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DAY 16

NEGOTIATING PRICE & TERMS, PART TWO

The psychology of negotiation

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20% **logic** about the numbers

80% **emotion** about the personal connection

Excel at the emotion element and the 80/20 rule means you'll likely get the deal you want.

Three key facts

01 The more you know about buying a business, the better the deal you will get.

02 You can't buy a business you can't finance.

03 There'll always be people you can't do a deal with and businesses you can't buy.

The emotion element of a negotiation

The biggest influencer of price and terms is the motivation of the seller.

The seller should feel you are doing them a favour by buying the business.

If it's the other way round, you won't get the best deal.

Your personal positioning

You're buying as an individual, not private equity.

You're concerned about the future of the business, not money.

You're interested in the seller.

Rapport

- Rapport is about connection, communication, a harmonious relationship.
- Rapport with the seller will help you get a better price and terms.
- They won't sell to you if they don't like you.
- Others may offer more, but if the seller prefers you, you get the deal.

How to build rapport

- Be genuinely interested in the business.
- Understand the seller's objectives and motivations.
- Listen to what the seller says.
- Ask questions and listen to the answers.

If you go via a broker, you might not get the chance to build rapport with the seller.

Negotiation

Negotiation is not combat – it's reaching an agreement.
You're solving a problem for the seller.
The bigger the problem, the greater their motivation, the better the deal.
Once you've diagnosed the problem, you can start to think about price.
Remember, it's not all about the money.

Structure of a negotiation

Before the meeting:

- Look at the numbers/assets.
- Work out how to finance the deal.
- Establish the value of the business to you.

At the meeting:

- Don't make an offer.
- Find out what the seller wants – when they tell you:
- Flinch.
- Ask, 'How did you get to that number?'
- Aim to get their number at or below what you are prepared to pay.
- Only pay more than the value to you via an earn-out.
- Your strongest negotiating tactic is the ability to walk away.

When you get to the number:

- It's time to agree terms.
- Make the day one payment as low as possible; don't use your own money.
- If you do have to put money in, be clear as to how you get it back out.
- The seller won't get all the money on day one.
- Make the first deferred payment one year from completion.
- Remember heads of terms aren't legally binding around price and terms but do gain you exclusivity.

A negotiation is a conversation between two business people trying to do a deal. It requires give and take on both sides.