on an acquisition binge, having good margins and stock prices having an upward trend. But the flipside was also dressing up of financials by showing low margin hardware sales as high margin software sales which was one of the factors that triggered HP suing the company for misrepresentation of results.

**To build value, dominate a niche market:** Instead of creating/ developing generic products and services where the market is large but the competition too is neck deep, companies intending to sell, explore areas where the market is yet to assess the potential and the company has a first mover advantage. These companies often try to capitalise on the rarity or exclusivity of the product/ service. They create a position by understanding the market. Buyers/ investors find these companies attractive as they have a foothold in the market and growth is evident due to less competition and established product/ service.

## Conclusion

Companies built to sell have a distinctive approach in how they build their resources, organise and channelise their capabilities. Creating a roadmap to a profitable exit, comparing the pros and cons in the path and aligning them to meet the objectives add value to the business. Buyers focus on businesses which can be scaled beyond the dependence of the owner, has a differentiated market position, opportunities to grow, good profit margins and manageable risks. Companies built to sell would leverage on the capabilities of the business and build the business lucrative for the inventor/buyer. Marshalling the resources (people, product/ services, process) in the appropriate manner and continuously monitoring the activities so as to lead to the desired outcome will help the company realise a profitable exit. **IM**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