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You've Received an Unsolicited Offer to Buy Your Business - Now What?!

By Ari Fuchs, Director at The DAK Group

Nearly 1 in 3 business owners report receiving an unsolicited offer to buy their business in the prior twelve-month period. If someone approached you with an offer to buy your business, would you know what to do? You've probably said to someone, or thought, something along the lines of "my business isn't for sale, but for the right price I'd consider it."

You may be flattered because the number may be higher than you imagined, and you may respond positively. But how do you know for sure? Even if your first reaction is a resounding "yes," and you want to start the process, is that the prudent approach? It's unlikely that you would ever make a decision about your business with information from only one source.

There are a number of questions to consider. What is your business worth? What is the right price for my business? What are similar businesses selling for? Could there be other interested buyers out there? How do you negotiate a better deal? What kind of partner will this company be? What do I want out of my business anyway at this point?

Business owners will be tempted to begin the process on their own for many reasons… It's certainly do-able to take the DIY approach. But the primary risk associated with going it alone is that you get in over your head in a short period of time. A sale process is a substantial undertaking which can often be overly distracting to the ongoing growth and success of your business. What is likely the largest financial decision of your life is not a time to learn on the fly. Often the acquirer has gone through the process many times – they are perhaps experts at doing deals and sometimes speak a different language than the business owner. It is for these reasons that a business owner might consider assembling a team of experienced advisors to assist throughout the process and to help evaluate the situation. Usually, this team is composed of an M&A advisor, your lawyer, your accountant, and possibly a wealth manager.

If you decide to assemble a deal team to help you with the process, here are four things your team of advisors will help you with:

1. Figuring out if the offer is fair and reasonable

Your M&A professional should be able to help you understand the value of your business and consequently whether the offer you received is fair and reasonable. The specifics of your business can really impact its value, making it important for you to understand the way an investor is evaluating your company's worth. If the acquirer is strategic, then you need to understand how your business will impact the value of their business to negotiate the highest possible purchase price and most favorable terms. Even if an initial offer is deemed fair and reasonable, your investment banker should help you maintain the upper hand and push a buyer to give you the best value and terms by threatening or even proceeding to create a competitive bid process. The presence (or even threat) of another buyer may push the acquirer to adjust their offer.

2. Managing the flow of due diligence information

It's important to employ good judgment about what information you share. How can the information be best positioned to amplify the strengths of my business? At what stage should you be sharing sensitive competitive information about customers and employees? The answers to these questions can have serious implications on how a buyer views and values the business.

3. Negotiation technique and approach

Repeat corporate or private equity buyers are generally experienced negotiators. How can you ensure that you're not being out-negotiated and leaving money on the table? This is where high quality M&A advisors can earn their fee. The banker can also play the role of bad cop when you need to be insulated from a difficult negotiation point to ensure that you preserve the principal-to-principal relationship with the buyer. This is particularly relevant if you expect to play an ongoing role in the management of your business post-closing.

4. Allow you to focus more time on running the business.

Selling your business is time consuming for a business owner even when they have a good deal team supporting them. Without a deal team, it can become all consuming. Having the capacity to focus your time on running your business during a sale process better ensures the likelihood of a closed transaction. When businesses underperform during a period of scrutiny like this, it can break the deal.

The sale process — from negotiating and accepting an offer, getting through due diligence, and finally closing — has its ups and downs. You can benefit from experienced advisors in the process to act as a sounding board and to provide you with coaching and recommendations throughout the process.

Whether you are considering selling your business now or at some point in the future, you should always be prepared for that phone call and have a plan for how you will respond. Understand the value of your business in today's market. Be aware of what enhances or detracts from the value of your business. Work with advisors who are knowledgeable and can help you navigate through the process of qualifying and validating a buyer.

You have invested years, possibly decades of your life building a successful business. When the time comes to sell the business, being prepared matters.

About Ari Fuchs

Ari Fuchs is a Director at The DAK Group, a leading investment bank specializing in middle-market, privately-held companies. Ari is responsible for analysis and execution of sell- and buy-side strategic mandates, equity or debt capital raises, and strategic advisory services. He works closely with clients guiding them through every step of the transaction and is focused on obtaining the maximum value for every client.

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