

The Negotiated Auction Process Primer

Small/mid-size businesses have traditionally been sold by one-on-one negotiations with an interested buyer, whereas larger companies have often relied on an auction process.

- ▶ *A negotiated process allows the seller to look beyond the highest number and secure concessions that may be unique to the seller's needs.*
- ▶ *The benefit of an auction process has been its ability to create competition and maximize value.*

However, it is becoming increasingly common for small/mid-size companies to utilize a sales process that combines the two approaches.

A Negotiated Auction Process is a hybrid of the two and when successful allows the seller to secure concessions and receive the highest price possible.

It consists of the following steps:

1. Developing a profile of the prospective buyers and a profile of the ideal buyer because there are things about a transaction that will be important to the seller. These things should be identified in advance of going to market.
2. Conducting research to develop a list of potential buyers based on the profile and criteria that have been identified.
3. Developing and sending a One-Page Summary to the contacts at these prospects.
4. Providing a Confidentiality Agreement to Interested parties who respond, and upon execution, providing access to the marketing materials.
5. Marketing materials would include an Offering Memorandum providing key information about the company. It's also becoming common to include a video telling the company's story, similar to the way realtors utilize videos to show a home. Intermediaries are beginning to see the value in having the company's story told in a video.
6. After the Offering Memorandum is reviewed, sending a questionnaire to the prospects containing a series of questions to gauge their interest and prequalify them as bidders. A prospective buyer is either accepted or rejected.
7. Allowing qualified buyers access to a deal room that provides the financial information that they will need to make a more definitive offer. The deal room typically contains financial information and more detailed information that would be necessary to properly assess the opportunity.
8. Giving qualified buyers a defined time frame to review the information and ask questions. Once that period expires more definitive offers are requested along with general terms/conditions.
9. Once the Seller has reviewed those, the seller decides the prospective buyers with whom he or she is willing to entertain and negotiate.
10. If negotiations on an offer are successful, the due diligence process begins and all efforts are geared towards closing the transaction.