By David M. Kauppi, CBI, President Mid Market Capital

Business Buyers Negotiating Tactics

If you are a business seller, one of the most challenging aspects of the sale process is listening to a potential buyer tell you why your baby is not beautiful. It is hard not to take that personally. A friend of mine is selling her condo and laughingly tells me of a buyer that came in and rolled a tennis ball across her floor to demonstrate that it is not perfectly level and that this flaw should justify a lower sale price. As I said, she laughed about it and did not get upset because she recognized it for what it was, a negotiating ploy.

Business sellers, however, have a huge emotional connection with their business. Their identity is intertwined with the business they have devoted years into building. These positioning statements by buyers often are interpreted as personal attacks or insensitive comments by someone that doesn't get it. Managing this process often is critical to maintaining a good buyer/seller relationship and creating an environment where a deal is possible.

Usually we schedule a conference call between buyer and seller after the buyer has reviewed the Offering Memorandum, Confidential Business Review, or "Book" that has been prepared for the business sale engagement. The reaction of the business seller as we debrief from such a call is often "a blow to the ego", "why didn't he get that?", "he doesn't understand our business", or even "what a moron!"

Below are some sample questions that demonstrate this approach from a buyer:

Q: Why are the co-op advertising cost so high this year? Is it all Lowes?
Q: There seems to be an unusually high level of product returns reflected on the 2007 YTD Financials. Please explain.
Q: What caused your dip in revenue in 2006?
Q: Your business seems to be concentrated in the United States. How much business is done outside the United States?
Q: Generally the unions are very restrictive on the use of outsourcing. Is that the case with your company?
Q: It looks like the majority of the business is originated by the owner. What happens if she leaves and how can we be protected?
Q: Your order lead time is 6 months. Does that cause you to lose orders?
Q: The US Auto market is in terminal decline. How do you see your future in that environment?
Q: Cost pressures have reduced loyalty with your Big 3 captive customers. What effect is that having on margins?
Q: Your company appears to have little or no relationships/Brand identity in China limiting potential in a very large growth market. Can you comment on this?
Q: Your licensing revenue accounted for close to $1 million in 2006. Are all of those licensing agreements expiring?

These questions are meant to help the potential buyer really understand the seller's business and understand any issues that could impact the business in the future. The second not so subtle message is that we really understand the flaws in your company and we are going to manage your expectations and justify our less than generous offer.

That is OK. Do they expect us to take this lying down? Two can play at that game, or whatever cliché we can think of. But, we must counter punch and our defense generally takes the form of answers that either explain why a negative was a one-time occurrence or something we have already identified and have taken corrective action. Our second major counter to the negatives from the buyer is to demonstrate that we understand why they are an interested buyer in the first place and try to position our company as a strategic acquisition.

Below is a sample communication back to the buyer after a conference call in which the buyer exercised his right to try to drive down our selling price:

Subject: Thanks for the Great Questions on the Conference Call:

Bill:

Thanks to you, Jim and Brad for some very good Q&A.

As our seller and I debriefed on the call we had a couple of observations:

1. Your team was obviously very sensitive to the big box retailers pricing pressure through your own personal experience. The XYZ Product is in a different stage of its product cycle then probably most of your line that is more mature. As you know and as XYZ Company is experiencing, their marketing costs in the start-up and growth mode may be out of line with the expectations of a more mature product line.

2. We understand that the big box retailers try to turn every product into a commodity and exert pricing pressure on their suppliers accordingly. This product line seems to have enough uniqueness that it is able to avoid that commodity label. It seems to be more strategic to the stores that carry it. They are able to get some companion product pull through - engine oil, filters, belts, spark plugs, etc. for the spring and fall tune up. It is also a product that provides that Eco Friendly Halo Effect. Buyers like solutions and if your product can be part of a solution, then buyers listen and pricing pressures are not as pronounced.

3. This product currently is the market leader in a newly revived market. Because your competition can not provide it, you could have a new reason to approach chains that may carry Competitor A, Competitor B, Competitor C, etc. This product could be an effective door opener.

4. You correctly observed by doing more of the component production yourselves, you could substantially improve the product line margins.

5. The product could be easily integrated into your current line and current distribution systems with minor incremental costs.

This looks like it could be a "strategic acquisition" in that it can easily achieve results well beyond the sum of its parts.

We look forward to continuing your investigation and due diligence process with us. Thanks again for your efforts and your consideration.

You may be asking yourself, does this actually do any good? Well, it depends. If they have the feeling that they are the only buyer in the process and we are selling the company from a position of weakness, our counter efforts are largely ineffective. If, however, they have the impression that the aforementioned Competitor A, Competitor B, and Competitor C have been presented the same positioning and have bought into one or two of the strategic arguments, then it really does work.

We try to send back our own not so subtle message. We know what we have. We understand the market and the competition. We understand the strategic implications of you or one of your competitors in control of our product line. We have other options besides you, so you might have to alter your expectations on how much you are willing to pay to become the ultimate buyer. Plus, this helps our seller feel less like a punching bag and more like a worthy opponent.

Dave Kauppi is a Merger and Acquisition Advisor with Mid Market Capital, Inc. MMC is a private investment banking and business broker firm specializing in providing corporate finance and business intermediary services to entrepreneurs and middle market corporate clients in a variety of industries. The firm counsels clients in the areas of M&A and divestiture, family business succession planning, valuations, minority interest shareholder sales, business sales and business acquisition. Dave is a Certified Business Intermediary (CBI), a licensed business broker, and a member of IBBA (International Business Brokers Association) and the MBBI (Midwest Business Brokers and Intermediaries). Contact Dave Kauppi at (630) 325-0123, email davekauppi@midmarkcap.com or visit our Web page http://www.midmarkcap.com/exit