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Tip Sheet

The Four Components of Successful Divestitures

01 Prepare Early.

Determine the value of each area of the business. Evaluate the strengths and weaknesses so that you can capitalize on the strengths that will provide the greatest value to a prospective buyer. Begin to prepare a “due diligence” package for each part of the company – whether it is a product line, a region, a department, or a legal entity. The due diligence package should include the following:

1. Mission statement – Why you are doing what you are doing and how does that tie into a long- term vision for the entity?
2. Value proposition – What are the benefits, value, and ROI? Why would someone pay for this part of the business? What are the current assets of the business?
3. Product or Service – What are you selling? How are you pricing it?
4. Marketing and Sales Strategy – Who is your market? How do you reach them? Who are your current customers? Why do they buy from you? Who are your competitors?
5. Operations and Operating Assumptions – What is the length of sales cycle, sales per month, revenue per sale, accounts receivable timing, major suppliers and headcount?
6. Financial Projections – What is your five-year plan?
7. Management Team – If you sell this part of the business, who will lead the charge? Do you have an experienced team in place that can develop a strategy and execute toward that strategy?

02 Create a Transition Team.

The transition team will work with the lawyers, accountants, bankers, IT team, and HR team to develop a plan and deliverables for the divestiture. Speed and momentum are important. The sooner the entities are operating separately, the quicker the returns.

1. The divested entity may need to operate on its own for a period of time. That means that the entity needs to have its own systems in place, its own benefits packages, beginning balances for the financials, facilities, and an infrastructure to support operations.
2. Service contracts, leases, lines of credit, supplier contracts, license agreements and employment agreements need to be renegotiated.
3. A communication strategy needs to be developed – both internally and externally. You don’t want your best employees to leave because of job uncertainty or because management is distracted.
4. Systems need to be separated – who gets what data? What data is needed to run each of the businesses? How are open transactions treated? What data is confidential? How will you treat history?
5. All the assets need to be divided: fixed assets, financial assets, and intellectual property.

03 Focus on Core Processes.

Revenue growth adds value and creates positive dynamics both internally and externally that can help retain customers and talented staff.

1. Give priority to customer-facing processes – sales, support, order management.
2. Design processes to present a consistent face to the customer before and after the split.
3. Create and staff interim processes to sustain the quality of products and services through the transition.

04 Remember, it's Not Over When the Sale is Complete.

Each of the two resulting companies, the parent and the divested entity, must be carefully managed from the moment of initial divestiture until both companies achieve independent stability. Members of each company must continue to work together to minimize disturbances to both the parent and divested companies in order to ensure that operations continue without interruption and are able to capitalize on the creativity and excitement of building new businesses.