

## **How Serious Business Buyers Can Buy a Business**

### **Why business buyers need to stand out in the business for sale marketplace**

Buying a company is an example of that classic situation where there is only one item for sale with potentially multiple buyers. As one of several bidders you must expect to be viewed both in terms of the absolute value of your offer and perhaps more importantly in terms of your relative strength against other suitors. Put simply, you are in competition with other bidders and, to make life more difficult, you will not know who the others are or even how many there are.

An example of relative strength will be the structure of the offer you make. For example; the seller thinks their company is worth £4m, they want it all in cash and they want to exit 3 months after the deal is done. You are offering £2m plus £3m in shares which must be held for 3 years and the seller must stay for 18 months. While the absolute value of your offer is £1m above the seller's expectations, the structure of the deal is a long way from the seller's desired position.

However, the seller will typically have to make a decision between dissimilar offers both in terms of absolute value and deal structure. For example, you might find yourself in a shortlist with another bidder offering £2.5m cash plus £1.5m in shares which need to be held for 1 year but, like you, the seller is required to stay for 18 months. This offer is £1m less than yours but the terms are closer to the seller's preferred position.

The above scenario is a simplification of what typically happens. Sellers are usually confronted with different offers which do not enable a like-for-like comparison. The seller has to weight and compare different "features" across the range of offers to decide which provides best value.

It is clear from this simple example, which looks at only one dimension of an offer, why you as a potential buyer must make the effort to stand out. But, as I mentioned above, you do not know who the competitors are or what they might offer. This is when a good business broker can really earn their money as they can talk to the seller or, more likely, the seller's broker to find out what really matters to them. This will help the broker to structure your offer to give you that competitive edge.

By using a broker you avoid the risk of becoming personally embroiled in disputes with the seller. Disputes over matters such as valuation can easily offend or insult the seller who may well be in the position of disposing of their life's work or making the deal that

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will secure them for the rest of their lives. In most deals you will need the co-operation of the seller after the deal is concluded so offending them along the way is not a good strategy.

Some of the things to consider which might make you look a more attractive buyer are:

- Will you be a good employer to the seller's staff? This is also very important to you as the staff will almost certainly represent a part of the value of what you are buying so you need them to stay. You need to understand how the seller's staff are currently rewarded and motivated. If you cannot match what they already have, you could be heading for trouble either because they will not stay or because you end up paying them more than your own staff.
- Do you meet the "standards" that the seller considers important? Examples of standards could, as mentioned above, relate to staff or to your approach to; customers, suppliers, your commitment to quality, and your contributions to the community or charities. These are just a few examples of the things that could be used to evaluate you.
- What can you do for the seller's business that they cannot do for themselves? Perhaps they lack investment in production or sales so are failing to grow to plan. If you can fix their problems they might see an offer including your shares as a good thing because the value of the combined business should increase over time giving the seller an upside by taking shares in the future rather than all cash now.

In summary, you need to find out what really matters to the seller and decide if you can give it to them as part of your offer. By using an experienced broker you will find out more about the seller than you could on your own and avoid the risk of alienating them before the deal is done.

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