

# SELLING YOUR BUSINESS: SUCCESSFULLY NEGOTIATING PRICE

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## The Most Difficult Issue In Negotiating The Purchase Or Sale Of A Business Is Negotiating Price

Generally speaking, if you reach an agreement on the sale price for a business you can reach an agreement on everything else. In my experience, less than 10% of deals involving owner-managed businesses fall apart after a deal is reached on price.

It is important to remember two things:

- *There is more to a good deal than price.*
- *The best deal for both parties generally means no one “wins” the price argument.*

## A Common Goal and Common Understandings

Ultimately the Buyer and the Seller should have the same goal: *to make the best possible deal for both parties based upon a fair assessment of the business opportunity in question.*

Both the Seller and the Buyer must accept that the best deal for both parties rarely means either party gets their best deal on price.

In order to achieve this goal, it helps if of the following principles are accepted by both sides:

*You do not buy or sell a business; you buy or sell a business opportunity.* Only the past can be assessed with certainty. The future is always uncertain. However, the future is all the Seller has to sell and the Buyer has to buy. Therefore, each party must seek to understand and influence the other party’s view of the business opportunity on the table. After all, a deal on price and structure will only occur if the parties develop at a mutually acceptable consensus on the future of the business. Each party should have independent, empirical information to support their assessment.

*The Seller’s reasons for selling and the Buyer’s reasons for buying will probably have nothing to do with each other.* In order to successfully negotiate a good deal, both sides need to honestly disclose why they to buy or sell. A lot of energy can be wasted if each side negotiates from their own needs and perceptions instead of from the other party’s point of view. If you know why the other want wants what they want, you can work together quickly to find a common ground for doing a deal. The best deals are “win/win” deals. If you think you are in a “win/lose” negotiation, you should walk away.

*Be prepared to relate your pricing positions to your reasons for buying and selling.* In most negotiations, the other party is smart enough to know that giving you want you want is the best way of getting a deal done. They also know that this kind of thinking is more likely to get you focussed on you giving them what they want. However, some parties give one reason for buying or selling, but then tie their pricing negotiations into a rigid formula or something else unrelated

to what they have told the other party they want out of the deal. For example, if you are selling your business because you believe the best years of the company are still ahead but a different kind of owner is needed to realize on that opportunity, it is inconsistent to insist on an all cash deal and refuse to consider arguments where an earnout of some kind could yield a higher price and give the business a better chance of succeeding. Another example is a Buyer who wants to buy a business for its people, production capacity and location, and does not list buying a profitability customer base among its priorities, yet only wants to talk about price based on recent profitability. If they are buying your business for its operational base, why is the price they are willing to pay you tied to what your recent profits have been versus what they it would cost them to build the same base from scratch and what it will do to their business to get your plant as a going concern? This kind of inconsistency can kill a price discussion before it even gets going.

*Value and Price is not the same thing.* A lot of energy can be wasted arguing “value” versus price. The Seller often wants to argue for “fair market value”, while the Buyer wants to argue for price. This table will demonstrate the difference between value and price, using the standard definition of fair market value: