Avoiding Common Seller Mistakes in Mergers & Aquisitions: Inadequate Approaches to Finding Buyers

sales solution

by Brooke Hollis

This issue will look at a few issues with regard to finding appropriate buyer options and matching your personal goals with these groups.

Who is Right for You and Your Company?
The typical owner has spent substantial time, money, and other resources over many years to build a thriving business. When the time comes to consider either a full or partial exit, it is critical to assess personal goals to help identify the right potential successor/parent organization. Furthermore, since the owners are generally expected to continue for some period of time with the new company, it is important that both groups' personalities, culture and operating styles are reasonably well-matched.

First, it is important to consider whether, in fact, you are ready for a complete exit. A few questions to ask:

- Do I really want to be out of the day-to-day operations role post-transaction?
- How long would I be comfortable running things under a new organization?
- Do I have an in-house individual who could be groomed to take over my role?
- If not a client relations/development role, what role would I like post-closing?
- What do I want to do after any required transitional role?
- Are there any key employees I want to have treated in some special fashion?
- Would I be comfortable retaining some equity to play the "upside" and continue to have some type of involvement?
- Have I adequately assessed tax, estate/financial planning, family or internal succession issues?

Working with your advisory team, answering these and other questions can help to determine the timing and the right types of buyers, investors or hybrid organizations to approach. Planning ahead helps assure a smoother transition into the next phase of your life, whatever you envision this as…whether it's retirement and sailing in the islands, golfing, more family time, or moving on to a new business or investment role.

Finding the Right Buyers for Your Particular Situation
Even if all the above criteria are met, and the "fit" feels right, the deal still has to make financial sense. This is why the pre-planning and consultation with your advisory team is important. Once you have established a valuation target and your Mergers and Acquisitions (M&A) advisors have concurred that reaching a potential value in this range is realistic, the next critical step is finding enough and the right types of buyers/investors.

Having made the mistake of not using an M&A advisor when I sold my staffing and services companies, I believe that utilizing an intermediary with proven experience in staffing, and with whom you are comfortable, is an excellent investment in assuring the best possible transaction. While it is theoretically possible to do it on your own, almost inevitably, there are mistakes made that can be extremely costly.

Avoid Dealing Directly, Primarily With One or Limited Buyers
One should recognize that when a firm works for a buyer, or a buyer solicits directly – their goal is inevitably to get the best deal for themselves. These are professionals who buy businesses year-in and year-out. As an owner, it is unlikely you will have had experience with many transactions. Further, certain buyers will try to move you into a "no-shop" arrangement, then use problems that come up in due diligence to renegotiate what may have seemed like a good deal.

This is a complex process and without a firm command of the current market, and multiple buyers on a parallel track, you lose leverage and perspective on alternatives. The ability to finesse the process of negotiations, to confidentially contact buyers, to market and create the right positioning for your company, takes years to perfect.

Further, it is important to talk to many types of buyers to find the right fit and right price – not just the household names, for example:

- Public staffing companies
- Privately held firms involved in staffing
- Private equity or buyout funds
- Investor groups
- Non-traditional buyers who may consider staffing
- Foreign buyers and investors.

Bottom Line
With a team experienced in staffing deals (M&A advisor, attorney, CPA/financial advisors), you level the playing field with professional buyers. You also avoid the problems that can arise by negotiating for yourself – since these negotiations can get contentious, leading to bad feelings between you and your future "partner." Negotiating for yourself may also negatively impact the financial performance of the company as you are immersed in the many aspects of the sale process. A good M&A team will create a managed competitive environment which improves your odds of a better transaction and will identify a large enough group of potential targets to help you find the right transaction for your situation. Whatever you do, make sure you speak to enough buyers and have adequate resources on your side to help assure a favorable outcome.

Brooke Hollis is a Partner at Lyons Hollis Associates, Inc., a merger & acquisition advisory firm. He can be contacted at 866.670.0841, or by email at bhollis@lyonshollis.com.