

# Buying a Business is a Numbers Game

“A needle in the haystack!” or “A diamond in the rough”, both popular saying’s apply to what’s involved in finding your ideal company to buy! Any seasoned business buyer will tell you that finding viable companies that can be purchased for reasonable terms is a “numbers game”.

Thousands of company purchase candidates defined, that lead to hundreds of contacts to be made, resulting in tens of acquisition conversations that hopefully lead to ONE company acquisition! Many merger and acquisition veterans will tell you “It takes 100 potential opportunities to get one good deal” ... a numbers game.

At any point in the business buyer’s purchase process, for any number of valid or invalid reasons, either the business buyer or the business seller can call off the potential deal. Most potential business mergers and acquisitions pursuits do fall apart. The human and financial costs to both parties involved can be significant, sometimes devastating.

## What Is a Business Buyer to Do?

From a business buyer’s perspective, there are four fundamental stages to finalizing a business acquisition: searching for a business, qualifying the business, valuing it and negotiating with the seller. This article will highlight how a business buyer can eliminate many of the major, common mistakes buyers make within these business purchase steps:

### THE BUSINESS SEARCH STAGE:

As a business buyer you want to use as many means possible to position yourself to get the first shot at a viable business that can be purchased. Preferably your goal should be to find a purchase opportunity where you have no other purchase competition. Herein lies the most noteworthy justification for being as creative and diverse as you can be to locate acquisition candidates.

Often the more “creative” you are to find companies to purchase the quicker you’ll find the “right” deal. This is particularly true if you seek to locate quality candidate companies that are not officially “for sale”. The level of buyer competition is often most intense relative to quality companies who have NO KNOWN justification to consider a merger acquisition offer or. If the business owner has no compelling reason to sell, knows he has a company of extraordinary value, in great purchase demand, more often than not, only creativity will get you in front of that potential seller.

## **THE BUSINESS QUALIFICATION STAGE:**

As a business buyer you not only need to know how to effectively qualify a business financially and non- financially, but you must present your financial and management capabilities to the business seller in a most professional manner.

Often business buyers have not prepared in advance a formal, written: resume', identification and qualification summary of their "purchase team" or validation of their financial resources, to be provided to the business seller at introduction. To an owner of a quality business, getting this information early in the mutual buyer/seller evaluation process is critical, especially if there are multiple buyer candidates.

## **THE BUSINESS VALUATION STAGE:**

As a business buyer you need to know "what you don't know"! Do not try to do everything yourself, especially if you are not familiar with the task requirements at hand.

When it comes to determining the market value of a business, a business buyer must hire a proven business valuation expert for two key reasons:

1. This step in the business purchase process can be very complex and warrants utilization of proven expertise
2. When it comes to presenting a market value to a business owner who has invested significant time and money to "build his baby", you as a business buyer want to make sure the business valuation analysis and final valuation number comes from a "3rd party". It is much easier to negotiate a purchase price with the business seller if you weren't the same guy who established the opening "low ball" offer!

## **THE BUSINESS NEGOTIATION STAGE:**

As a business buyer you essentially want to purchase controlling interest in a viable business for a fair price, with favorable purchase terms, financed with as much of other entity's money as possible.

The negotiation portion of the business purchase process with the business seller, or their representative, is where most of this purchase objective can become a realization. Effective negotiation skills are not innate. They are developed, acquired and honed over many years of "verbal warfare". Plan and practice your negotiation strategy prior to meeting with the owner and hire a professional if you have any doubt about your desired outcome. This is NOT the point in the business purchase process to start to minimize your acquisition costs!

The odds of a business buyer finding and effectively buying a quality business are against him before he even starts his business purchase program. Ultimately the business seller knows

EVERYTHING about the business for sale but the business buyer theoretically only knows what he asks about or determines to be valid via his due diligence ...”buyer beware”!

Buying a business is truly a numbers game ... a game that can be consistently won if the business buyer truly understands his challenge at hand and has the discipline to know when to stop the purchase pursuit and utilize proven business merger and acquisition expertise.