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SWP 18/89 FINDING THE FIRMS OF SALE

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ABSTRACT

Exit Routes are the mechanisms by which owner-managers and investors realise their investments. This research evaluated the various sources of data on firms offered for Private Advertised Sale. Results from the sources studied were varied, and so this research concludes that choice of the data source will significantly affect the nature of any sample studied.

FINDING THE FIRMS FOR SALE

One of the major problems associated with research into the new and small firm sector is the determination of the size of the population, and the identification of representative samples. Previous studies have discussed the issues associated with finding the new firm [Birley 1984, Aldrich 1988]. There is no similar study of EXIT ROUTES.

EXIT ROUTES:

Exit routes are the mechanisms used by owner managers, and by investors, to realise their investment. In the United Kingdom, four potential exit routes are available;

- * Sale to a third party
- * Sale to the management and/or employees
- * Public quotation on the Stock Exchange
- * Liquidation

The aim of the study, of which this paper is the first part, was to identify the magnitude of exit routes activity between 1983 and 1987, and to study the characteristics of the firms, their owners, and their advisors. Reliable data was

available on management buyouts [Coyne et al. 1987, Wright and Coyne 1986], and on companies obtaining a Full Listing on the Stock Exchange, a quotation on the Unlisted Securities Market or the Third Market [Stock Exchange Quarterly, now the Quality of Markets Quarterly, various issues], and acquisitions of independent companies [British Business, various issues].

However, since businesses for sale are not required to register their intent, there is no central listing of either businesses for sale, or businesses sold. Moreover, it was clear from examination of the data capture processes for acquisitions and liquidations that the data available was not complete. Therefore, it was necessary to explore other methods of establishing the size of the population, and of identifying individual firms. Beyond this, the research design also sought the following data:

- * Sale characteristics - price offered for sale, reason for sale
- * Business characteristics - location, industry, sales
- * Intermediary characteristics - size, major business focus

POTENTIAL DATA SOURCES:

In order to offer the firm for sale, the owner manager must

clearly signal his intent in some way. It is at this point that the researcher has an opportunity to capture the data. There are two potential sources -

1. The intermediary who is asked to act on behalf of the seller.

2. Advertisement.

However, whilst the researchers suspected that the primary intermediaries were likely to be accounting firms, there was no data to support this assumption. Indeed, this was one of the research hypotheses. Therefore, the following potential sources were investigated:

- * The business sections of national newspapers
- * Local newspapers published daily
- * Financial Times
- * Business and Assets published every two weeks
- * Daltons Weekly
- * Exchange and Mart published weekly
- * Stock Exchange Quarterly, now the Quality of Markets Quarterly

A preliminary scan of the businesses offered for sale in each of these sources suggested that the national publications would be more likely to include the larger businesses, from a

variety of industries, whilst the local sources would tend to concentrate upon local, very small retail businesses.

COMPARING THE DATA SOURCES:

To test the quality of the data, business sales advertised during June 1987 and November 1987 were extracted from the national publications of the Financial Times, the Daily Telegraph, the Times, and Business and Assets, and from the local newspaper for South Wales, the Western Mail [See Table 1 Below].

Insert Table 1 About Here

It is clear from this data that the Financial Times and the Daily Telegraph deal with significantly more businesses than either the Times or Business and Assets. Moreover, the level of activity at one local level, South Wales, would appear to be as high as that at a national level.

Location: Table 2 below shows that the data sources studied each identified more than 72% of the locations of the firms offered for sale. The Daily Telegraph was the most useful, identifying over 92% of the locations, but further analysis of this data showed a concentration in two regions, the South East [25.8%] and the South West [34.3%] of England.

Insert Table 2 About Here

Industry: In almost all cases, the advertisement gave sufficient information for the firm to be allocated to an industry group [See Table 3]. It is apparent from these results that those firms advertised for sale in the Daily Telegraph, the Times and the Western Mail were predominantly service firms. By contrast, more than a third of firms advertised in the Financial Times were in manufacturing.

Insert Table 3 About Here

Sales Turnover: The availability of data on the size of the firm, as measured by the sales turnover, was varied. Over 58% of advertisements in the Financial Times recorded this information compared to only 22.1% in the Western Mail [See Table 4 Below]. Moreover, analysis of variance showed a significant difference in size between the various sources [F=24.50, N(1)=489, N(2)=4, SL=0.0000].

Insert Table 4 About Here

From this data, it would appear that firms advertised in the

Financial Times are, on average, larger than firms advertised elsewhere, and those advertised locally are significantly smaller. Nevertheless, there is overlap. It would appear that some very small firms use the national advertisements, and some medium sized firms advertise locally.

Advertised Selling Price: The selling price of the business was most frequently stated in the Daily Telegraph [79.5%] and the Western Mail [62.5%], those newspapers which are mainly used by service, often retail, firms. By contrast, it was only stated in 17.7% of advertisements in the Financial Times. However, analysis of the data indicated a significant difference between the selling price of firms advertised in the different media. Therefore, these results suggest that the Financial Times is the medium for the larger firms, and the local newspaper, Western Mail, that for the smaller firms [See Table 5].

Insert Table 5 About Here

Reason for Sale: Business and Assets is clearly the best source of information on reasons for sale [see Table 6]. However, it is probable that this source is likely to produce biased results since more than 82% were in the "ceased to trade" category [See Table 6]. From the rest, the Financial Times is the most useful source, and one which has a more

diverse group of firms.

Insert Table 6 About Here

Intermediaries: More than 50% of all the advertisements in all the sources came from five or less intermediaries, and the majority of these used a Post Office Box number. Indeed, all the firms advertised in the Times used a Box number. The rest tended to reflect the types of firms advertised, but were either major accounting firms or estate agencies [See Tables 7a-7e].

Insert Tables 7a-7e About Here

CONCLUSION

Based upon the above analysis, it is clear that the various potential sources have significantly different profiles. Thus -

* Sales in the Daily Telegraph were concentrated in the South East and South West of England; sales in the Western Mail were almost entirely small and local to Cardiff.

* Sales in the Daily Telegraph, the Times and the Western

Mail were predominantly service businesses.

* Sales in the Financial Times, and Business and Assets were markedly larger than those in the other three sources.

Therefore, the choice of data source for this type of study is likely to be crucial. As a result of this analysis, the Financial Times was chosen as the primary source of population data for the larger firm. A subsequent survey of the intermediaries and owners advertising businesses for sale between April and May 1988 confirmed this as the "data source which most business sellers and buyers both advertise in and read". Further studies will attempt to incorporate data from the local level in order to estimate the total population. Nevertheless, two issues remain outstanding -

1. The extent to which those firms advertised are actually sold. This source simply indicates intent.
2. The extent to which this data source, along with those for management buyouts, independent acquisitions, and public quotations identifies the total population of exit route activity.

Data for the firms advertised for private advertised sale between 1983 and 1987 has now been collected, and a survey of both buyers and intermediaries is being conducted in order to

estimate the level of under-representation, and the extent to which the source chosen adequately represents the population characteristics.



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Table 1 Date of Private Business Sales by Different Data Sources, June and November, 1987

Date	Data source									
	Financial Times		Daily Telegraph		The Times		Business & Assets		Western Mail	
	No.	%	No.	%	No.	%	No.	%	No.	%
June 1987	178	57.2	132	46.8	36	54.5	26	44.8	175	63.8
November 1987	133	42.8	151	53.5	30	45.5	32	55.2	100	36.4
Total	311	100.0	283	100.0	66	100.0	58	100.0	275	100.0

Table 2 Location of Private Business Sales by Different Data Sources, June and November, 1987

Location	Data source									
	Financial Times		Daily Telegraph		The Times		Business & Assets		Western Mail	
	No.	%	No.	%	No.	%	No.	%	No.	%
East Anglia	7	2.3	9	3.2	2	3.0	1	1.7	0	0.0
East Midlands	19	6.1	13	4.6	0	0.0	2	3.4	0	0.0
North	4	1.3	8	2.8	0	0.0	2	3.4	0	0.0
Northern Ireland	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
North West	14	4.5	4	1.4	5	7.8	2	3.4	0	0.0
Scotland	16	5.1	8	2.8	4	6.1	5	8.6	0	0.0
South East	93	29.9	73	25.8	21	31.8	19	32.8	0	0.0
South West	16	5.1	97	34.3	8	12.1	4	6.9	0	0.0
Wales	3	1.0	22	7.8	3	4.5	7	12.1	272	98.9
West Midlands	14	4.5	19	6.7	2	3.0	4	6.9	0	0.0
Yorkshire & Humberside	9	2.9	7	2.5	2	3.0	1	1.7	0	0.0
Channel Islands & Isle of Man	7	2.3	2	0.7	1	1.5	3	5.2	0	0.0
Not Known	109	35.0	21	7.1	18	27.3	8	13.8	3	1.1
Total	311	100.0	283	99.7	66	99.9	58	99.9	275	100.0

Table 3 Standard Industrial Category of Private Business Sales by Different Data Sources, June and November, 1987

Standard industrial category	Data source									
	Financial Times		Daily Telegraph		The Times		Business & Assets		Western Mail	
	No.	%	No.	%	No.	%	No.	%	No.	%
Primary	12	3.9	1	0.4	1	1.5	2	3.4	24	8.7
Manufacturing	112	36.0	7	2.5	13	19.7	26	44.8	7	2.5
Construction	13	4.2	5	1.8	1	1.5	0	0.0	3	1.1
Services	168	54.0	270	95.4	49	74.2	30	51.7	241	87.8
Not Known	6	1.9	0	0.0	2	3.0	0	0.0	0	0.0
Total	311	100.0	283	100.1	66	99.9	58	99.9	275	99.9



Table 4 Turnover in the Last Financial Year (£'s) of Private Business Sales by Different Data Sources, June and November, 1987

Data source	Turnover in the last financial year (£'s)					
	Mean	Standard deviation	Minimum	Maximum	Number of valid cases	% of valid cases
Financial Times	1,702,810	2,149,905	51,000	16,000,000	181	58.2
Daily Telegraph	248,313	466,696	10,000	5,000,000	139	49.1
The Times	321,667	240,740	70,000	750,000	15	22.7
Business & Assets	1,630,095	1,764,946	35,000	8,000,000	21	36.2
Western Mail	144,852	215,802	10,000	1,500,000	56	22.1

Table 5 Selling Price (£'s) of Private Business Sales by Different Data Sources, June and November, 1987

Data source	Selling price (£'s)					
	Mean	Standard deviation	Minimum	Maximum	Number of valid cases	% of valid cases
Financial Times	455,027	526,780	3,500	3,000,000	55	17.7
Daily Telegraph	268,966	284,692	20,000	2,000,000	225	79.5
The Times	174,513	208,048	10,500	1,100,000	36	54.5
Business & Assets	230,667	164,020	50,000	450,000	6	10.3
Western Mail	68,253	70,957	1,875	600,000	172	62.5

Table 6 Reason for Sale of Private Business Sales by Different Data Sources, June and November, 1987

Date	Data source									
	Financial Times		Daily Telegraph		The Times		Business & Assets		Western Mail	
	No.	%	No.	%	No.	%	No.	%	No.	%
<i>(a) Strategic</i>										
1. For development	12	3.9	2	0.7	3	4.5	0	0.0	1	0.4
2. Strategy / policy misfit	14	4.5	0	0.0	1	1.5	0	0.0	0	0.0
<i>(b) Personal</i>										
3. Retirement	18	5.8	12	4.2	1	1.5	0	0.0	7	2.5
4. Ill health	0	0.0	0	0.0	2	3.0	0	0.0	3	1.1
<i>(c) Ceased to trade</i>										
5. Receivership	40	12.9	0	0.0	0	0.0	9	15.5	0	0.0
6. Liquidation	5	1.6	1	0.4	0	0.0	22	37.9	4	1.5
7. Administration / joint administration	9	2.9	0	0.0	0	0.0	17	29.3	7	2.5
8. Tax losses / ceased losses	1	0.3	0	0.0	0	0.0	0	0.0	0	0.0
<i>(d) No reason given</i>										
9. No reason given	212	68.2	268	94.7	59	89.4	10	17.2	253	92.0
Total	311	100.1	283	100.0	66	99.9	58	99.9	275	100.0

Tables 7a to 7e The Leading Agencies Advertising Private Business Sales by Different Data Sources, June and November, 1987

Financial Times

Agency	Number of sales	%
1. Ernst & Whinney	12	3.9
2. Peat Marwick McLintock	12	3.9
3. Cork Gully	7	2.3
4. Everett, Mason & Furby Ltd	7	2.3
5. Arthur Young	6	1.9
6. PO BOX	144	46.3
Total	311	60.6

Daily Telegraph

Agency	Number of sales	%
1. Christie & Co.	46	16.3
2. Robert Barry & Co.	25	8.8
3. Huntley & Partners	18	5.7
4. F. A. Humberstone & Partners	14	4.9
5. Rendell and Northgate	12	4.2
6. PO BOX	27	9.5
Total	283	49.4

The Times

Agency	Number of sales	%
1. PO BOX	38	57.6
Total	66	57.6

Business and Assets

Agency	Number of sales	%
1. Deloitte, Haskins & Sells	5	8.6
2. Cork Gully	3	5.2
3. Ernst & Whinney	3	5.2
4. Grant Thornton	3	5.2
5. Rabbow & Co.	3	5.2
6. Phillips Commercial	3	5.2
7. PO BOX	0	0.0
Total	58	34.6

Western Mail

Agency	Number of sales	%
Welsh agency	161	58.5
UK agency	34	12.4
PO BOX	41	14.9
Total	275	85.8