Avoid These Mistakes When Acquiring a Business

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1. Speculating about a seller's motives

In most cases you will never know why or when a seller will decide to sell. You just want to be on the short list of potential buyers when they reach that point. Even if an ideal prospect told you "no interest" a year ago, he could one day change his mind. Stay in touch and be there when he does.

2. Failing to remember that buying is selling

Not every company is sold to the highest bidder. Many sellers are concerned with the nature of the "fit" and the way they perceive their employees will be treated following the sale. If you aren't courteous, and respectful during the courtship, what will they think about tying the knot?

3. Not using experienced professional advisers

It is a good idea to use qualified advisers. Naïve buyers and sellers often make mistakes; and mistakes cost far more than the expense of competent advisers. Some buyers think a failed acquisition effort is not worth paying for. Sometimes, however, you make far more money by not doing a deal. The objective is to do the right deals at the right price (and terms). Your advisers can keep you informed about what your competitor buyers are doing, both from direct experience and research. Their knowledge of the market can be invaluable in helping you close deals.

4. Discussing price without an objective pricing rationale

Sellers who are offered four times the earnings before interest and taxes (EBIT) in a six-times the EBIT market may be offended. If the difference can be explained by a severe working capital deficit, be able to show that your offer is really six-and-a-half-times the EBIT, less the necessary adjustment for the working capital you will have to inject in the company. In other words, be able to articulate your valuation rationale and negotiate from it, rather than merely arguing "lower" vs. "higher," which is a loser's game.

5. Being inflexible regarding the structure of a deal

Sellers generally prefer to sell stock, while buyers most often prefer to acquire assets and assume specific, known liabilities. Structure, however, often has pricing implications, so be prepared to offer alternative structures at differing prices. Remember to articulate the rationale for the pricing differences.

6. Trying to cut out a seller's adviser(s) and deal directly

The seller who is professionally represented is in that position for a reason. Deal with the owner(s) on those issues of necessity (with their advisers present), and deal through the intermediaries. The advisers are going to be paid anyway, so let them do their jobs. You are in the business of making acquisitions and these same advisers may bring you the next deal.

7. Promising that "nothing will change"

This is just plain dumb. You know and the seller knows that things will have to change after the acquisition. Be prepared to discuss what things make sense to be changed, both at the target company and back home at the parent.

8. Failing to conduct proper due diligence during appropriate periods

Ask all your questions objectively, not accusingly. Due diligence is not only legal and financial in nature, but also operational. Keep in mind that cost of the surprises following an acquisition are adverse to the buyer. Tie down the impact of the most likely post-deal surprises in the definitive of the agreement but remember that no rational seller will endure an infinite "tail" on adjustments. You have to balance the potential risks of the acquisition against your ultimate objectives.

9. Not willing to walk away

Not every deal is made in heaven. Some deals are better left undone, regardless of your investments of time, effort, and money. The biggest pricing mistakes and errors in judgment in negotiating occur when buyers are "overcome by the deal." It is every seller's dream to find an irrational buyer. Don't become one.

10. Perceiving the deal as done

Remember that the closing is just the beginning. Once you have the acquisition, you have to "hold" it — integrate it within your overall organization financially, operationally and in terms of management and leadership. Don't make the ultimate mistake of thinking the deal is done at the closing.