CFO

The Decision to Buy or Sell Non-Core Assets

No matter what side of the negotiation table you are on, make sure these questions are top of mind.

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As the coronavirus pandemic stretches on, the role of the chief financial officer has been adapting to meet organizations' changing needs. CFOs have always worked to maximize ROI for stakeholders and ensure the immediate and long-term health of their organizations. Now their finance acumen is proving beneficial in helping businesses shape their overall strategy. Companies are taking advantage of CFOs' unique insights into what is generating value and where things can improve.

One area where the CFO can greatly influence the trajectory of a business is in knowing how to guide the decision of whether to sell non-core assets or the decision to invest in another company's distressed assets.

Analyzing the Parts

Any large organization is, at its heart, a portfolio of different divisions and products — some successful and some less so. For CFOs, it's helpful to measure these various buckets individually to determine which ones might benefit from additional investment and which ones might be good candidates for a sale.

This strategy has its roots in the BCG matrix that Boston Consulting Group created back in the 1960s. It remains a valuable tool today. In short, an organization can put each of its portfolio divisions or products into one of four quadrants according to market growth and relative market share:

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- A "dog" has low growth and low market share. These "pets" are usually a drain on resources.
- A "cash cow" has low growth with high market share. This area should be "milked" as much as possible without killing the cow.
- A "question mark" has high growth but low market share. These will eventually end up in another category, and they will require significant investment to move into the star quadrant.
- A "star" has high growth and high market share. This area is worthy of continued investment.

Once you see each section of your business as its own entity, it's easier to measure and make resource-shifting decisions. Plus, CFOs can help their organizations determine if they should home in on core divisions or products and let go of nonfoundational assets. Similarly, a company might consider acquiring assets from another company that couldn't turn them into a "star."

It's not always easy to take the idea of purchasing or selling assets to a successful completion. Here are a few questions to consider, no matter what side of the negotiation table you are on.

Considerations for Selling Assets

If you are considering letting go of non-core assets, think through these questions:

1. What organizations would find these portfolio pieces attractive, and what is the best way to market to them?
2. How can we make the products, divisions, or other assets more compelling to potential buyers?
3. Are there any perceived downsides or liabilities to the assets?
4. How much could we make from the transaction, and how long would it take to complete?
5. What details should be given to potential investors or other interested parties to be able to monetize the assets?
6. Do we have the staff to design and manage the project, or will we need to hire a third party?
7. What will our organization look like once the assets are sold?

These questions may seem straightforward, but they likely won't have easy answers. Take time to work through them completely and effectively. Additionally, it's important to build out financial scenarios so you can analyze how the sale will impact your company. These

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projections will help determine how to best position your asset so you can receive the greatest interest and value. Include details that investors will look for and appreciate. The findings can also be used for discussions with your board of directors, financial institutions, and other advisers.

Once everyone is on the same page and confident about the decision, the next step is to create a transaction plan. It should outline when and how you will communicate about the sale and what it means for the health and future of the organization. That will help your investors, employees, and other stakeholders to stay engaged through the process, so you can all work together for continued success.

Considerations for Purchasing Assets

If you are looking into purchasing an asset from another company, make sure these questions are top of mind:

1. What companies would most benefit from an influx of cash, even if they have previously been competitors?
2. What activities would strengthen our business and current portfolio?
3. Is there an existing relationship with a complementary organization that we could mine to yield a more successful venture for both of us?
4. How can we learn what our prospective acquisitions will want in an offer?
5. What resources will we need for this purchase, and what details will our investors and financial advisers need?
6. Will there be a good culture fit with the other organization, and will there need to be any restructuring?
7. Who will help us identify and vet prospects, and do we have a partner who can mediate the transaction successfully?

The pandemic has caused many organizations' divisions and products to underperform, making them no longer strategically viable. Those assets are ripe to be purchased, and in some cases, there is stiff competition among potential acquirers. That makes it critical to move quickly. However, time should still be spent on the due diligence portion of the process. Dive into the details of projections and financial statements and look to see how the asset performed during the pandemic and before. Outline ways that the asset could create value for your organization so you can understand how to best maximize your return.

The Chief Measuring Officer

CFOs are an organization's "chief measuring officer" — the person who can measure the

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relative success of the various parts of a company with rigor and clear thinking. That thoughtful and in-depth analysis provides the foundation to make tough decisions. After you measure, then you can take action. If a company needs to sell off a troubled asset, it knows that stakeholders can receive some return on what they have built. Simultaneously, investors can purchase these winsome assets at a discounted rate.

No matter if you are purchasing or selling an asset, it's important to make sure your partner is a good fit for your organization. It can be helpful to work with a third party who can find and evaluate potential buyers and sellers, manage communications throughout the process, and create a plan for the transaction process and beyond. That kind of outside consultant is especially beneficial when timelines are short and emotions heightened.

Then the CFO can stay true to what they do best: Measuring what generates cash and what uses it, determining where to invest or withhold resources, and using the sale or purchase of a non-core asset to ensure success for their organization.

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