AXIAL FORUM | Grow companies. Close deals. (/forum)

Top 4 Missteps That Derail a Deal

By Mark Daoust (http://www.axial.net/author/markdaoust/), Quiet Light Brokerage | October 12, 2016

Last year, 16% of the deals my firm represented on the sell-side required more than one offer before it finally closed. Those sellers experienced both the joy and the excitement of receiving an offer, but then the bitter disappointment of seeing the offer slipping away.

Deals fall apart for a variety of reasons. Some deals fall apart through no fault of the seller, and other deals fall apart due to completely avoidable misunderstandings.

Let's look at a few common reasons that can cause a deal to blow up before the buyer and seller can sign on the dotted line.

There's Really Only One Reason a Deal Falls Apart

We can come up with many reasons why deals disintegrate, but in reality there is only one reason for a deal to go south – mismanaged expectations.

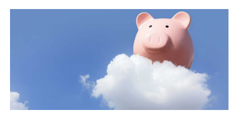
I've often said that surprises are deal killers, but this isn't *entirely* true. Good surprises certainly don't derail acquisitions. But bad surprises are most certainly deal-breakers.

If a buyer makes an offer with a certain set of expectations, but later finds the reality to be different than their expectations, this is normally the reason that causes nearly every deal to break.

So as you prepare your business for sale, or as you go through the process of selling it, understand that you are engaged in a process of "setting expectations." If you properly manage your buyer's

RECOMMENDED ARTICLE

EBITDA Adjustments From Crazytown



(http://www.axial.net/forum/ebitda-adjustments-from-crazytown/)

expectations, you'll increase your chances of closing the deal.

Let's look at some specific scenarios.

Forgetting to Disclose Elements In Your History

A few years ago, one of our advisors was helping a client sell his online business. He moved our client through the process of selling smoothly and without issue. It wasn't long before a buyer was found and started doing his due diligence.

At the end of the due diligence period, however, the buyer discovered a previously undisclosed lawsuit. A few years back, our client was on the wrong end of a lawsuit, but when the buyer discovered this omission, it caused a ripple effect that eventually unraveled the deal.

The lawsuit itself was a non-issue. It was a frivolous lawsuit that the plaintiff quickly dropped. The problem was that it had been concealed.

It is not enough to simply disclose everything you are thinking of – you need to take stock of what you may have *accidentally* omitted and disclose that as well. Our client did not intentionally withhold information about the lawsuit from this buyer. He legitimately forgot it even happened since it was some years back and to him was a non-issue.

Remember to disclose everything, and take the time to identify anything you may have missed.

Recent Downturns in Financial Performance

It is all too common for a business to experience its worst financial performance during the week leading up to the closing. If the process of selling your business isn't stressful enough for both you and the buyer, your business may decide to have a hiccup in sales, leading to doubt for everyone.

A downturn in your business shouldn't come as a major surprise, however. Many CEOs say that selling their business was more work than actually running the business.

When you sell your business, you'll be buried in negotiations, legal document reviews, running reports, and generating statements. Not only will your time be swallowed up whole during these stages, but your mental bandwidth will be completely consumed as well.

So you should plan ahead for this downturn as much as possible. Understand that your time will be in very high demand, and plan for late nights at the office and early mornings.

Most importantly, try to avoid major life changes. It never ceases to surprise me the number of sellers who sell their business during a move, city relocation, marriage, or birth of a child. One major life event is stressful enough. If you can avoid having two at the same time, it would be good for your sanity.

Opportunistic Vendors

As I said at the beginning of this article, not every deal falls apart because of something the seller does. In fact, I would say that less than half of the deals fall apart due to seller error. Some deals fall apart because of the vendors.

Even if you think that you do not have a special relationship with your vendor, your vendor may think otherwise.

I have been party to multiple transactions (two of which I was the buyer) in which a vendor tried to change their terms for the new buyer. Their explanation is always the same – the change in these terms was coming for the seller eventually. You just happened to step in at the time the change was pending. An unlikely story but how can you disprove it?

The reality is that some vendors are opportunistic, and some vendors are hesitant to offer the same grandfathered terms to a group they do not have a history with.

For example, I bought a content website years ago whose owner employed an outside company to sell advertisements. When I tried to negotiate a similar contract with the company, they wanted stronger commissions and a minimum term commitment. To them, I was a complete unknown, so they were not inclined to offer me perks.

Opportunistic vendors are a major barrier to getting a deal done.

So you may want to consider contacting the vendor in advance about your intent to sell your business. Alternatively, you may want to research a backup option should any of your vendors choose to get greedy. Having a backup option will give you leverage to negotiate the same terms for your buyer.

If you are not comfortable talking to your vendors before a sale is guaranteed, just be sure to be present during this process. Having your presence during the transition will help in ensuring a smooth transfer.

Messy Processes

Over the years of owning your business, you have unconsciously developed habits, shortcuts, and efficiencies, many of which you may not even realize you do. A buyer, however, will notice these shortcuts.

If a buyer has trouble envisioning themselves in your role, or replacing your role, you will have difficulty closing the deal. Therefore, it is essential that you take the time to document your processes as much as possible.

Around one year before you sell your business, document your processes into standard operating procedures. Then match up your actual workflow to these SOPs. Modify them as needed.

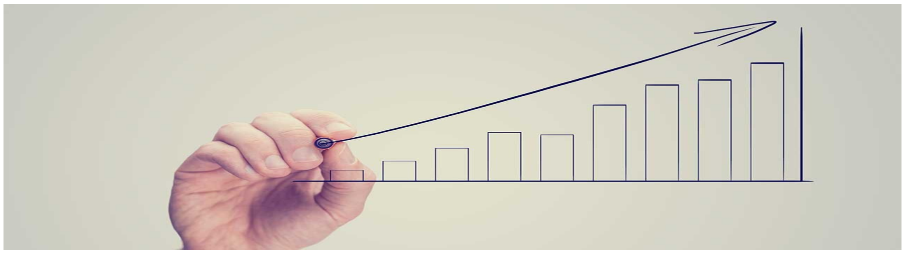
Conclusion

Obviously, we always hope for every deal to proceed smoothly and close without a hitch. Unfortunately, life can sometimes throw a series of speed bumps in your way, which can complicate matters. But with the right amount of preparation, and the right mindset going into a negotiation, silly misunderstandings can be avoided, and you can close the deal in record time.

Read Next

What is EBITDA, and Why Do Investors Care About It? (http://www.axial.net/forum/what-is-ebitda-and-why-do-investors-care-about-it/)

By Karen Sibayan | ***January 13, 2016*** ()



(http://www.axial.net/forum/what-is-ebitda-and-why-do-investors-care-about-it/)

During negotiations in an M&A deal, buyers and sellers look closely at several factors in order to agree on a price that properly captures a company's value. One of the closely examined metrics in this process is EBITDA, which stands for earnings before interest, taxes, depreciation, and amortization. EBITDA is used as a way...

READ ARTICLE (HTTP://WWW.AXIAL.NET/FORUM/WHAT-IS-EBITDA-AND-WHY-DO-INVESTORS-CARE-ABOUT-IT/)

AXIAL (/)