

How To Buy A Business Understanding The Process

I have summarised below the process that we use when acting as broker working for the buy side. Although, the following assumes you will use a broker, you could consider following this process yourself, but I would warn you of two key things:

- Do not underestimate the time and effort absorbed by the buying process and recognise that it will divert you from running your own business with potentially damaging results.
- The process of negotiation involved in buying a business can get emotional and personal, risking damage to the relationship with the seller who will become your new partner or employee.

The main steps in the process are:

- **Decide what you want to buy and why.** Of these, *why* is the most important and it will feed into deciding what you will look for as targets. What do you expect the purchase to do for you? What will the purchase do that you cannot do without it?

When considering the cost of the acquisition, you must also understand what else you could do with the money and then compare the returns that you will get from the different investment strategies always considering the risk profiles of each.

- **Finding targets.** The first stage helps you create a profile of the ideal target; business sector and location, customer base, offerings that serve a defined gap in your own armoury, revenue and profit ranges, private or public status, etc.

Using the profile, identify potential targets that might match it. Brokers do this through a combination of their existing network of contacts, recommenders and introducers, and specific searches using publicly available information. They will also use additional sources of information such as memberships of trade associations, or attendees at appropriate trade fairs.

The next step is quickly and cost effectively to reduce this long list of potential targets to a manageable size.

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- **Approaching Targets.** Bearing in mind how important this is and how much of the buying/selling chemistry is about personal relationships, the safest and most effective approach is through direct personal contact rather than mail-shots.

You will typically be making initial contact with, or via their PA, the chief executive, the financial director or the major shareholder; the key person(s) who know if the target company might be interested in a buy-out. To maintain confidentiality, contact these people at their home address.

Confidentiality is essential for the target so exercise caution, they will not want staff, customers, suppliers, competitors or, if a public company, the markets, to get wind of a potential deal as it could destabilise the whole business. You also do not want any of your business stakeholders, other than the selected few, to know what you are considering.

When you approach them, you need a simple story as to what you want to discuss, ask if they are interested and if they are, arrange an off-site meeting.

- **The first meeting.** Before this commences, both parties will need to sign a non-disclosure agreement. This should be a one-to-one meeting between brokers (or you if not using a broker) and should not involve legal advisors. This meeting is all about getting to know each other a little and sharing some experiences. This is the initial part of the courtship stage. If it appears that a deal can be done, then the parties need to agree a project plan; who will do what and by when.
- **The project plan.** This will now start to involve the professionals; legal, accounting and tax advisors. If the deal involves, for example, the acquisition of a company with new technology, you will need a suitable trusted technologist on your side of the project team.
- **Initial indicative offer.** This will be a general statement indicating price and deal structure. If the seller accepts this then you move to the next stage.
- **Due diligence.** This detailed investigation involves a review of the target company by suitably qualified professionals of legal, financial, technical, commercial, operational and HR positions. At this stage you start to incur real

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costs, so do not commence unless you are reasonably confident that you have made the right choice and that the deal will succeed.

- **Final negotiation and completion.** The due diligence will produce a variety of new insights which might modify the value and structure of your offer. So, you now need to enter into negotiation with the seller to see if your modified offer is acceptable. Once you have an agreement you will move to close the deal which involves a lot of legal paperwork.
- **The champagne.** By all means celebrate but please recognise that completion of the deal is only the beginning of the challenge to assimilate and integrate your purchase.

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