

Holding back
or hiding vital
information
creates a deep
disadvantage





WEAVING

your way through the negotiation

By Grant Cameron

It's been said that the best time to plan for the sale of your business is the day you get it up and running.

Sage advice, perhaps, but most know it rarely happens. Owners of a new venture are usually just relieved to see it get off the ground—much less plan for the day they'll turn it over to a stranger.

As a result, business owners typically find themselves in a quandary when—after years of running their enterprise—they must head to the negotiating table to broker a deal with a buyer.

What should they do after finding a buyer? How do they negotiate the sale? What steps must they take to ensure they get a good deal?

According to experts who regularly negotiate transactions between business vendors and buyers, the art of successful deal-making hinges on an owner knuckling down and studying the business facts and figures before they actually go to the negotiating table.

Oh, and just for the record, sellers should make sure they're forthright with buyers about the financial condition of the business and ensure they communicate clearly with key stakeholders such as customers, suppliers, and clients as well as essential employees.

The art of the deal, the experts say, depends on all of the above.

"It's really kind of knowing your bottom line and knowing where you're going to compromise and where you're not prepared to compromise," explains

John Chisholm, a chartered accountant and certified financial planner and partner at SB Partners in Burlington, Ont.

“It’s always best to do as much planning around that prior to the start, so you’re not feeling under pressure to make a decision when you’re in a meeting trying to negotiate a deal.”

A big part of deal-making, he says, is figuring out ahead of time what potential scenarios might arise during negotiations for a business sale and devising a plan of action for each possibility.

“Have Plan A, B, and C prepared before you start negotiations,” he advises. “Always have your bottom line so you’re not reacting to the other side. Also, ensure you know your strategy. It gives you more agility to respond to what you’re looking for in a transaction.”

When a seller goes to the negotiating table, they should also have a good handle on the worth of their business and what they need in profit after taxes are paid, advises Chisholm.

“You have to enter the negotiations with a pretty hard floor that you’re not

going to go below. But the most important thing is what you net after-tax. If you have a good sense of that, you’re better prepared to know what you’ll compromise on and what the bottom line is.”

He also recommends putting together a good team of advisors—consisting of a financial institution and tax accounting and legal personnel—to help the seller figure out the best approach to transferring the business and to ensure that the seller gets enough after-tax income.

The advisory team, he says, also brings a dispassionate outlook to the table—something sellers often lack.

“The problem, sometimes, is the objectivity that the seller brings to the table. It may be that they have created the business from scratch and have a very personal attachment to the business that may overshadow what the marketplace is willing to pay.”

Loren Francis, portfolio manager and vice-president at Barometer Capital Management Inc. in Toronto, says a seller must realize that negotiations take a substantial amount of time and effort

and, before going to the table, they must know everything about their business.

To get the best possible sale price, she suggests owners clean up their financial statements, eliminate costs, improve the bottom line and hire outside experts to help with negotiations.

“If it’s a sizeable transaction you might want to hire a top-tier investment bank to help you with the details. If it’s a small transaction you might be able to do it with your accountant and lawyer. It depends on the size and how complex the transaction would be.”

According to Francis, sellers—and sometimes buyers—often underestimate the time it takes to negotiate the deal.

“It can take up to a couple years of preparation and planning to sell your business,” she says. “It’s not something you can do really quickly. It’s going to be one of the biggest financial transactions in your lifetime so you certainly need to put the proper planning into it.”

When the vendor and a buyer eventually do get together to negotiate a deal, a major factor in whether the talks are



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successful is for both to have realistic expectations of the value of the enterprise, says Francis, so it's important that each side does their homework.

"Typically, you'll find a wide gap between the buyer and the seller when it comes to evaluating a business. An evaluation done on your business prior to a sale will go a long way in negotiations."

Knowing your options and being flexible is also important to ensure negotiations are successful, says Francis, because there are many ways a buyer might propose acquiring a business.

For example, the purchase price could be paid to the seller over time or it could be dependent on the business achieving certain milestones. Meanwhile, if a share sale is proposed, the seller needs to know if there are tax advantages due to capital gains exemptions.

The objective of the seller is to get the best sale price and have it all delivered in cash on the close of the deal, says Francis, but that sometimes doesn't happen, so the seller must be aware of all the options that are open and know in advance

what they are willing to accept.

Howard Johnson, a past chair of CMA Ontario and president of Veracap Corporate Finance Ltd. in Toronto, says it is pivotal that sellers get as many suitors as possible before heading to the negotiating table with a buyer, as it gives them a leg up in bargaining.

"In my view, that means you should be able to count the number of serious qualified buyers on one hand and not one finger. Your negotiating position rests on the number and quality of the alternatives that you have. If you have one good bid and the next bid is lousy you have a lousy negotiating position. If you have a couple of good, attractive bids then your negotiating position is strong and you can more easily use one buyer against another."

It also doesn't hurt for a seller to do some digging and find out everything there is to know about the potential buyer, he explains.

"The more information the seller can get on the buyer — like what transactions he's done before, what the buyer's strat-

“It's really kind of knowing your bottom line and knowing where you're going to compromise and where you're not prepared to compromise.”



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