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THE BUSINESS TRANSFER MARKET : EARLY 2010

In order to better understand the market as it is today it may be helpful to review its history.

The business transfer market is one which has only existed in anything like its current size during the past twenty or thirty years. It is still developing. Until about a generation ago most people were either employed or worked for themselves until retirement. Businesses tended to stay within a family. The number that sold outside the family were relatively few.

From the 1960's and 1970's the market started to grow and a number of agents began to specialise in the sale of businesses. The 1980's saw enormous growth in the size of the market. The recession of the early 1980's proved to be a catalyst as many people forced out of employment decided to consider self-employment. As the decade progressed, property values rose and this encouraged many people as they realised that the equity value in their homes enabled them to buy a business. In the increasingly pressured world of employment, the idea of being one's own boss became very attractive to many. The disparity of property values between the South East and South West and the various problems associated with big City life made the South West seem very attractive. In the mid/late 1980's a high proportion of businesses sold in the South West were sold to buyers from the South East. The Midlands was another major source.

These buyers were largely buying homes and lifestyles and usually wanted to buy freehold. They needed a certain level of income but were not much concerned with the concept of "return on capital". They assumed that the values of properties and businesses would continue to rise. Even if the business was not very profitable, that did not necessarily matter because the real profit would come when the business was sold at a later date.

The businesses being considered were what may be described as traditional small businesses - shops, sub Post Offices, hotels, guest houses, pubs, restaurants, garages, care homes etc. Even as late as the 1980's many of these sectors had not felt the full brunt of competition from large multiple operators - or at least in large parts of the country this was so. However, there was a trend which continued in the 1990's - existing multiple retail operators opened more and larger outlets with a wider product range and moved into niche markets which previously were the preserve of the independent retailer. Pub operators, hotel and restaurant chains developed new formats and aggressively marketed themselves. The small repair garage often struggled against increasingly sophisticated competition. The care home sector suffered from the budget constraints of the public sector in the days of "Care in the Community". Town centres were affected by the development of "out of town" shopping centres.

All these trends were highly visible to the general public. Not surprisingly this had an effect on the business transfer market.

The other factor which had a significant effect during the 1990's was the reaction to the recession of the early part of that decade. The lending institutions started to take a wider view of lending propositions - looking at the prospects for the business, the abilities of prospective purchasers, insisting on business plans, taking a view of the price in a wider context, not just for lending purposes. They now expect the return on the investment to be sensible, the principle being that an appropriate profit must be earned each year. Inevitably, changes of attitudes by lenders filter through to accountants and other advisors and eventually to purchasers. The market adjusts.

The total effect of these various factors has been considerable and will continue. It has helped to make the market more sophisticated. Prospective purchasers are more knowledgeable and selective. In many ways, they and their requirements are different from those of their predecessors. Inevitably, the range of businesses has altered little but their speed of sale and the prices achieved vary more widely and are more difficult to predict.

Today, it is possible to split a good proportion of prospective buyers into two broad groups - those seeking a lifestyle opportunity where the business is important but the prime objective is lifestyle rather than the return on investment. Many will want to buy freehold property and will mainly consider the traditional types of business.

The other buyer group is more focused on the need to maximise the business investment. These buyers are more likely to buy leasehold, preferring that their capital is in the business rather than in property. Partly for this reason and also due to the skills and business backgrounds of many of today's buyers, the less traditional type of business is frequently favoured by this group - distribution businesses, manufacturing, service businesses to the general public or the business community. These businesses are seen as more flexible with scope to allow the proprietor to be both pro-active and more easily reactive when market conditions change. Very often this type of business is bought by someone without the technical skills of the trade involved. Many buyers believe that they can bring new skills to the business, perhaps where the lack of these skills is considered to have held back the development of the business, typically in sales & marketing or financial management.

So, where is the market heading? Which are the factors that are likely to influence it and, most importantly for those currently active in the market today, what are the immediate prospects.

The general trends are reasonably clear because they are a continuation of current trends. The South West business transfer market is largely powered by two factors, one national and one regional. Few people today work for the same employer for the whole of their working lives and fragmented employment patterns often leave people in their forties or fifties trying to decide which path to take. For many, self employment is considered. Purchasing an existing business is often the preferred option.

If a business is to be bought there is also freedom of location. At that point the South West comes into its own. As the U.K.'s No.1 holiday destination, not surprisingly, it appears to be a favourite region for buying a business. For those buying later in their working lives, it also makes sense to buy where they hope to spend their retirement. For many this is the South West. In fact, this is a small part of a wider picture of people moving west for the good life. During 2008 a national survey of 4,000 homeowners looking to move in the following 12 months found that one in seven had identified the South West as the region where they plan to live and the South West Regional Planning Guidance, published in 2008, called for 20,000 houses a year to be built in the South West for the following 20 years, partly to cope with expected migration into the region.

The future of the South West, the property market and the business transfer market all appear to be very bright. Although many more national and international companies are now represented in the South West, the region remains an area where small, independent businesses thrive. They serve a population which, by temperament and often by age and income, is more than averagely keen to support local businesses rather than large companies.

The strong flow of people moving into the region also seems to fit this pattern – and the numbers are impressive. The latest report from the Office for National Statistics on population changes (2007) shows that the South West experienced the largest annual regional growth in population at 1.1% which was nearly double the national rate. Additionally a projection from the Office of National Statistics published at the end of November 2004 forecast almost a million extra incoming residents over the following 25 years. The 16% rise in population is the second highest in the country, just behind the South East. This is not entirely being caused by the magnet of the region's stunning scenery, unique environment and other attractions. There has been a sea change in recent years, particularly in the 4 more rural counties of Somerset, Dorset, Devon and Cornwall, towards a more modern and substantial business sector – and this is beginning to change perceptions elsewhere. The many Objective One projects in Cornwall now coming on stream, showcased by the Eden Project, the impressive developments occurring on Plymouth's historic waterfront, the move of the Met Office to Exeter in Europe's largest high tech removal and the rapid development of the 3 Devon & Cornwall airports are the more high profile changes but there are a growing number of substantial developments in health, education, housing and commercial activities of all sorts. More and more people are becoming aware that there is a lot more to the South West than pasties, cider and clotted cream!

2006 turned out to be a year which was better than many forecasts. Economic growth was greater, house values rose much faster, consumer spending, business investment, the stock market and other factors beat the forecasters expectations. In the business transfer market for non-consumer businesses, the year was a repeat of 2005 with demand greatly exceeding supply. This produced many examples of businesses selling quickly, thus exacerbating the shortage, and sometimes at unexpectedly high prices following competitive bidding. The slightly higher rates of interest in the latter part of the year seemed to have little impact on the demand for businesses.

2007 was a year of two halves. The first half was much like 2006. The second half was when economic turmoil started with news of a credit crunch, a run on a bank and uncertainty about the banking system and credit availability – but consumer expenditure showed only slight signs of being under pressure by the end of the year. In the business transfer market there were some signs of more cautious attitudes and deals took longer to process.

2008 saw us enter the most turbulent economic situation we have seen for at least 15 years. In these circumstances all economic forecasts have to be treated with even more caution than usual. The fog of uncertainty had certainly not lifted by the end of 2009 when it was still not possible to forecast either the length or the depth of the economic downturn and its ultimate impact on various sectors such as the housing market, consumer expenditure or anything else. This, of course, included the business transfer market.

The early months of 2010 have not given rise to a clearer picture. However, there are several positives amongst all the gloom. Interest rates are at an all time low for borrowers. Commercial finance is now no more difficult to arrange for the purchase of a quality going-concern business than was the case prior to the recession. In fact, given that deposit percentages for commercial finance are little different than was previously the case but interest rates are now considerably lower (typically 3½ to 4% over BBR and, in certain circumstances, as low as 2¾%), borrowers are now in a position where they can, if they wish, clear their loans much more quickly than they were able to previously – say 5 to 7 years as opposed to 10 years. Therefore, one might be tempted to ask “Has there been a better time to buy a business?”.

Businesses are still selling and the demand for businesses is not falling – a rise in unemployment usually increases demand and we have certainly experienced this during the last 2 years or so. In addition, given the very poor rates of return on savings, a lot of people who were previously able to live off the interest on their capital can no longer do so and they are being attracted towards investing in businesses for the higher rewards on offer. Investments in such as stocks and shares, pension funds and even bricks and mortar have taken a hammering of late. Consequently, a lot of people are seeking alternative investment vehicles and some of these are looking to acquire businesses over which they can have at least some degree of control! Whatever the squalls that surround us, it feels that our corner of the economy is still quite positive. People do want to buy and sell. The truth is that there are buyers available for every good business even if there is not necessarily a business available, yet, for everyone seeking to buy one! Economic uncertainties may make people more nervous but they do not alter the desire of people to own their own business; in fact there are many factors currently serving to heighten this desire.