SHEEPDOG STRATEGIES

Agri-Business Transitions – The Buyer's Perspective

Key Points

- This article shares the buyer's perspective on purchasing an agri-business (non-farm agricultural business)
- It's important to be upfront with the good and bad – if you hide something the buyer will likely find it, damaging your credibility and relationship
- The benefits of reducing buyer uncertainty
- Better preparation pre-sale usually leads to stronger offers
- A good deal creates a win-win for both parties

A story

I liked what I saw – the Confidential Information Memorandum (CIM) outlined a company that didn't require much technical skill, had a history of strong cashflows, and was in a sector that might provide opportunities for growth. It also stated that a full management team was in place, with the owner often away on vacation.

I thought, "Great! That might mean I focus on growing the business while the existing team operates it. I wonder what their backgrounds are?"

I started researching the management team, and discovered that it was the owners three children! As I dug further, I found that just 2 years ago they had twice as many locations as today. "I wonder what else is hiding from me?".

The owner probably thought this information wasn't relevant. But by not being forthcoming he weakened his credibility with me and likely with other interested buyers. The fact is that there isn't much a buyer won't find out about your business, so you may as well be upfront with the good and bad. In this case, I learned this by searching for an hour on the internet.

The Buyer's View Point

A buyer searching for an agri-business (non-farm business) will view the process of buying your business differently to you, and will place importance on different things. Ultimately, they are trying to determine whether buying your business will help them meet their professional and personal objectives. This will vary depending on the buyer, and could include:

- Finding a business that they will enjoy having as their sole focus for the next 10 years; others are looking for a business they can sell for a profit in 3 to 5 years.
- Achieving a targeted return on the capital they invest, while matching their risk tolerance.

- Growth Strategy: Some will want a business that they can aggressively grow, while other buyers want to have minimal involvement with a management team taking care of the business.

In other words, buyers aren't really thinking about things you might care about – for example the tremendous sacrifices you made in starting and growing your business and using it to help create the life you want for you and your family – they care about achieving their own objectives. But having different objectives doesn't make them incompatible – it just means that both sides need to think about the others' perspective to maximize outcomes for both parties.

As a seller, you can maximize the attractiveness of your business by reducing uncertainty for buyers, which reduces their perceived risk and increases their willingness to pay a strong price. Uncertainty and perceptions of risk will vary between buyers – a buyer already working in your business will have the best understanding of your business and industry, while someone new to your industry will face the most unknowns. **Carefully preparing your business for an ownership transition will reduce uncertainty and strengthen the business, making it more attractive to buyers.**

What Buyers Look For

Aside from individual buyer preferences on industry and company type, there are some key attributes that buyers ask themselves when assessing businesses. These include:

- Trust:
    - What is the seller not telling me?
    - Do the financials 'look right'?
    - Why is the seller selling?
- Why this business:
    - What is this company's competitive advantage, is it a true differentiator, and is it sustainable?
    - What are the opportunities with this business?
    - What minor changes could I make that would have a significant impact?
- Impact to the business / what will change:
    - Can I fill the hole the owner will leave?
    - Will the owner's customers stay after the transition?
    - Is the business strong enough to carry the debt I'll need to buy it?
- Future costs and risks:
    - Are there any big costs in the next two years, such as replacing equipment?
    - Are any critical leases set to expire soon?
    - Any pending litigation against the company or other issues to be aware of?
    - Will anyone hold power over me (e.g. key employees, powerful suppliers, a customer who provides a large share of revenue)?

These questions (and a lot more) are asked before negotiations even begin. When you enter the due diligence phase with a buyer, they will start diving a lot deeper into your business, assessing areas such as your Accounts Payable and Receivables, checking bank balances against financial reporting, and investigating your reputation within the sector.

How to Get to Win-Win

Although it may seem like buyers and sellers are in a zero-sum game – 'the less they pay the less I get' – it is possible to create a win-win for both parties. When a buyer clearly understands what they are purchasing, and both sides invest energy into understanding the motivations of the other, it is amazing how much more effectively negotiations can go.

As the seller, your first step is to determine what is important to you. Selling your business is about more than maximizing price – you also need to consider the speed at which you depart (immediately, over 10 years, or somewhere in between), the type of buyer you want (do you want them to continue your legacy or is being rolled into a larger competitor?), and other considerations. You then need to communicate this to a buyer, as they will want to make their offer to you as appealing as possible.

The other part is understanding the motivations of your buyer. In fact, this should start long before you even begin the process of negotiating a sale. **By visualizing now who your ideal buyer is, and what is important to them, you can spend time making your business more attractive**. This includes cleaning up the financials and building a management team, so the business doesn't rely on your presence. Once a buyer is found and negotiations start, spending the time to question the buyer on their goals and desires will help you not only negotiate, but also how you market the company to them to increase what they're willing to pay.

About the Author

Alastair grew up on a large sheep farm in New Zealand and has spent much of his career in the agricultural sector. His career has focused on improving businesses, including over 3 years as a management consultant in Deloitte's Strategy and Operations practice. Alastair spent 18 months searching for a small business to buy and operate, and quickly saw the significant challenges facing business owners transitioning their business. Through Sheepdog Strategies, Alastair's aim is to improve the experience of business owners of agricultural businesses planning a transition.

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