Cicero Translations

Presenting you to the world

October 2013

Message from Paul Mason, Cicero Translations, speaker at the 2013 ATC conference

At the 2013 ATC conference I spoke about **growth through acquisition**.

In a departure from the usual PowerPoint + hand-out formula I just spoke to the delegates. So no slides, but here are a few notes summarising the content.

- Cicero Translations bought 8 translations businesses between 2001 and 2013, the most recent at the time of the 2013 conference being in the previous month (August 2013).

- Most were small businesses turning over £50,000 to £200,000, and run by an owner-manager with one or two staff, or none. Many ATC members fall into this category. The talk was based on our experiences in buying such businesses.

- Growth can be achieved (i) organically by sales and marketing, and (ii) by acquisition, i.e. by buying the regular clients of a business whose owner wishes to retire or move into another field. It is just another way of taking on new clients. This was the subject of my talk, which covered the five steps required to conclude a successful deal between acquirer and vendor:

    1. How to find willing vendors (websites, hearsay, mailings), and ensure they really have something to sell (regular clients, industry-standard or near industry-standard prices);
    2. How to value their businesses (see 'Valuation' on next page);
    3. Why the acquirer and vendor need to establish trust, and how to do so; the vendor will always want a straight cash deal while the acquirer will always want an earn-out arrangement, e.g. the acquirer pays to the vendor a % of all sales to, or profits from, the vendor's former clients over an agreed period, typically 1-3 years. We listed 3 reasons for acquirers' distrust of a straight cash deal, and 4 reasons for vendors' distrust of earn-outs – and how their concerns can be assuaged.
    4. How to draft a sale and purchase contract (3 key clauses);
    5. How to ensure a successful handover (checklist of 6 essential elements).

- Finally, I spoke about the results of our acquisitions, both for Cicero Translations and for the vendors. Which were less successful and why, which were successful, and which were spectacularly successful, and why. How much the vendors had sold for and how much we had gained in additional sales.

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Valuation

Small translations businesses typically suffer from 1 or more of the following 8 weaknesses. Part of the process of valuing them is to establish which they may suffer from and to what extent. This list may be useful for business owners who are considering selling their businesses in the next few years and want to make them more saleable:

1. Most of their business comes from just a small handful, or maybe just 2 or 3, top clients. The rest of their business comes from a rag-bag of clients who come and go. Too risky to pay cash for such a client list. Suppose news of the proposed sale prompts the clients to shop around?

2. The business is dependent on the personal and longstanding relations between the owner-manager and the clients, with the result that the goodwill is not easily transferable when the owner-manager goes.

3. The records of the business are not well kept – a mixture of poorly devised Excel spreadsheets, record cards, and knowledge that is kept in the owners' heads.

4. The owners are low-tech, do not have the latest software, have no proper workflow management systems, no proper customer relationship management database, and do not know how to use their existing software to its full capacity.

5. Poor financial control, clients used to getting away with 60-120 days payment, and consequent poor record of payment of suppliers (see ProZ LWA score) to ease cashflow.

6. Capable staff who might well download the vendor's client list onto a memory stick and start up in competition with the new owners (no restrictive covenant clause, or a clause that is so poorly drafted as to be unenforceable).

7. Business is not really profitable when the unpaid work done by the owner is fully evaluated, and therefore on the basis of a multiple of profits it is worthless (though not to trade buyers who can de-duplicate the overheads and thus extract value for the vendors).

8. The owners have an unrealistic view of the value of their businesses because they have an emotional attachment to it – it is their baby. They think the value should reflect work they have invested in it. But for an acquirer the value resides solely in the expected flow of income from regular clients.

I hope these notes are helpful and afford you a flavour of the presentation. If you wish to talk to me about selling your business, or buying others', please do not hesitate to contact me on +44 (0)1892 676655 or paul@cicerotranslations.co.uk.