

Trade and Private equity are actively seeking Companies in the Payroll and Human Resources market

Now, more than ever, the Payroll and HR businesses are attractive for trade buyers and private equity investors for two headline reasons. First, these sectors focus heavily on recurring (“subscription”) income which supports a highly attractive economic model with strong forward revenue visibility. Second, rapidly evolving business models are making the concept of “employment” extremely fluid and employers need high quality payroll and HR solutions to support this evolution.

This attractive positioning is why, with proper support and planning, you have the opportunity to take advantage of the value you have created. This is the second in a three part series designed to help you plan ahead to secure the personal and financial satisfaction that comes with sale of/investment in your business.

- **Part One - Understand the value of your business,**
- **Part Two - How to position your business to potential buyers/investors**
- **Part Three - Best Practice to optimize the outcome of a transaction**



PART TWO: HOW TO POSITION YOUR BUSINESS TO POTENTIAL BUYERS/INVESTORS

We concluded Part One with the view that there is a lack of well positioned businesses in the HR & payroll market today. This Part Two of the series focuses on the actions you can take to increase the value of your business to buyers/investor before you invite them to the table.

- **Start early** - plan to open every aspect of your business to an outside party starting today. Take the time to make sure that hygiene factors such as a full set of company documents, detailed monthly financial reports, a full set of customer and employee contracts, documented stock and bonus schemes are all in the cupboard ready to review.
- **Manage Professionally** - effective proof of a professionally run organization includes: providing evidence of regular board and management meetings, delivering to a business plan and budget, establishing and measuring KPI, measuring and focusing on employee retention, achieving industry recognition and regulatory approvals, updating a detailed financial model with strong future visibility into financials

- **Financials are fundamental** - be aware of the financial value drivers in your business and make decisions today that increase performance over time in:
 - % revenue growth
 - % recurring/subscription revenue
 - gross profit margin
 - cash generation
 - right sized overheads, and
 - detail of 'non continuing' costs post any transactions (e.g. if the Founder CEO Retires)



- **Know and keep your customers** - customer win and loss rates and average length of tenure are fundamental to growth in your business. Having historic analysis and future projections of customer data such as number, size, market, concentration, satisfaction and tendency to buy additional services increases your credibility in forecasting future trends and achieving financial goals.
- **Know and secure you core team** - Any buyer or investor is going to be very focused on retaining your critical talent. Founders can utilise many mechanisms to demonstrate high likelihood of retention including stock options, incentive schemes, and retention payments.
- **Segmentation is important** - track and report monthly on changes in client counts and financial performance based on: churn (lost clients), new sales, pricing, geography, service line, and industry/segment. All of this information should be for the Last Twelve Months (LTM) and roll forward into a monthly forecast for the Next Twelve Months (NTM) based on pipeline and customer satisfaction data.
- **Understand your potential buyer and investor ecosystem** - There are multiple, and very different, types of organization that may buy or invest in your business. For example, trade companies may find your business attractive either for additional scale in the payroll and HR market or as a means of market entry. Financial investors are very varied as well including those interested in holding a minority position, a majority position, and those who take outright ownership positions. Best practice is to develop a market scan of all potential buyer and investor communities and target organisations within each one.



- **Focus on the future** – create a plan that reflects the perspective of a new owner excited by your market. Look to the next 24 months and create sales targets with refreshed marketing materials and appropriate sales resources. Explore new sources of leads and delivery through partner channels, innovate your offering with cloud-first services, new pricing models and bundles and deliver reliable upsell/cross-sell of additional services. Renew your ambition.

As advisors to founder based businesses, we know that every business and founder is different and present their own unique opportunities and challenges to optimize their value. We work with founders over a period of time to ensure they are poised to take advantage of buoyant seller's market and are personally and professionally ready for the next phase of their lives.

Look out for our next brief “Best Practice to optimize the outcome of a transaction” in which we review the process of identifying your own objectives and goals as an individual and how you can plan and shape the next few years to create and deliver a path to value customized to your needs.

To explore more on current market dynamics and options for your business, please contact us [here](#) or you may also discover more [here](#) on our website.