

Selling a Business: What Influences Your Prospect's Decision to Buy?

You need to put yourself in the position of the potential buyers when answering this question. Try asking what might influence you if the roles were reversed. Why would you buy your company? What might excite you to buy your company if you didn't already own it? This is an important part of the sale process because a seller must present the product, your company in this case, so that prospective buyers can understand what is special and what benefits they might gain by buying your product.

Some of the more common things that drive the buying decision are:

- If the buyer wants to speed up the process of increasing their market share they could do it by buying the market share that you have established. So, for example, one restaurant chain might buy another established chain. The motive here is to add volume. This buyer may, for example, have an established purchasing operation which is under-utilised by the current restaurant chain and so the acquisition would utilise the spare capacity and therefore reduce the total overhead of the combined operation. This buyer wants volume and to reduce the impact of a fixed overhead by sharing it across a larger business.
- The buyer may want to gain a presence in a new market space.
- Some people look at an acquisition as a means of removing a competitor. If you are that competitor and you are taking business away from the buyer, they may want to remove you while also gaining the extra volume that the acquisition will bring.
- The buyer might have a gap in their own product or service offering that they want to fill through an acquisition. It would help you to understand how important it is for the buyer to fill that gap.
- The buyer might want to acquire your business because they want to add the intellectual property that you own in a product as it would increase the overall value of the buyer's own market offering.
- They may want access to your processes. You may be well known and respected for the quality of your warehousing and distribution capabilities and the buyer might need this in their own business. Other examples might be that you are very good at manufacturing, R&D or customer service and if these are gaps in the buyer's armoury you could be the solution to their problem.

Selling a Business: What Influences Your Prospect's Decision to Buy?

This is all about recognising what you can do for the buyer that they cannot do quickly or easily for themselves. The illustrations above cover the most common motives which lead a company or an individual to consider an acquisition. There will of course be other motivations which might be very particular to an individual buyer. I know someone who purchased an old almost derelict building from the local council for £1. His motivation for buying was that it had played an important part in his childhood as it used to house the visiting fairground and other visiting entertainments. So, he was satisfying an emotional need. The deal actually cost rather more than £1 as he had to commit to put the building back into commercial use and this cost him some £5m. However, it was a good commercial deal and he made a profit but that was not the primary driving force when he purchased the building.

You need to be aware of all types of motivation that could lead a potential buyer to start looking for a target. The typical business reasons are provided above but there will often be other less businesslike motives especially when the acquirer is an individual rather than a large corporation. The corporation will be more controlled as it will have shareholders to satisfy and its motivations will be far more clinical.

In summary, you need to understand your prospective buyers before you can decide what their motivations might be. A source of help in gaining such understanding would be public sources of information where the buyer might have shown their hand in, for example, magazine articles they have written. If you look hard enough, the evidence will be there.

Phil Shipperlee
CEO

Performative plc, St Mary's Court, The Broadway, Amersham, Buckinghamshire, HP7 0UT
Tel: 01494 582 084 Fax: 01494 582 020
Web: www.performative.net Email: enquiries@performative.net
Registered Address: 30 City Road, London, EC1Y 2AB
Registered in England. Registered Number: 4204369