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KINGDOM, 1983 - 1988**

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SPATIAL VARIATIONS IN PRIVATE ADVERTISED SALES IN THE UNITED KINGDOM, 1983-1988

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Summary *Private advertised sale is the leading exit route chosen by owner-managers wishing to realise their original investment. Contrasts in the spatial distribution of absolute as well as relative private sales are detailed.*

The recent growth of the venture capital industry in both the United Kingdom and Europe has highlighted the importance of identifying the means by which both founders and investors of successful firms realise their original investment - their exit route. However, despite popular perception that a Stock Exchange quotation is the prime exit route, in reality the majority of owners realise their investment through a private sale.

This paper has four objectives. First, to quantify the types of firm offered for sale between 1983 and 1988; second, to examine the timing and characteristics of private advertised sales; third, to explore 'north-south' contrasts in the characteristics of private advertised sales; and fourth, to detail the absolute and the relative spatial pattern of private advertised sales in the United Kingdom.

Methodology

Five potential exit routes are available to the owner-manager - sale to a third, independent party; sale to another company; sale to the management or employees; public quotation; and liquidation of the business. Unfortunately, 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, in order to estimate the level of activity, the following potential data sources were investigated - the business sections of the national newspapers; local newspapers published daily; the 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). Analysis of these potential data sources showed that the national publications were more likely to include larger businesses, from a variety of industries, whilst the local sources tended to concentrate upon local, very small, retail businesses (Birley and Westhead, 1988). However, the Financial Times provided the most comprehensive cover of business sales, both in terms of volume, industry and geographic spread, and so was chosen as the primary source of data for this paper. 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 businesses offered for sale was extracted from every Tuesday edition of the Financial Times between 1st January 1983 and 31st December 1988.

Overall trends

Table 1 compares the overall pattern in business sales during the years 1983 to 1988 for all the available exit routes in the United Kingdom. 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. Trends in private advertised sale are therefore of fundamental importance in any study of exit routes and they are the focus of study in the remainder of this paper.

Table 1 Year of Exit Routes in the United Kingdom

Year	Private advertised sales	Public listing	USM listing	Third market listing	Mergers listed on the stock exchange	Management buy-outs
1983	867	61	82	0	65	189
1984	1,187	76	95	0	86	209
1985	1,399	70	94	0	97	255
1986	1,328	125	86	0	126	312
1987	1,510	143	68	30	153	335
1988	1,782	118	94	21	102	373
Total	8,063	593	519	56	629	1,673

Business characteristics

The data contained in the advertisements for private sales are analysed below. Unfortunately, the format and content of the advertisements varied, and in some cases data was omitted. The evidence presented is a sample of particulars with there being no significant bias in the data.

Seasonal trends for total private advertised sales were calculated using the centred average method (Harper, 1977, p.223-227). For total private sales the first quarter was found to be the most active period with an average adjusted seasonal variation of 1.10 followed by the third and fourth quarters which each recorded an average adjusted seasonal variation of 0.97. From Table 2 it is apparent that the adjusted mean sales turnover rose to a peak of £1,124,864 in 1985, whilst the median sales turnover reached a peak of £1,124,864 in 1985 but fell to £1,000,000 in 1988. Also, Table 2 shows that the adjusted mean advertised selling price rose to a peak of £909,219 in 1987. In contrast, the median selling price has risen consistently from 1986 and in 1988 the median advertised selling price of £360,000 was the highest on record.

Table 2 Sales Turnover and Advertised Selling Price by Year¹

Year	Sales turnover (£'s)				Advertised selling price (£'s)			
	Mean	Median	Standard deviation	Number of cases	Mean	Median	Standard deviation	Number of cases
1983	1,891,486	973,322	2,785,775	452	427,925	243,331	1,063,113	141
1984	1,766,165	1,017,777	2,295,324	673	368,681	233,972	380,286	159
1985	1,932,302	1,124,864	3,047,687	784	531,874	281,216	630,584	236
1986	2,458,166	1,081,800	4,729,842	761	663,032	270,400	1,368,478	187
1987	1,830,460	1,040,000	2,651,846	876	909,219	312,000	2,476,034	273
1988	1,890,716	1,000,000	3,714,362	946	820,610	360,000	1,601,624	321

Note: Adjusted sales turnover and advertised selling price by assuming a 4% inflation rate per annum.

Whilst businesses offered for private advertised sale (only 238 missing cases (3.0%)) came from all industries the sectors associated with the highest levels of private advertised sales were retail (981 sales: 12.5%) and wholesale distribution (651 sales: 8.3%) with the manufacturing industries of metal goods n.e.s. (622 sales: 7.9%) and mechanical engineering (597 sales: 7.6%) following a close third and fourth. Seventy percent of the advertisements gave no reason for the business being offered for sale but for those giving a reason, 16.6% indicated specific strategic reasons, and 22.6% wished to retire or were selling due to ill health. By far the majority, however, were either in administration (27.4%) or receivership (25.9%) and, over all, 60.8% of businesses were advertised as having 'ceased to trade'.

Over the period 879 agencies were involved in advertising 4,265 private business sales (52.7%); the remainder being advertised through a Post Office Box Number in the Financial Times.

Surprisingly, the twenty most 'active' agencies (mainly the leading firms of chartered accountants) accounted for only 26.9% of the advertised sales.

'North-south' contrasts in private advertised sales

Recent research results indicate that over a wide range of economic and relative well-being indicators there are marked spatial variations and inequalities in the United Kingdom (Lewis and Townsend, 1989). For example, areas in the 'south' of England (and in the South East of England in particular) have increasingly been associated with higher levels of economic prosperity and wealth. This section examines whether there are any significant differences in the characteristics of private advertised sales in 'southern' (the standard regions of East Anglia, the South East and the South West in England - broadly regarded as the pressurised heart of the 'south') and 'northern' locations (remaining areas of the United Kingdom).

In the 'north' 51% of private advertised sales were from heavy manufacturing, light manufacturing and primary industries, whilst in the 'south' 31% of advertised sales were service businesses alone ($X^2 = 92.93$, d.f. = 6. significant difference at the 0.001 level). It is also interesting to note that over 48% of private advertised sales from primary, heavy and light manufacturing were located in the 'north' whilst the majority of service business sales were located in the 'south'. The mean level of turnover of businesses offered for private sale in the 'north' was £1,891,030 (median is £1 million) ranging from £3,000 to £30 million. In contrast, in the 'south' the mean level of turnover was significantly smaller at £1,487,796 (median is £750,000) and ranging from £15,000 to £25 million ($t = 4.23$, significant difference at the 0.001 level of significance). Moreover, the mean price of businesses offered for private sale in the 'north' was £420,457 (median is £250,000) ranging from £7,500 to £5.5 million. In contrast, in the 'south' the mean advertised price was significantly larger at £570,520 (median is £265,000) and ranging from £7,500 to £15 million ($t = -2.67$, significant difference at the 0.01 level of significance). In terms of the reason for sale a clear difference between the two types of locations was recorded ($X^2 = 44.78$, d.f. = 2. significant difference at the 0.001 level). In the 'north' the overwhelming reason for business sales was the ceased to trade category (76.2%), whilst in the 'south' this reason again was prominent (61.8%) but personal (24.2%) and strategic (14.0%) reasons were also found to be of importance. Over 58% of businesses stating strategic and

personal reasons were located in the 'south', whilst 57.8% of business sales listed in the ceased to trade category were located in the 'north'. Also, a difference between the 'north' and 'south' with respect to the agency advertising private business sales was noted ($X^2 = 133.86$, d.f. = 2, significant difference at the 0.001 level). In the 'north' over 45% of business sales were advertised by 'active' agencies² with a further 32.5% of businesses having a forwarding address in the Financial Times alone. In the 'south' the leading agency negotiating business sales was found to be the Financial Times PO Box Number (44.6%) with only 30.6% 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.

Location of private advertised sales

Sixty seven percent of private advertised sales listed in the Financial Times over the 1983 to 1988 period stated the location of the business at a county scale. Figure 1 indicates that the absolute number of private advertised sales is overwhelmingly concentrated in Greater London. Six other counties recorded large volumes of private business sales: the West Midlands, Greater Manchester, West Yorkshire, Kent, Hampshire and Surrey. Low levels of private business sales were recorded in the predominantly peripheral and rural counties of the Borders, the Islands of Scotland, Dumfries and Galloway, Northumberland and Durham. Very low levels of private advertised sales were also located in traditionally industrialised Gwent and in Northern Ireland.

Figure 2 indicates that above-expected numbers of private business sales were recorded in only fifteen out of the sixty-five counties, nine of which are located in the South East of England alone. This 'expectation' is based on each counties share of Value Added Tax (VAT) registered units in the UK and each counties share of the total number of private business sales in the United Kingdom over the 1983 to 1988 period¹. The 'over-representation' of business sales in Greater London is clearly indicated in Figure 2 but only modestly greater than expected numbers of business sales were recorded in counties surrounding Greater London and in provincial counties such as Cheshire, Gloucestershire, the West Midlands, Avon, Northamptonshire and Dorset. In Northern Ireland and Strathclyde the number of business sales is markedly lower than that expected. This may

in part be a consequence of peripherality locationally and economically as well as the result of political and social unrest in the case of Northern Ireland.

In order to estimate spatial volatility, private advertised sales in each county were expressed as a proportion of the total stock of VAT registered establishments for each respective county in the base year 1983 (Ganguly, 1985). Business sales rates are particularly high in Greater London, with other high values also being recorded in Hertfordshire, West Sussex, Surrey, Isle of Wight, Kent, Hampshire and Northamptonshire in the South East of England, Cheshire in the North West of England and Gloucestershire in the South West of England (Figure 3). Low rates of private business sales were recorded in Northern Ireland, the Borders and Dumfries and Galloway in Scotland, Northumberland and Durham in the North of England and Gwent and Dyfed in Wales. Moreover, it is apparent from Figure 4 that fifteen counties had greater than expected private business sales rates. Nine counties in the South East of England had higher than expected rates with Greater London recording a markedly higher than expected rate. Similarly, higher than expected rates were recorded in Cheshire, Gloucestershire, Northamptonshire, Avon, the West Midlands and Dorset. In marked contrast, considerably lower than expected rates were recorded in Northern Ireland, eastern and central Wales, in the highland and island counties of Scotland, central and lowland Scotland, in rural northern England and in Somerset in South West England. From this evidence, it can be inferred that markedly lower than expected business sales rates were generally recorded in the more rural and remote and peripheral countries and counties of the United Kingdom. Reasons for marked spatial differences in rates of private advertised sales may also be related to aspects of agglomeration economies, rurality, industrial structure, access to finance / personal wealth and market demand and relative well-being. The relative importance of these factors have been explored in detail elsewhere (Birley and Westhead, 1988).

Conclusions and Implications

This paper has shown that there is a strategic loosening taking place in the corporate market-place - more businesses are being sold, and more owner-managers are choosing to exit ownership of their businesses, whether it be through private sale, sale to their employees, through the mechanism of management buyouts or public flotation. The results also show that the major markets in the Stock

Exchange are not reaching the vast majority of owner-managers wishing to sell their equity. Clearly, the majority are simply too small, but this is not the only reason. For example, despite the reduced entry conditions in the secondary markets, the transaction costs are still very high. Moreover, most owner-managers prefer to realise their investment in total, and to sever connections with the business. They do not wish to enter into equity partnerships or management contracts with other, unknown partners.

Over the six years studied, 879 separate intermediaries were involved in advertising businesses for sale at the national level, the twenty most active accounting for only 26.9% of the advertised sales. Whilst it is certainly possible that there is some bias in the sample the evidence presented above does, however, suggest that the level of experience of this type of transaction within the agencies is very limited. If this is the case, the quality of the strategic advice offered to the owner-manager at this most crucial time is also called into doubt.

The spatial analysis of the data has shown that the nature of the supply of owner-managers wishing to realise exit their ownership is geographically biased. Whilst, there are marked crude 'north-south' differences in the characteristics of the firms offered for private advertised sale, further analysis also showed that this masks local and county differences, and that the volume and nature of exit route activity is, in part, a reflection of the existing industrial and commercial base (Birley and Westhead, 1988). Due to the limited provision of capital for new and small firms at the local level, the closing of local Stock Exchanges, and the demise of the Corn Exchanges and Wool Markets has left a local vacuum for individuals wishing to realise their investment in their business. Consideration should therefore be given to the establishment of a network of local, regulated, financial markets for the sale of small businesses at the local level.

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Notes

1. 'Expected' number of private business sales = $\frac{\text{Number of VAT registrations in county } i, 1983}{\text{Total number of VAT registrations in the UK, 1983}} \times (\text{Total number of private business sales in the UK, 1983-88})$
2. 'Active' agencies are those which dealt with twelve or more private advertised sales between 1983 and 1988

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Figure 1

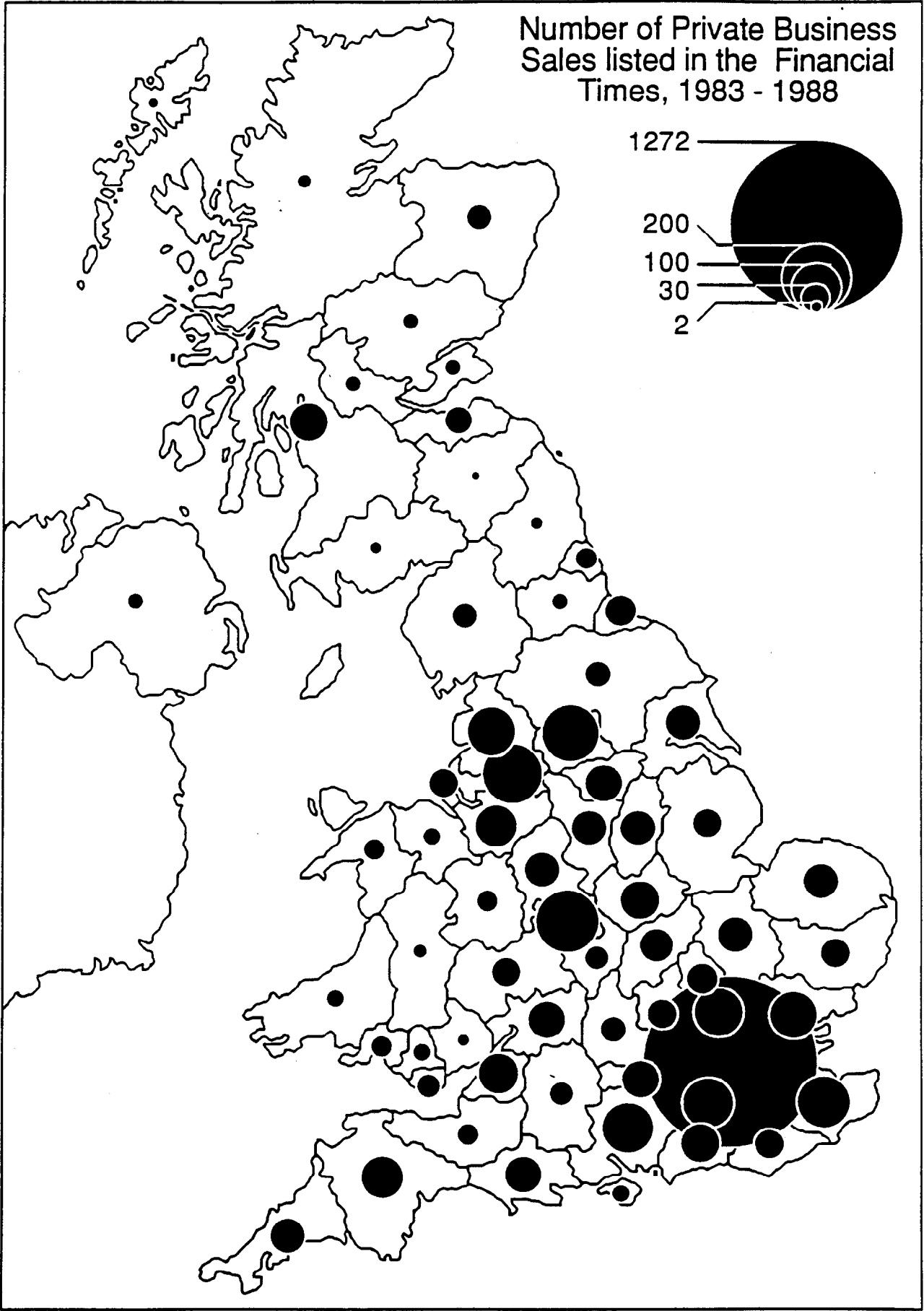


Figure 2

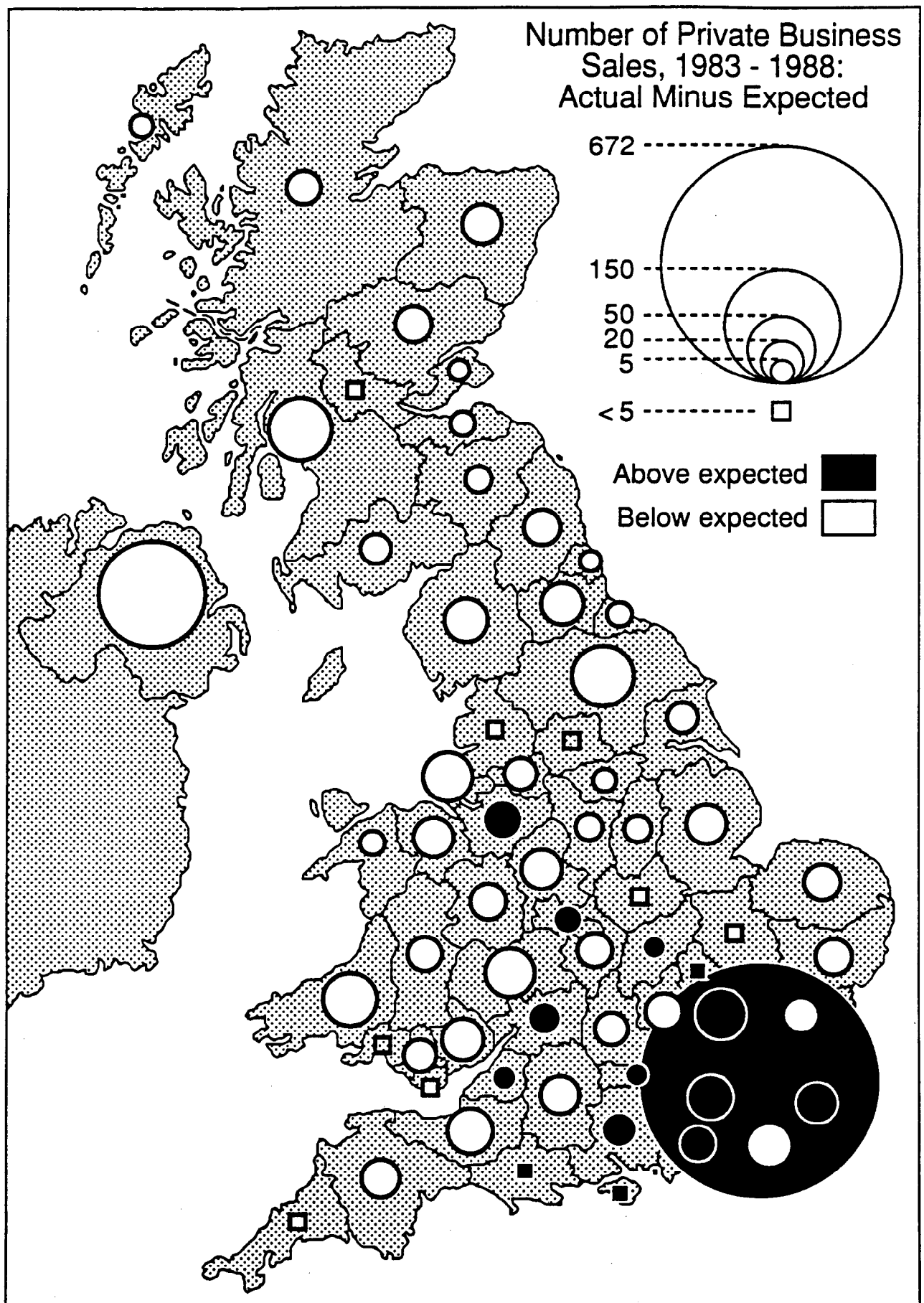


Figure 3

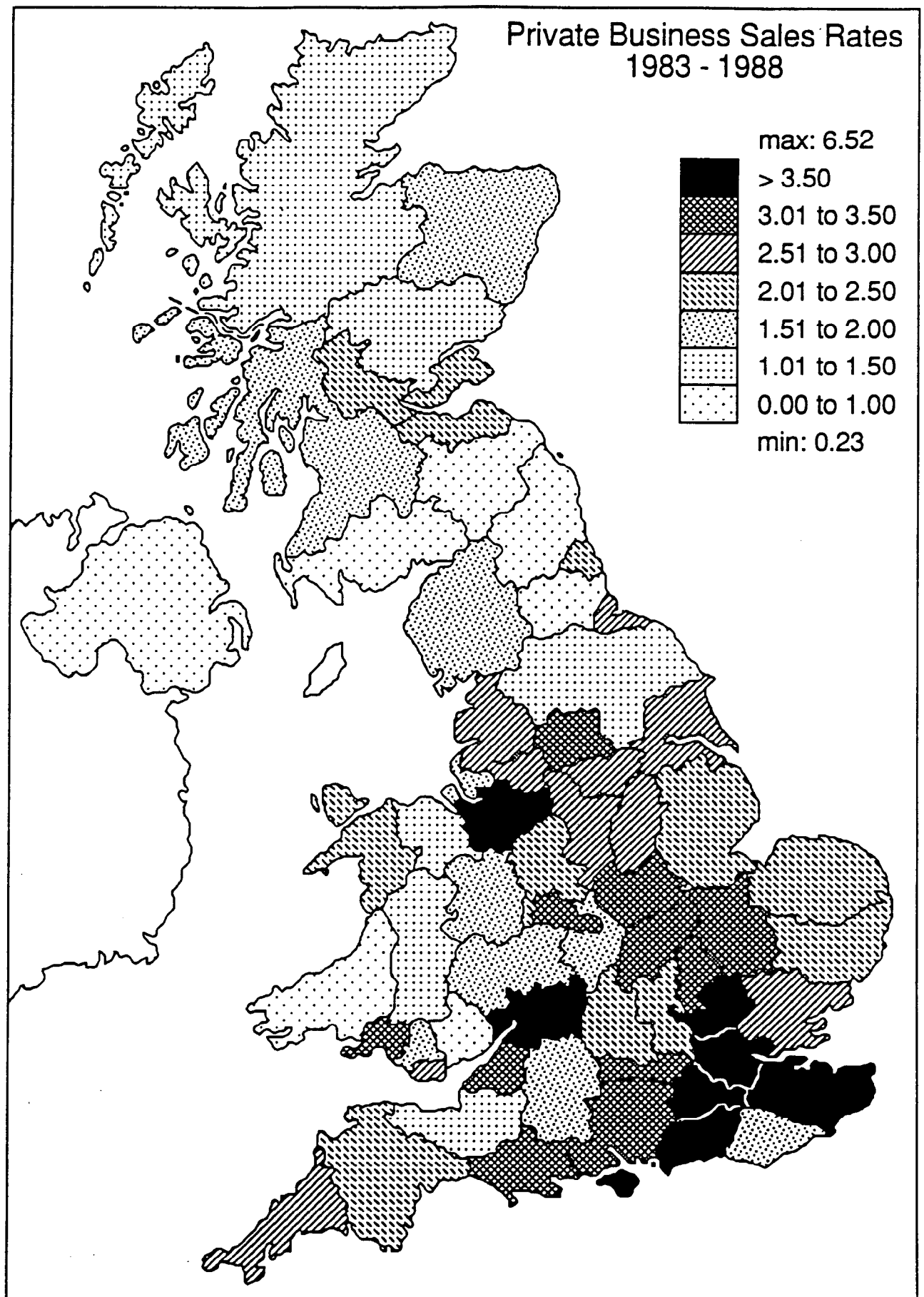


Figure 4

