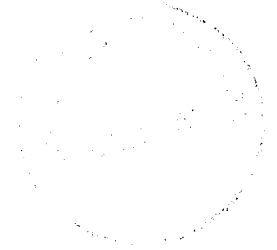




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**SWP 15/89 PRIVATE ADVERTISED SALES IN THE
UNITED KINGDOM 1983-1987**

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PRIVATE ADVERTISED SALES IN THE UNITED KINGDOM, 1983-1987

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ABSTRACT

The most common 'exit route' chosen by owners to realise their investment in their business was through private advertised sale. Over 6,300 private sales were listed in the Financial Times over the period between 1983 and 1987. The highest levels and rates of sales were located in the 'south' of England with there being a marked 'north-south' divide in terms of industry, turnover, reason for sale and intermediary (or 'agency') type. Significant variations in private sales in terms of standard industrial category and selling intermediary were also recorded over a range of criteria.

INTRODUCTION

With the advent of the 'Enterprise Culture' in the United Kingdom, there is now general agreement that a healthy economic environment is one in which there is significant volatility in the small firm sector, where a high 'birth' rate is matched by an equally high, early 'death' rate.

Concurrent with this, the growth of the Venture Capital Industry has highlighted the importance of identifying the means by which both founders and investors of successful firms realise their original investment. However, whilst venture capitalists are particularly concerned with this issue, and are therefore likely to influence both the choice and timing of an 'exit route' for their investee firms, they represent only a part of the overall activity. Indeed, it is much more likely that, in the absence of professional equity investors, the owner-manager is influenced, advised and assisted by his other professional advisors - his accountant, banker or lawyer.

The aim of this paper is to characterise the types of firm offered for sale over the past five years, to examine the types of industries most involved, to study the geographic patterns, and to identify those professional advisors most frequently involved. In particular, the study was based upon the assumption that intermediaries are a crucial element in the business sale process and that 'active' intermediaries are likely to be the larger accounting firms.

METHODOLOGY

Five potential exit routes are available to the owner-manager and they are as follows -

- Sale to a third, independent party;
- Sale to another company;
- Sale to the management or employees;
- Public quotation; and
- Liquidation of the business.

Since businesses for sale are not required by law to register their intent, there is no central listing of the population to be studied. Therefore, the following potential sources were investigated:

- The business sections of the national newspapers;
- Local newspapers published daily;
- Financial Times published every Tuesday and Saturday;
- Business and Assets published every two weeks;
- Daltons Weekly published weekly;
- Exchange and Mart published weekly; and
- Stock Exchange Quarterly (now the Quality of Markets Quarterly).

A preliminary scan of the types of 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.

Therefore, business sales advertised in the five contrasting sources of the Financial Times, the Daily Telegraph, The Times, Business and Assets and the Western Mail (a local paper published in South Wales) were extracted for the months of June and November 1987. Analysis of the data indicated the following:

- Sales in the Daily Telegraph appeared to be concentrated in the South East and the 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 are markedly larger than those in the other three sources.

As a result of this analysis, the Financial Times was chosen as the primary source of data. A subsequent survey of intermediaries and owners advertising business sales between April and May 1988 confirmed this as the "data source which most business sellers and buyers both advertise in and read". A list of business sales were extracted from every Tuesday edition of the Financial Times between 1st January 1983 and 31st December 1987. Results presented in this paper are from a wider study of 'exit routes' which have been detailed elsewhere (Birley and Westhead, 1988).

OVERALL TRENDS

Extent of Exit Route Activity

Table 1 compares the overall trends in business sales during the years 1983 to 1987 for all the exit routes. It is clear from this table that by far the most common method used by owners to realise their investment in their business was through private advertised sale. Consequently, trends in private advertised sales are of fundamental importance in any study of exit routes.

Table 1 **Year of Exit Routes**

Year	Private advertised sales		Public listing		USM listing		Third market listing		Independent acquisitions listed on the stock exchange		Receiver independent company management buy-outs		Private / family / retirement / company management buy-outs	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
1983	868	13.8	79	14.7	88	19.3	0	0.0	43	9.6	8	35.3	13	6.8
1984	1,168	18.8	87	16.2	101	22.1	0	0.0	69	15.5	8	47.1	19	10.0
1985	1,393	22.1	80	14.9	98	21.5	0	0.0	94	19.6	0	0.0	53	27.9
1986	1,338	21.2	136	25.3	94	20.8	0	0.0	115	24.0	2	11.8	56	29.5
1987	1,522	24.1	155	28.9	75	16.4	35	100.0	125	25.8	1	5.9	49	25.8
Total	6,309	100.0	537	100.0	456	99.9	35	100.0	446	100.0	17	100.1	190	100.0

Regional Variations

Table 2 shows that 54.5% of private advertised sales were located in the 'south' of England in the standard regions of East Anglia, the South East and the South West, with the vast majority (42.1%) concentrated in the metropolitan-based area of Greater London and the South East. In order to estimate regional volatility, sales levels were calculated as a proportion of the stock of establishments in the area as represented by VAT registrations (Ganguly, 1985). The same pattern emerged with the 'south' in general, and Greater London and the South East in particular, predominating.

Table 2 Number and Rates of Business Sales by Standard Region

Standard region	Number of private sales, 1983-87	Percentage of private sales	Private sales rate
East Anglia (b)	174	4.1	3.20
East Midlands (a)	301	7.0	3.28
North (a)	118	2.7	2.11
Northern Ireland (a)	8	0.12	0.13
North West (a)	444	10.3	3.40
Scotland (a)	222	5.2	2.22
South East (b)	1,808	42.1	4.10
South West (b)	380	8.4	2.82
Wales (a)	147	3.4	2.03
West Midlands (a)	451	10.5	3.85
Yorkshire and Humberside (a)	284	6.2	2.47
North (a)	1,951	45.5	2.28
South (b)	2,340	54.5	4.24
Total	4,291	100.0	3.19

Industrial Variations

Private, advertised sales are associated with a diverse range of industries as indicated in Figure 1. Retail and wholesale businesses rank first and second, with the light manufacturing industries of mechanical engineering and metal goods following a close third and fourth.

Seasonal Trends

Seasonal indices for private advertised sales were calculated as follows: 1.10 in the first quarter, 0.95 in the second quarter, 0.95 in the third quarter and 0.99 in the fourth quarter. From this evidence it can be inferred that the first quarter was the most active period. Moreover, Figure 2 shows an upward trend in private sales over the period, reaching a peak of 401 private sales in the first quarter of 1987. After the stock market crash in the third quarter of 1987 the level was reduced to only 339 in the fourth quarter of 1987. The decline in private sales in the second and

Figure 1

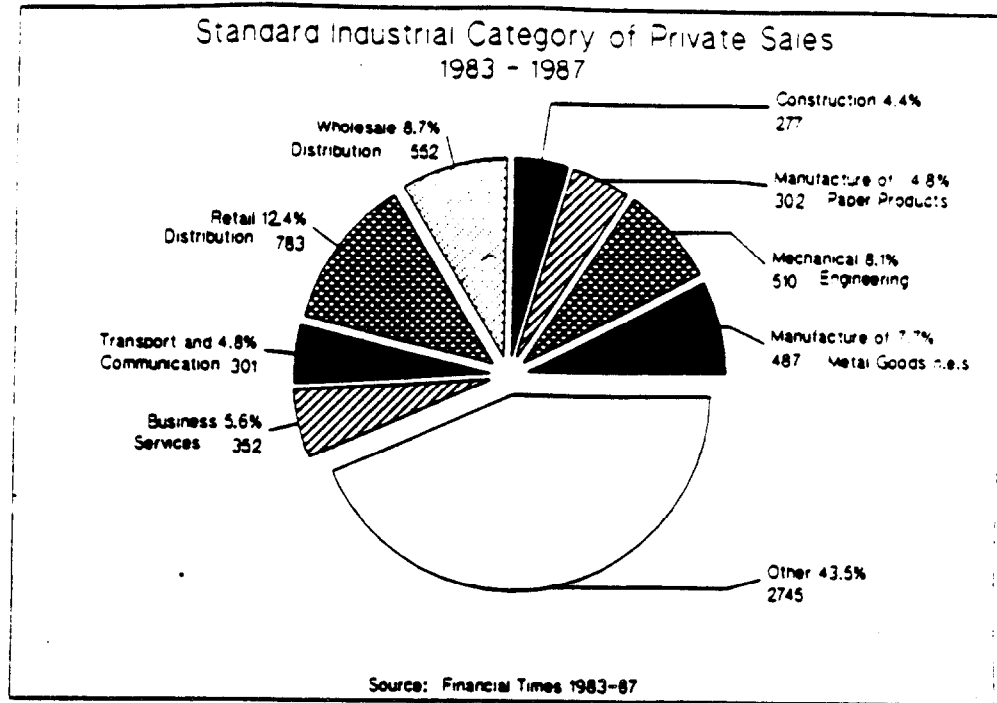
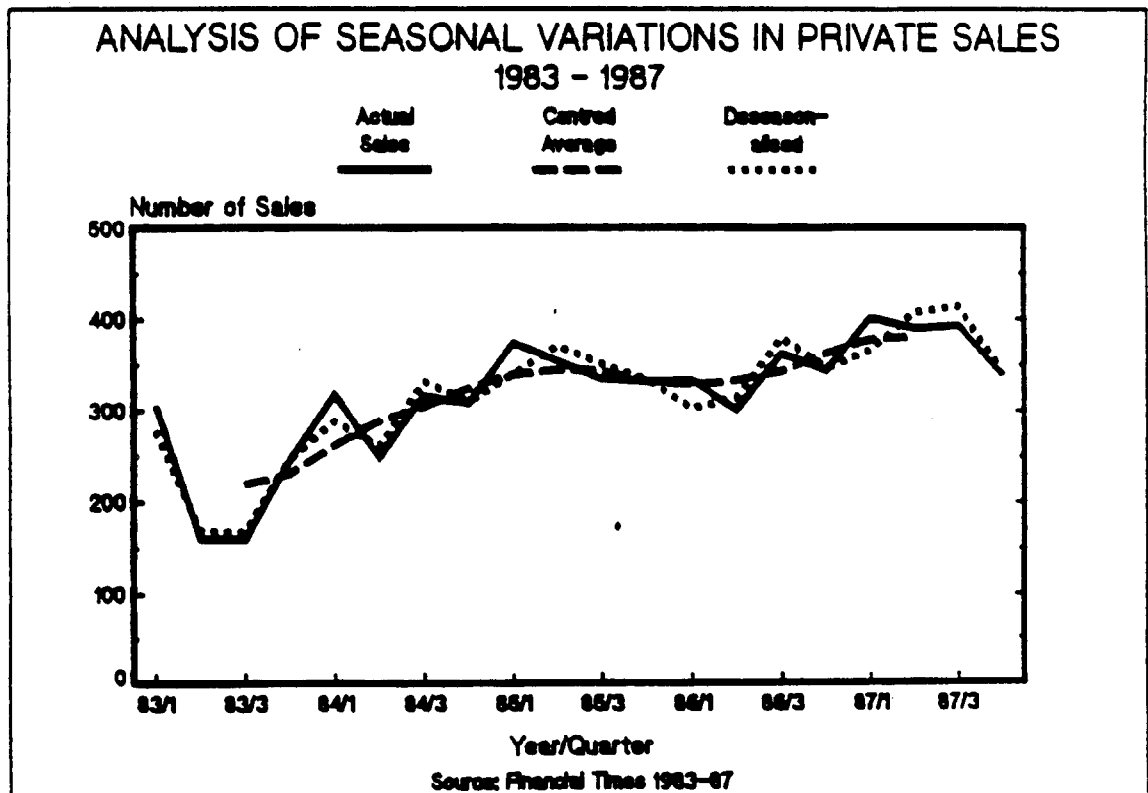


Figure 2



third quarters of 1983 is mainly due to the fact that private business sales advertisements were not published in the Financial Times due to an industrial dispute. The level of deseasonalised private sales reached a peak in the third quarter of 1987 with the following quarter recording a massive decline associated with the Stock Market collapse.

BUSINESS CHARACTERISTICS

The mean turnover of businesses offered for private sale was £1,784,267 ranging from a minimum of £3,000 to a maximum of £50 million. The mean selling price quoted was £572,875 and ranged from a minimum of £3,500 to a maximum of £30 million.

Sixty-eight percent of the advertisements gave no reason for the business being offered for sale, although 7% did indicate that it was being sold as a 'going concern'. For those giving a reason, 17% indicated specific strategic reasons, and 23% wished to retire or were selling due to ill health. By far the majority, however, were either in receivership (28.7%) or administration (23.9%) (Table 3).

Table 3 Reason for Sale of Private Sales, 1983-1987

Reason for sale	Number	Percentage
<i>(a) Strategic</i>		
1. For development	41	2.1
2. Cash for incorporation of business	4	0.2
3. Lack of funds	5	0.3
4. Exchange shares for PLC shares	11	0.6
5. Wanting to diversify	3	0.2
6. Seeks acquisition	14	0.7
7. Strategy / policy misfit	190	9.5
8. Explore other interests	59	3.0
<i>(b) Personal</i>		
9. Retirement	387	19.8
10. Ill health	53	2.7
<i>(c) Ceased to trade</i>		
11. Receivership	574	28.7
12. Liquidation	82	4.1
13. Insolvency	1	0.1
14. Administration / joint administration	478	23.9
15. Minimise capital gains	1	0.1
16. Tax losses / ceased trading	87	4.4
Total	2,000	100.5

Over the period studied 624 agencies were identified as being involved in advertising private business sales. Not surprisingly, the majority represented the leading firms of Chartered Accountants, most of which have significant geographic coverage, although four leading

agencies (Edward Symmons & Partners, Henry Butcher Business Brokerage, Humberts Chartered Surveyors and Christie & Co) were dealing with real estate based retail businesses. However, even the twenty most 'active' agencies listed in Table 4 accounted for only 26.9% of the advertised sales. Indeed, 537 firms (85.1%) appeared to have very little experience on which to draw, since they were only involved with one or two sales during the five year period.

Table 4 The Leading Agencies Advertising Private Sales In the Financial Times, 1983-1987

Agency	Number of business sales	Percentage of total business sales
Peat Marwick McLintock	284	4.5
Cork Gully	155	2.5
Price Waterhouse	117	1.9
Thomson Baker	114	1.8
Arthur Anderson	111	1.8
Touche Ross	108	1.7
Arthur Young	94	1.5
Ernst & Whinney	93	1.5
Grant Thornton	90	1.4
Deloitte, Haskins & Sells	83	1.3
Spicer, Pegler & Partners	67	1.1
Robson Rhodes	58	0.9
Stoy Hayward	55	0.9
Edward Symmons & Partners (a)	46	0.7
Henry Butcher Business Brokerage (a)	46	0.7
Binder Hartlyn	37	0.6
Coopers & Lybrand	37	0.6
Humberts Chartered Surveyors (a)	37	0.6
Christie & Co (a)	35	0.6
A. P. Locke & D. R. F. Sepe	32	0.5

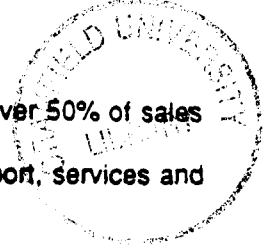
Note: (a) Essentially dealing in real estate.

ANALYSIS OF INDUSTRIAL VARIATIONS

Table 5 indicates significant industrial variation in four out of five of the characteristics of the businesses offered for private advertised sale.

Table 5 Significant Differences Recorded by Private Sales: Standard Industrial Category

Criteria	χ^2 value	Degree of freedom (d.f.)	Significant difference
1. Location	78.48	6	YES
2. Turnover	162.56	24	YES
3. Price	31.07	24	NO
4. Reason	17.82	6	YES
5. Agency	250.96	12	YES



Location: In primary, heavy manufacturing and light manufacturing industries over 50% of sales were in the 'north', whilst over 56% of business sales in 'other services', transport, services and construction were in the 'south'.

Size: Forty-two percent of construction businesses had a turnover of £2 million or more; only 8.3% of 'other services' businesses had a similar level of turnover. At the other extreme, over 31% of the transport and 'other services' businesses had levels of turnover less than £350,000. An even size distribution was recorded by manufacturing businesses.

Price: There is no clear difference between the industrial types and the advertised selling price of businesses. However, over 20% of businesses engaged in construction, 'other services', transport, light manufacturing and services were advertised for £700,000 or more, whilst over 38% of the businesses involved in primary, transport, heavy manufacturing and light manufacturing had an advertised selling price less than £200,000.

Reason for sale: Over 57% of private business sales from all industries were due to the ceased to trade reason. However, this reason was significantly higher for sales in the primary and manufacturing industries, whilst personal reasons were an important element in the construction and service industries.

Agency: There is a marked difference between the type of industry in which intermediaries are involved. An 'active' agency is an agency which advertised more than ten businesses for sale in the Financial Times over the 1983 to 1987 period and a 'non-active' agency is one in which advertised less than eleven businesses for sale. More than one third of businesses from primary, heavy manufacturing and light manufacturing were sold by 'active' agencies, whilst 'non-active' agencies advertised more than 35% of business sales from 'other services'. Over 55% of private business sales from the transport and construction industries were sold in the Financial Times alone.

ANALYSIS OF REGIONAL VARIATIONS

The data summarised in Table 6 shows evidence of a 'north-south' divide in four out of the five characteristics of the businesses offered for private advertised sale.

Table 6 Significant Differences Recorded by Private Sales: Location

Criteria	χ^2 value	Degrees of freedom (d.f.)	Significant difference
1. Industry	78.49	6	YES
2. Turnover	41.44	4	YES
3. Price	5.78	4	NO
4. Reason	38.94	2	YES
5. Agency	127.28	2	YES

Industry: In the 'north' over 68% of private business sales were from heavy manufacturing, light manufacturing and primary industries, whilst the majority of service business sales were located in the 'south'.

Size: In the 'north' over 41% of business sales had a turnover of £1 million or more compared to 32.5% of private sales in the 'south'. In fact, only 28.6% of businesses sold in the 'north' had a turnover of £2 million or more with 16.2% of business sales having a turnover of less than £350,000. In contrast, in the 'south' only 20.9% of businesses had a turnover of £2 million or more, whilst a further 25.3% of businesses had a level of turnover less than £350,000.

Price: In terms of the selling price of private sales there is no observable difference between the two types of locations. In both areas over 64% of the businesses were sold for less than £350,000. However, it is interesting to note that the majority of both the very small (less than £100,000) and the very large (£700,000 or more) priced businesses were located in the 'north'.

Reason for sale: In the 'north' the over-whelming reason for business sales was the ceased to trade category (76.2%), whilst in the 'south' this reason again was prominent (61.3%) but personal (24.5%) and strategic (14.2%) reasons were also found to be of importance.

Agency: A difference between the 'north' and 'south' was observed with respect to the agency advertising private business sales. In the 'north' over 45% of business sales were dealt with by 'active' agencies with only 32.2% of businesses having a forwarding address in the Financial Times alone. In contrast, in the 'south' the leading agency negotiating business sales was found

to be the Financial Times (45.3%) with only 28.9% of businesses engaging an 'active' agency. Clearly businesses in the 'north' had a greater tendency to utilise the services of 'active' agencies whilst businesses in the 'south' were more prone to rely upon a forwarding address in the Financial Times.

ANALYSIS OF ADVISORS

Table 7 shows clear differences in private advertised sales in which the various agencies are involved.

Table 7 Significant Differences Recorded by Private Sales: Agency

Criteria	χ^2 value	Degree of freedom (d.f.)	Significant difference
1. Industry	280.86	12	YES
2. Location	127.28	2	YES
3. Turnover	172.88	8	YES
4. Price	33.07	8	YES
5. Reason	1,228.18	4	YES

Industry: 'Active' agencies predominantly sold heavy manufacturing, service and light manufacturing businesses whilst 'non-active' agencies mainly dealt with the sale of service, heavy manufacturing, transport and light manufacturing businesses. In contrast, the businesses advertised in the Financial Times PO Boxes had a more diverse range of sales by industrial activity with no industrial sector accounting for more than 28% of sales. The sectors recording the highest levels of private sales in the Financial Times were services, heavy manufacturing, transport and light manufacturing.

Location: Over 56% of 'active' agency sales were in the 'north' whilst over 57.6% and 62.8% of sales were advertised by 'non-active' agencies and the Financial Times, respectively were located in the 'south'.

Size: 'Active' agencies mainly sold the larger businesses with a turnover of £1,300,000 or more (50.2%) whilst over 30% of 'non-active' agencies advertised businesses which had a turnover less than £350,000. Sixty-eight percent of the business sales advertised in the Financial Times PO Boxes had a turnover less than £1,300,000.

Price: Business sales advertised in the Financial Times PO Boxes had a tendency to be sold for a markedly lower price compared to those businesses sold by 'active' and 'non-active' agencies. In fact, 40% of the business advertised in the Financial Times PO Boxes had a selling price of less than £200,000. Conversely, over 15% of businesses sold by 'active' and 'non-active' agencies were advertised for £700,000 or more.

Reason for sale: 'Active' agencies over-whelmingly advertised businesses which had ceased to trade (95.2%). The majority of 'non-active' agency sales were also due to the ceased to trade reason (49.6%) but a sizeable proportion of sales were as a result of personal reasons (31.3%). The majority of Financial Times PO Box business sales were because of personal reasons (51.6%) with a further 39.5% as a result of strategic reasons.

CONCLUSIONS

This paper has indicated that a private advertised sale was the leading 'exit route' chosen by owner managers over the period 1983 to 1987. The level of sales has fluctuated upward but seasonal trends in business sales were also noted. Moreover, the levels and rates of private sales in the 'south' of the United Kingdom were markedly higher than those recorded in the 'north'. This in part, reflects the rapid growth of the United Kingdom economy in the relatively more prosperous and buoyant centre of Greater London and the South East in general. Business sales were advertised in a diverse range of industrial sectors, but retail and wholesale were the two leading industrial categories. Moreover, private sales in terms of turnover and selling price ranged from very small businesses to large established ones. For those giving a reason for sale, by far the majority were for either receivership or administration. Surprisingly, a wide range of agencies were identified as being engaged in advertising private sales. The twenty most 'active' agencies (predominantly the leading Chartered Accountancy firms) were found to have advertised only 26.7% of private sales. The majority of businesses were, therefore, being advertised by small businesses with very little experience on which to draw, since they were only involved with one or two sales during the first five year period.

Statistical analysis identified significant industrial, regional and advisor type variations. In terms of industrial variations heavy and light manufacturing business sales were over-whelmingly located in the 'north', they were large in terms of turnover, had relatively high selling prices and were predominantly being sold due to ceased to trade reasons by 'active' agencies. In contrast, in the 'south' a larger proportion of service businesses, with more modest levels of turnover were advertised. Generally, in the 'south' reasons for sale were more diverse with personal and strategic reasons being stated rather than the ceased to trade reason alone. In marked contrast to the 'north', private sales were generally advertised in a Financial Times PO Box. Furthermore, 'active' agencies had a tendency to advertise light and heavy manufacturing businesses for ceased to trade reasons and they were generally larger in terms of both turnover and selling price.

Trends in business sales detailed in this paper reflect the changing fortunes of different industries and locations within a society which is increasingly progressing into a post-industrial phase of development. The sale of manufacturing businesses for 'negative' reasons (such as receivership or administration) in the 'north' compared with the increasing trend for service business sales in the 'south' to be advertised for more 'positive' reasons (such as strategic and personal) is one more reflection of this on-going process of industrial, locational and social change.

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