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IDEAS, INSIGHTS, INFORMATION AND INSPIRATION FOR ENTREPRENEURS

Offering Entrepreneurs More Than a Checkbook

By Frank Williamson

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Entrepreneurs invest their heart and soul toward the goal of making their businesses successful.

So, it makes sense that, when they eventually decide to sell their business, owners may feel a strange mix of emotions — excitement at the possibility of financial independence, but also a reluctance to leave behind a personal accomplishment that brings them pride. As they meet with potential buyers, they're looking for somebody who respects what they've built and also has a long-term plan to keep the business thriving and growing.

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Working as an investment banker, I've been a part of many such deals, and I've found that successful offers tend to go beyond an acceptable dollar figure.

Author Daniel Pink, in his book Drive, proposes three characteristics of jobs — autonomy, mastery and purpose — that can help increase employee performance and inspiration. I believe that these characteristics are just as relevant in situations involving the purchase of businesses.

Let's examine them one by one:

Autonomy: The desire to be self-directed. In the role of a company owner, you're used to having almost total autonomy. If you're the buyer in this scenario, brainstorm how you can continue to give the owner autonomy after the sale. This autonomy can be achieved a number of ways. One is offering a monetary amount that provides the owner the financial flexibility to pursue whatever he or she wants — everything from a new business to a prosperous retirement.

Mastery: Comprehensive knowledge and skill. A successful business is not built in a day — the story of most businesses usually includes a series of well-deserved triumphs and hard lessons. A buyer can show her respect for the owner's mastery of his profession by offering him an ongoing role within the company after the sale — ranging from a high-level position to a more casual advisory role. Entrepreneurs often take a high level of pride in their position as a company founder. So, when offering them a new role, make sure that it fulfills their desire to receive recognition and respect. In addition, as you work to build upon their company's success, understand that the owner's knowledge is one of the greatest resources available to you. Don't let it go to waste.

Purpose: The desire to do something with meaning. Businesses are a means of generating wealth, but they double as a platform for entrepreneurs to add value to the world with their skills. By buying a business, you're removing the owner from a place where she feels comfortable — her work community. Buyers can combat this by proactively considering how the sale will affect entrepreneurs' senses of purpose. Offer the owner a consultant position or another role that allows her to continue adding value to the world with their skills, but in the capacity and speed that she prefers. Flexibility within her position allows the owner to pursue personal and professional passions to the extent necessary to fill that sense of purpose.

To gain a better understanding of these characteristics in real business deals, let's look at an example: doctors' practices. These are small, entrepreneurial businesses with principal owners who have strong senses of autonomy, mastery and purpose.

Our doctor, Dr. Smith, and her partners have owned a private medical practice together for 30 years. The practice employs 30 people, some of whom have worked

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there for 20 years. Two parties, both larger practice groups, have just approached Dr. Smith and her partners with offers to buy their business.

Buyer A offers each partner $5 million and a two-year earnout as a regular employee. Now, consider Dr. Smith's perspective — she enjoys her job and feels a sense of belonging there, and her community standing will decrease when she transitions from business owner to employee. Buyer A's offer does not promise jobs to current employees and does not speak to Dr. Smith's desire to maintain her status in the community. Having autonomy as an ongoing partner in the practice is more important to Dr. Smith than the equivalent amount of money she might earn by taking a less prominent role. Buyer A did little to understand and address what Dr. Smith considers to be most important.

Buyer B offers each partner $4 million and a two-year earnout, while allowing Dr. Smith to stay as a partner in the practice, ensuring that her opinion will continue to be important during that period. The buyer recognizes Dr. Smith's mastery of her skill and emphasizes the need for that knowledge during the earnout period, as well as the flexibility she will have. Buyer B has also promised that for staffing needs, all of the practice's current employees will be prioritized over any new employees.

Although the difference of a million dollars would certainly be a consideration, it's clear which offer is more appealing to Dr. Smith. To make up for offering 20 percent less money, Buyer B has catered to the true needs of Dr. Smith and her practice, both spoken and unspoken.

The most important element of a persuasive deal is to understand the seller's needs and account for them. In your next deal-making venture, remember that a business owner's relationship to his business is more than just monetary, then get him to say "yes" by offering more than just a checkbook.

Frank Williamson is the founder of Oaklyn Consulting, a consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capital-raising, investor relations, succession and other strategic corporate finance decisions. Oaklyn Consulting does not work as a broker but as an extension of clients' boards and management teams, charging time-based fees for investment banking advice.