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SPECIAL REPORT

TEN WAYS TO NEGOTIATE THE PRICE OF A BUSINESS

Jonathan Jay's DEALCLUB

Ten Ways to Negotiate the Price of a Business

THIS MONTH, you will learn:

- Ten ways to negotiate price
- The value of having an acquisition strategy that works for you – and using it over and over again

When it comes to negotiating the deal, you need to make sure you have positioned yourself as a serious buyer. How do you do that? Here are five key factors:

1. Have confidence and self-belief – some of this comes with experience, but making sure you understand what you are doing is also a big part of it.
2. Have knowledge of the process – control the process, be clear as to what you need and when things will happen. Guide the seller, tell them what they need to do and by when. If it sounds like you don't know what happens next, you won't be taken as a serious buyer.
3. Become their problem solver – a serious buyer won't just buy the business, they'll help the other party sell it. For example, we say, 'You want to sell, we'll help you sell it (to us). There are challenges some people might say make it unsaleable and here's what they are,' – we'll set them out, 1,2,3, then add, 'but we can overcome this.' And we do.
4. Always act like a professional – for example, always be on time.
5. Remember, your attitude is key – the professionalism of your attitude will help you get a deal over the line. If your attitude is amateurish you will struggle – and if someone more professional comes along they can whisk that deal away from you. Having got that far, it would be a terrible shame to lose a business just because you weren't acting like a professional.

Ten ways to negotiate price

People think there are a thousand secrets about negotiation and there are certainly a thousand books about it – but none about the negotiation to buy a business. Here are my ten favourite ways to negotiate price.

1. Lower the other side's expectations

It's easier if they reduce the price in their head rather than you telling them – they need to realise the price is too high.

Say they reveal they've had the business listed with a broker for a year and it hasn't sold. Ask them why they think that is. Usually when a business doesn't sell it comes down to price. You can say, 'Do you think the broker might have overpriced it? Would pay that amount for this business? What do you think is a fair price?' That gets them thinking like a buyer, not a seller. 'Fair' is a good word to use.

2. Always be doing another deal

I always make sure they know I'm doing another deal because I don't want them to think they are the only deal in town and therefore they can negotiate the price up because I really want to buy their business.

How do I let them know I'm doing another deal? Simple – I tell them. I say something like, 'It's been a crazy day today, we've got an acquisition completing this week …' then I say a bit more about it.

So, let them know you're looking at other businesses. You could say, for example, 'Just remind me, I've spoken to xx other businesses since we last spoke …'

I want them to know that if I don't buy their business it doesn't bother me, because I could buy someone else's. Most people think you're only ever going to buy one business, so their concern is where you are going to spend your money – are you going to spend it with them or spend it with someone else?

You know you've got them when they start selling you on buying their business!

3. The right amount of interest

You've got to show the right amount of interest. It's a balancing act – you don't want to be so super-keen they think that they've got you and you're not going to go anywhere else, but then you don't want to appear to be disinterested, as no one wants to sell their business to someone who looks like they don't care.

4. Let them make the first move on price

When it comes to pricing you must always let them make the first move. The rule is this: you *never, ever* make an offer. Why do you never make an offer? Because when you make an offer it's expected that you're going to go in low because you expect that number to be forced up. They know whatever figure you say, the number will go up. That's really not a good position to be in.

Let's take a situation where the seller has said, 'Well, make me an offer for the business.' You haven't been on this training, you go away and you look at all the notes you made about the business, you look at the accounts, you put together your offer … You're not quite sure what offers are meant to look like; is it a letter? You don't know, but you put something together and you keep the price down a little bit to give you that little bit of movement should you need to go up. You send over the offer and you have a sleepless night, and then you get the response back the next morning, and the response is, thank you very much for your offer but we need to reject it; the price is lower than our expectations.

Now what do you do? You refine the offer. You improve the offer and then you send it back again and they go, hang on, look what just happened here – we said no and they offered us more money! Well, that was easy, let's try it again! And they say no again and you increase the offer again and then they say no again and you increase the offer … and then you might twig what's happening. You say, ‘We can't go any higher than that.’ But no one's going to believe you when you say that, because you’ve been increasing the offer every time they said no!

What I’ve just described is the world's worst negotiating position you can ever be in! So, when someone says to us, ‘Well, make an offer,’ we say, ‘We don't work like that, it's not for us to guess what the business is worth, you need to give us a number first.’ And that could go backwards and forwards three or four times, but if they won't give us a number, we just move on to the next one.

I am never making an offer; as soon as you make an offer, you lose.

5. ‘Tell me what you need, not what you want – no one is getting what they want at the moment’

This is a favourite phrase that my colleague Linda uses, and she says it in a very direct way. ‘Tell me what you need, not what you want – no one is getting what they want at the moment.’

We're going back to number one, we're lowering their expectations, we're saying that no one is getting what they want at the moment so tell me what you need. Coming back to number four, you might be surprised how low some people's price expectations are. They might say, for example, ‘I was talking to my accountant about this and he said that I should be expecting between two and three times profit.’

‘Well, sometimes people get that, but not all the time. I've got to say, the downside with this business is …’

I like to hear all of their ideas on pricing and value.

6. The flinch

Whatever they say, flinch. The owner says, ‘Well, we were kind of looking for £300,000.’ You wince like you have indigestion.

Sometimes when you flinch the price just drops automatically. I say, for example, ‘Look, that's so out of line with what's happening in the market right now. I talk to businesses in the sector every single day and there's one no more than twenty miles from you, doing very much the same as you, and it looks like we're going to be doing a deal with them. However, it's for about fifty to sixty per cent of what you're looking for and what I can't find is a reason to justify paying twice as much for your business as theirs. I know it's a great business and I know you put a lot of effort into it, but it's been hit hard by Covid, like every business these days. I think if we're going to do something we need to be sensible about the numbers. If we're sensible about the numbers then I think we can do a deal today, how does that sound?'

8. 'Help me understand how you reached that number'

whatever number they say, I ask them to help me understand how they reached that number, then I shut up and listen to the response.

Most people add up the mortgage, the cost of a new car, a luxury holiday, maybe a holiday home in the sun, and that's their price, that's how much they want for the business.

I like to hear a justification. Sometimes they'll say, 'We've worked very hard for the last xx years ...' and I'm sure they have, but they've been paid for that. The question is, what's the business, as it is, as a standalone, worth today?

9. 'You have to help me if we're going to reach a deal – I need you to come down a bit otherwise it's just not possible'

After the last conversation, this is what I usually say next. And you might as well say this every time, because what have you got to lose? You could save yourself thousands with just this one sentence.

What's going through their head is, if they don't come down, you're going to walk away, and you're the first person who's shown as interest in that business in six months. The broker never got them anything, if they don't come down in price they could be stuck with the business for another six months, or even longer.

10. Always be prepared to walk away – be patient – consult your 'partner'

Always be prepared to walk away. Be patient in the negotiation and take time out to 'consult your partner' if you need it. You might say, 'Look, I need to talk to my partner, I'm going to step outside and make a phone call.' You step outside and check your emails or whatever, then you go back and say, 'I've spoken to my partner but I'm afraid it's not going to work on those numbers. I need you to help me with this because I really want to say to him that we've agreed something today and I know you want to go home and say that you've agreed something, so if we get our heads together what can we come up with that works for everyone? It's got to work for you but it's also got to work for us.'

The strongest negotiation point that you can ever have is your ability to walk away. I had a deal for a small business where they wanted £110,000, we'd agreed to pay it, circumstances changed, we walked away and they came running after us and we bought it for £5,000. The walk away is a very strong strategy indeed.

This does not need to be a drawn-out process

It's better to get to the point and agree the deal or walk away than negotiate over a period of months. There are always exceptions, but as a general rule it's best to keep to the point – we're all busy, you want to buy a business in the next six months – remember the goal and get the deal done as quickly as possible.

Here's an interesting point: 40% of the time 'walk-aways' will come back to you, we've measured this. Leave the door open, say, 'You've got my number, if circumstances change, come back to me,' and 40% of the time they come back within a week.

Negotiation is 100% easier if you know what the business is worth to you and how you would finance the acquisition.

I look at a nursery business, the size of the business, the profitability, the duration of the lease and so on and I know what it's worth to me. I say, 'We wouldn't pay more than £XX for that.' If they want more, we work on closing that gap so I get the business for the amount I'm prepared to pay for it.

It's easier to negotiate when you have some sort of finance structure in place. I'm happy to be creative about that and structure deals that include government loans and /or local authority prepayments for places. I also know where the money is coming from, whether it's from trading or elsewhere. We want each acquisition to fund itself, either within the group or as a standalone.

I think the reason people find negotiation difficult is they don't know what the business is worth to them so they're trying to get the lowest price but they don't even know whether that's a good price.

If I know £100,000 is a good price and the owner wants £250,000, I reckon the flinch could get me down to £200,000 and then using the techniques that I've taught you I can get this close to £100,000. I might even get it below £100,000, they'll maybe sell it for £80,000. Brilliant, let's do the deal on £80,000. I'm £20,000 ahead.

Light Bulb Moment 5

Find **one acquisition formula that works** in your sector and **repeat it** again and again.

This is key: all of my most successful private clients are essentially doing the same thing over and over again.

Key points

Position yourself as a serious buyer:

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2. Have knowledge of the process
3. Become their problem solver
4. Always act like a professional
5. Remember, your attitude is key

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