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Did You Just Call My Baby Ugly?

It's easy for negotiations to get unnecessarily ugly. Here's how to better understand the person on the other side of the table.

We often talk about selling a business as a transaction between two things: One business buys another. But in reality, it is a transaction between two people.

When you go to sell your company, you will be negotiating with a person who leads a business unit or a corporate development department for a big company, or is a partner in a private equity group. You and the person on the other side will have very little in common:

- You imagine the future of your business while he dreams of his boss's job.
- People admire you because of the business you own. He earns respect from the car he drives and the letters after his name.
- You've succeeded by exploiting chaos while she has progressed by imposing structure.

Not only is your wiring different, you and the person from the buy-side see your business from entirely different points of view:

- When it comes to your employees, you see them as family. Sure you have a problem child and maybe one who can be a little needy, but they are family just the same. The buyer sees them as names on a spreadsheet--head count to be ranked, scored and managed. Some will be optimized, others eliminated.
- Many of your customers are friends. The buyer sees them as cross-sell opportunities.
- You win the industry's highest honors. They're too big to care about awards.
- It may be going too far to call your business a piece of art, but it is likely the closest you'll ever get to an actual creation. To them, it's just a P&L.

So it should come as no surprise that when the flirting is over and the hard negotiations begin, you will find the cold detachment of the other side decidedly unnerving:

- You're selling part of who you are. They're buying a future stream of cash.
- You read their offer as offensive--an attack that cuts deeply and personally. They are just trying to buy low and sell high.
- When they ask questions, you hear an outright assault on your business model and--by extension--your intelligence. But they are simply wondering why your billing is done that way.
- Given how different you are from the person across the table, it should come as no surprise that less than half of the owners that get an offer actually end up selling their company. And often it's the owner's emotions that get in the way of closing the deal.

Here are three strategies for surviving a negotiation with a cold, dispassionate finance wonk:

1. Exploit their fear of loss
As an entrepreneur, you've already demonstrated that you're more motivated by pursuing opportunity than avoiding loss. On this point, you and the rest of the world are different. Most people--including business buyers--are more inclined to act out of fear of loss. Use their fear of loss to your advantage by letting them know you have an attractive alternative that doesn't involve negotiating with them. Maybe that's selling to their biggest competitor or continuing to steal their market share as an independent company. You must ensure that their fear of *not* buying eclipses any concerns they have about acting.

2. Use your brain, not your heart
Fight the urge to react to their low-ball offer with emotion. They don't care how long you have owned your business, what your buddy got for his, how sick your spouse is, or how much money you need to retire.

Make a calm, objective case for how much money the acquirer will make by buying your company. First, use discounted cash flow to model their return on investment by calculating the present value of your future stream of earnings. Model a 15%, 25%, and 35% discount rate and show them how, even using the most punitive scenario, it still makes financial sense for them to increase their offer.

Next, estimate the strategic value of the acquisition for the buyer. Calculate how much more of their product or service they can sell by adding your business into their offering. Acquirers think less about what you sell and more about hawking the things they already offer. What is it worth to the buyer to increase the sales of their cash cow product by 10%?

3. Buy a buffer
Among other things, hiring a mergers and acquisitions professional to sell your business provides a buffer between you and the buyer. This can come in handy when you start contemplating the many ways to wipe the smirk off your would-be buyer's face.

If the buyer sees you get overly emotional during the negotiation, she will see you as a loose cannon not fit to be introduced to her boss. Instead, scream at your advisor. Trash his office. Tell him the fifty-six reasons the buyer is an a**hole. They have heard it all before and will give you a wide berth to get things off your chest. A good mergers and acquisitions pro will communicate your displeasure back to the potential buyer, minus the hissy fit.

Selling a business is deeply personal. Buying one is not. Surviving the negotiation comes down to understanding the other side better than they understand you.

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