Winning the Beauty Contest

Michael Wildeveld, CEPA, M&AMI, CM&AP, CM&AA, CBI, CBB
michaelw@veldma.com

Veld Mergers & Acquisitions
www.veldma.com
1 Park Plaza, 600
Irvine, CA 92614
310-652-8066

When owners decide to sell their companies what makes them choose one suitor — or buyer — over all the others? What is it that sets winning buyers apart from all the wannabes?

First, owners evaluate whether a potential buyer meets their exit objectives. At a minimum, owners should have financial and timing objectives. The financial objective is the amount of cash the owner wants from the sale to help achieve his financial objectives. Can this buyer deliver it? The timing objective is when the owner wants to leave. Does she want to stay on with the company for a few years or leave the closing table for the first flight to Tahiti?

If several buyers satisfy an owner's financial and timing objectives, how do owners choose? In my experience, sellers choose buyers who make them comfortable.

Years ago, we represented an owner who had built a world-class company without ever losing sight of the role his employees played in his success. He treated them with great care and respect and, in return, they stayed with his company for years. This solid employee base was one of the company's strongest value drivers. It enabled this owner to demand a premium price for his company and made potential buyers willing to pay it.

One of those potential buyers was a financially strong suitor whose offer more than satisfied this owner's financial objectives. While the owner was considering the offer, the buyer made numerous comments on how he planned to change personnel, operations and culture. He was insensitive to the owner's desires about how he wanted his employees and his customers to be treated after the sale. As a result, this owner eliminated this suitor from further participation in the sale process.

In a totally rational world, this deal would have closed. But in the world we inhabit, this owner rejected this suitor's offer. The suitor not only did not "read" the owner but he also failed to tailor his behavior to the owner's style.

Tailoring behavior generally means avoiding discussions of philosophical differences regarding management and emphasizing similarities. Specifically, if an owner is eager to close, buyers would do well to speed up the process. If an owner has other non-financial exit objectives (as they often do), savvy buyers find creative

ways to meet them or to carve out some middle ground.

In addition to understanding a particular owner's exit objectives, buyers would do well to understand the ego of the owner of the privately held company. These owners derive, to varying degrees, their identities from their companies. Their companies have, over the years, demanded personal sacrifices and afforded great opportunities. As a result, owners want to be acknowledged for their hard work and business acumen. In short, they want a little respect.

Buyers who win the beauty contest — reach the closing table — may do so because they have satisfied an owner's exit objectives, (stated and unstated) and have appreciated that owner's state of mind.

This article was written with the assistance of Ned Minor, a transaction attorney and author of Deciding to Sell: The Key to Wealth and Freedom (available from Business Enterprise Institute, Inc.)