

Negotiating the best deal for selling your business

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Are you planning to sell your family business? Before you read the advice below, take a look at the first article in this Eons series, ["Get ready to sell your business"](#) and make sure you've done everything necessary to prepare for the sale. Then, let the adventure begin.

Timing is important

Your first step in negotiating an advantageous deal is to see whether it's a good time to sell. Laura Henderson, 60, founded Prospect Associates, a company specializing in health-related research, in 1979. She served as president and CEO for 20 years.

When Henderson realized that the company needed more resources and growth opportunities to move forward, she decided it would be a good idea to offer it to a larger firm for acquisition. She did some investigating and found that the climate for acquisitions was positive. In addition, her company was well positioned for such a move. It had a backlog of work and substantial cash reserves. Less tangible, but still important, was its good reputation: Prospect Associates had conducted the research that led to a smoking ban on airplanes and investigated other high-profile public health issues.

Once she discovered that market conditions were right for selling her company, Henderson made it known that she was interested in a sale but not desperate. This is a good posture to assume; if people think you have to sell *now*, that puts you at a distinct disadvantage.

Generate interest

Your next challenge is to generate interest among multiple potential buyers. The more interest, the better. Henderson began this process by scheduling a lot of lunch dates with many potential buyers, inviting her executive vice president and chief financial officer to attend. Getting to know a potential buyer is an advantage.

"We got a sense of their vision and learned about their organizations. We knew afterwards if it was a buyer to follow up with," says Henderson.

Doug McConnell, president of Haylard Associates, says that flattery is a good strategy for getting a buyer to open up.

"Tell them what a great company they've built," he says. "Mention that in the long term it might be good to join forces against another competitor. Read their body language and listen. Let them talk first."

Another way to broach the subject of a sale is to mention that you are thinking of an exit strategy to try within the next several years and see if this piques their interest. If a potential buyer should happen to call you, ask enough questions to find out why they want your company.

Know what you want

Before you start discussing the terms of a deal, it's important to know what you want and what you are willing to give up. Henderson did not want to break up her company. She was looking for culture compatibility, management expertise, and technical resources. She also wanted cash, not stock.

Write out a list of terms you want. Identify what is negotiable and what is mandatory. You can also list show-stoppers -- crucial requirements that will end negotiations if the buyer refuses to meet them. During the three-year period between her lunch dates and a final sale, Henderson referred to her list often, not wanting to let outside influences and frustrations with the process change her focus. "It can get unpleasant. You have to suck it in and think, what outcome do I want?"

Of course, buyers will have a view that's different from yours. You have to be prepared for the negotiations to change in midstream, warns McConnell.

Work with your adviser

Find an adviser - typically a lawyer or business negotiator -- to represent you at the negotiating table. Henderson found a "wonderful" tax attorney from a small firm. Together, they stayed up nights reviewing documents. This degree of attention and hard work gave her team an advantage, she notes. Her attorney served as both adviser and "psychologist" during the process.

"For me, it was like a child being turned into dollars," she explains. "Because of his experience with negotiations, he let me know what was normal. He asked hard questions and maintained an objective view, which I sometimes couldn't do. He kept the process moving forward."

Review all legal documents

Most sales transactions include a number of documents. You and your adviser may have to review and/or sign the following:

- An agreement contract between you and your advisor (negotiator).
- A non-disclosure agreement to be signed by a potential buyer.
- A non-binding letter of intent stating the terms and price.
- Ancillary agreements covering costs, employment contracts, or non-compete clauses.
- The final contract.

Stick with your priorities

Your buyer will want to think that he has made a good deal. Decide in advance which of the terms on your list are negotiable, and be prepared to offer a few concessions. However, avoid giving up what is most important. As you'll recall, Henderson wanted to keep the company intact and get cash for the sale, not stock. She stuck with these priorities and got what she wanted. Only after all the terms had been discussed did the two parties talk about price.

Although most advisers say you should try to avoid setting a "sticker price" for the business, if you must pin down a price, make it 10 to 20 percent higher than what you want to end up with so that you can engage in a bargaining process. When you get an offer, refer to your terms list to see whether it meets your non-negotiable criteria. If not, schedule a lunch date with another potential buyer.

Henderson's advice to those entering negotiations:

"Be realistic. Buyers want to see a strong management team, the right value on the company, and audited financial reports."

In negotiating the sale of her business to American Research Institute (ARI), Henderson agreed to a five-year contract to serve as president of Prospect and as a senior vice president and Board of Directors member for ARI. Now, she is also an active member on several other boards. She pursues her interest in research and education by working with the ELY Foundation and advising her two college-age children.

In the end, Henderson says, her team worked a lot harder than the buyer's team. After all, it was her baby, and she was determined to find it a good home.

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