

# **Selling or buying a business? Choose the right strategy**

A Guest Article by Keith Van Vessem  
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### **Company sellers and buyers need different approaches**

Selling a company and buying a company are two completely separate actions. They should be executed in completely different ways if you, the buyer or seller, want to maximise the benefits.

This would seem to be blindingly obvious, but it is extraordinary how often this simple point is overlooked.

### **Selling a company**

In most cases, the shareholder will do the sensible thing. They will mandate an agent who will seek to execute the sale. There will be lots of preparation in terms of strategy and research. The company may need to be “groomed”, i.e. prepared for sale. This may involve cleaning up the accounts to ensure that the business can be shown in the best possible light.

Only then can you begin the sale process by identifying the long list of potential buyers. Assess their suitability, as the list will include both trade buyers and financial investors (private equity funds).

### **Why appoint an agent to sell a company?**

Let’s answer this clearly. Shareholders appoint an agent to sell a business in order to maximise the price. The agent’s job is to interest as many potential buyers as possible.

The buyers should then be persuaded to bid against each other. This cannot be done openly, because the auction will be blind. However, the agent will invariably inform the buyers that there is plenty of interest in this particular company. It is important for the buyers to keep up with the sale process and meet the deadlines.

### **Information and access**

An Information Memorandum will be prepared and this is a key document. It is through the release of information that the potential buyers are kept interested in the auction.

Access to the management is also a key tool, because a serious buyer will want to build a good relationship with the management. Access to the management will be strictly controlled by the agent. It is the management who, in the end,

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can give a proper insight to the operation of the business that is for sale: the management holds the key to a successful acquisition.

### **The process**

During the process, the buyers will be invited to make an “indicative offer”. This will not be legally binding but will indicate to the vendors and their agent whether the buyer is serious about paying the right price.

If a buyer makes an inadequate offer (i.e. too low) they will be ejected from the process. To prevent this, the buyer might be guided by the agent as to what is, or isn't, an acceptable offer.

### **The conclusion**

Once the top bidder has been identified, the agent will award that buyer exclusivity; the other buyers will have failed because their bids were too low.

From this point onwards, the buyer can complete the purchase and the agent and vendor can congratulate themselves on having achieved the highest possible price.

### **The judgement**

This is a great way to sell a business but a very bad way to buy a business. From a buying perspective, everything is wrong:

- The buyer is only assessing this one business. There might be other (better and cheaper) businesses available if the buyer looked.
- The buyer is competing against all the other buyers in his sector to purchase this one business. This will drive up the price.
- The buyer has little control over the process and limited access to the management.

If someone set out to create a buy/sell process that was most damaging to the buyer, this would be it. So how should a buyer proceed?

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### **Buying a company**

Buying a company is a completely different, so buyers need a completely different process.

#### **The strategy**

Spend some time working out the acquisition criteria.

- What do you want and where?
- Do you want customers, technology, a new market, capacity, brand names or a combination of these factors?
- How much are you prepared to pay in terms of multiples?
- How would you structure the transaction: cash, shares, an earn-out or a combination of all three?

You need to address all these issues before you start.

#### **Looking for acquisition targets**

Once the acquisition criteria are clarified, the buyer can then go looking for the potential targets that might fit them. Again, let's be clear about the purpose of this strategy: it is to purchase the best possible company at the cheapest possible price.

Depending on the sector, there might be only a handful of potential targets or there may be lots. Going through all the possible names and rejecting those that are unsuitable is a very time-consuming slog. Much can be achieved by using the internet, but it remains a time-consuming slog.

Awarding a buy mandate to an agent to undertake the search and the legwork can save a lot of time and trouble.

#### **Approaching and negotiating**

Having identified the best targets, the agent can also approach the targets and gather further relevant information. Introduction meetings can be arranged and the buyer can make a comparative assessment of the potential targets.

The companies that are not suitable or are too expensive can be dropped. Hopefully there will still be a group of targets so the buyer can pick and choose.

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The buyer can dictate the process to suit his own timing to promote his own interests.

### **Problem solved?**

Not all of them. But many of the problems associated with a sell auction disappear.

- The buyer is better informed about the market as a whole and the businesses available.
- He is negotiating with several targets simultaneously and can make comparisons.
- He can speak with the management teams as often as he likes and exchange information as he pleases.

Basically, the buyer is now in control.

### **The transaction price**

This buy strategy is designed to help the buyer to make the best possible acquisition at the cheapest possible price. The sell auction is the opposite: designed to achieve the highest price for the shareholders – the sellers.

The oddity is that the sell auction approach is the default position for much acquisition activity. This is not in the interests of the buyers.

### **The two strategies**

There are two different strategies for two different activities – buying and selling. Most companies claim to have a strategy. But make sure you pick the right one.

To sell a company, appoint an agent to run an auction.

To buy a company, appoint an agent to search the market for suitable targets.

*Keith Van Vessem*  
*Director – Gate Corporate Finance Ltd*

If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.