



Win-Win – Keys to Negotiating a Successful M&A Tool

By JoAnn Lombardi, VR Business Brokers/Mergers & Acquisitions, President

Whether you are buying or selling a business, a few guidelines can help you negotiate a deal more effectively and improve your chances for an advantageous outcome. While you're probably already familiar with basic negotiation strategies, you likely use them on a daily basis while conducting business. Most parties to an M&A transaction can use a refresher course when it comes to what may be the biggest deal of their lives.

Know Yourself

Good Negotiators start by knowing themselves. Before you enter into sale negotiations take time to identify your goals and your tactics for achieving them. If you're buying, what's your "reservation price", the most you are willing to pay? Would you be able to walk away from the deal if the seller refuses to budge on price?

If you are selling, similar questions apply: What's the lowest offer you will accept? Are you in a hurry to sell? What conditions will you require as part of the sale? For example, the retention of certain employees may be a priority. Also be prepared to speak confidently about your business's strengths and address any perceived weaknesses. Since the buyer's negotiating leverage emphasizes your weaknesses, you need to be aware of them and ready to provide a solution that mitigates an adverse effect on the buyer's offering price.

Know the Other Party

Knowing the other side is as important as understanding your own priorities. This knowledge allows you to map out the negotiation ahead of time. As a buyer, you should have a thorough understanding of the business gained through extensive due diligence.

If you are a seller, it is essential to know that your buyer can afford to purchase the business and, if the deal will be seller-financed, how well the company will be run while the note is being paid off. It is also helpful to learn if your buyer has looked at many other businesses. Buyers who know they have other options if your deal falls through will probably drive a harder bargain.

Gathering knowledge involves more than research; you also need to be a good listener. If you are talkative by nature, make an effort to speak less and listen more when meeting with the other party. The better you understand them, the greater chance you have of anticipating their moves and preparing counter offers.

Build a Relationship

There are plenty of opportunities for differences of opinion in any business transaction, and a business sale is no different. Establishing a cordial relationship can go a long way toward reducing misunderstandings or unintended offenses. Social occasions such as dinner or golf outing can break the ice. Expressing interest in the other party's opinion and a sense of humor also can help build a good working relationship.

Going back on your word, exaggerating points or misrepresenting facts in an attempt to strengthen your position, on the other hand, can damage goodwill. Finally, don't try to box the other party into an untenable position; it's a tactic that's likely to misfire.

Remain Flexible

Selling a business is a complicated process, of which price is only one component. When entering the negotiation stage, keep in mind other items that are subject to bargaining:

- Down payment amount.
- Interest rate on a seller note.
- Collateral.
- Seller warranties.
- Earn out provisions.
- Non-compete agreements.

Also consider the structure of the deal whether the company's stock is being acquired, or just its assets. In general, sellers prefer a stock sale and buyers prefer an asset transaction, which provides better cash flow after the deal.



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