

Preparing a Business for Sale - The Need for Market/Product Strategy

By Tony Wilson, Technology Business Consultant

It's not just the profit that determines the value of your business in a buyer's eyes; it's the profits that a buyer thinks the organisation will make in the future. So how can you "big-up" the future profits, convincingly? Tony Wilson, a Director of the Marketing for High Technology programme at Cambridge Marketing College, and who runs his own strategic consultancy business helping technology-based companies, talks us through the different aspects to consider from a market and product perspective that could make your business more attractive to potential buyers.

Can you show a potential buyer that you understand your marketplace?

Many a business plan can be summarised as "Here's a £100m market, and we're aiming for 1% of it. 2% would be great!" Unfortunately, this is not good enough. How can anybody tell whether 1%, 5% or 0.2% is achievable?

"Here's a £100m market, here's a £10m bit of it, which we are uniquely competent to serve, and we're going for 10-20% of that bit" is much better. The aspiration is the same, financially, but the goal looks realistic, and the reader of the plan (i.e. the potential buyer) can now challenge the plan and satisfy him/herself about the likelihood of the objectives being achieved.

For example, if you had a web design business, you could bump along the bottom of a crowded marketplace, trying to win business wherever you can. Or you could aim your business at a particular sector - for example towards local companies with fewer than 10 employees. If you have access to other specialist skills - such as high quality photography, then you should be working out which bits of the market are most likely to appreciate these skills - up-market small retailers, perhaps? - and should focus your business on companies like these.

How do you construct a story like this?

Firstly, why do your customers buy from you? Is it because your technology is exciting? I don't think so. Is it because your product is sexy? Nope! Most customers only buy from you when what you are offering actually helps them to make their business run better, either by solving a problem or by enabling new opportunities to be taken.

Can you demonstrate to a potential buyer that you understand what your customers' business opportunities and problems actually are?

Because if you don't have this understanding, then how do you know what your company has to do in order to help them solve the problems or realise the opportunities available to them? This will involve visiting selected customers, and finding out about how they really operate. And then you may find that in order to satisfy their needs, you may have to re-think or even redesign your products.

For example, if your business provides data-loggers for scientific instruments, do you understand the economics of your customers' data-gathering operations? What will be the economic trade-offs (different for different customers) between manual and automatic data-gathering? How does it work if the data-gathering is in the field, with hand-held equipment? What will be the economics (as well as the practicalities) of data-transmission by wireless rather than by wire?

What is your NPD process, by the way, and who drives it?

Is yours a company where the management team meets every so often to discuss which products to develop, and where the technical director then has to make all the decisions because he's the one with the budget, and where decisions tend to be made on the basis of what's interesting technically? Or does your company have a Product Management process where market inputs are systematically gathered and used to set commercial and technical priorities to which the entire company buys in?

Can you show a potential buyer which market segments you are focussing on?

Along the way you will find that different types of customer require different things from you. This again raises the question of market segmentation. Some segments will be easier to serve than others, and some will be more desirable to be in than others, so you need to decide which segments to go for (and which to ignore, which is harder to do). Otherwise, you will find yourself pulled in all different directions, and run the real risk of never really pleasing any of the customers. Better to be the first-choice of a handful of customers, than to be everybody's second choice.

And, are you remembering to segment your marketing, too?

The point about different market segments is that they will not only require different versions of product, but also different communications and maybe different channels too. If you operate through third-parties (e.g. distributors), you will still have to talk to your end-users, and then you will need to work out not only how to design your products to meet the user needs, you will also have to make sure that your channels are appropriate.

For example, if you are providing anti-crush sleeving for optic fibres to both the automotive and telecoms markets, you will not only need to provide different cable-termination tools for the two markets, but also the communication and sales channels will need to be completely different for the two markets.

If you can justify your choice, and maintain your resolve, you will be able to focus your efforts (product, sales, etc) on the part of the market that you have chosen. So you ought to be able to win a better-than-average market share in these parts. So you will have a better chance of winning that 1-2% of the total market that we mentioned at the beginning.

Can you measure your market share and that of your competitors?

This is often hard to do for a small company, but market share is a very useful measure of performance, as anybody can grow sales by 5% in a market that's growing at 10% per year, and, equally, a 10% drop in sales may be a good performance in a market that's fallen by 20% in the last year.

If you can put all of this together, you are generating a story that your corporate investors/purchasers will believe in.

Who is driving this whole process?

Somebody senior, we hope.

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