When divestments are good investments

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Divestment, in its positive meaning, is acquisition potential with a track record as someone's careful investment decision, which is in its own time approved by a business board.
The caveat of a divested business could be that it reached its potential and no longer creates added value for the current owner.
However, everyone's KPI are different and for another investor, it may serve its purpose (e.g. allows the strengthening of market presence).

When a company decides on divestment options, it should always look through the long-term strategy prism and be able to answer, at least, the following questions:

1. Does this still create added value for the earlier set corporate strategy and, if not, is this a temporary effect which is expected to be resolved?
2. Would such divestment cause significant market distortion and, if so, how well is the business prepared for this?
3. How will such a decision affect company valuation and how will it be perceived by the shareholders?
4. Would such divestment create prolonged positive effects on the revenue line (and at the group level) and how will it affect FP&A decisions?
5. What legal complications may cause such a divestment decision (e.g. loss of patents, tax incentives, confidential and market sensitive information dissemination)?

In contrast, when divestment acquisition potential becomes available, the one who acquires it needs to ask the right questions, among which are:

1. What other acquisition or business development alternatives exist and how do they compare with divestment acquisition, both in the short and long term?
2. What market perception will it cause (i.e. how will the competition react, including in international markets)?

3. How well can such acquisition be integrated into the existing business development pipeline?
4. What are the likely legal complications (e.g. becoming responsible for pending legal issues as a new 'owner')?
5. Abstract and ask yourself, regardless of what various portfolio models suggest, does your business really need this divestment acquisition as part of your set strategy?

Divestment is an opportunity to release obsolete business, but such a decision has to be well-thought out, considering long-term effects such as loosing experts, who will likely start working for competitors. Similarly, someone's divestment decision is essentially someone's acquisition potential, which brings various related legal and financial burdens, which could temporarily slow down business growth, and make it vulnerable in the competitive environment. And yet, such acquisition potential may strengthen the business in the long run, as well as boost productivity in the short run.

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