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Buy-Side Tactics—and Mistakes to Avoid

For business owners and their advisors, it's probably not surprising that buying another company or other assets requires moving with speed and diligence. But gaining an edge—and winning—on the buy side is quite a bit more complicated.

Effective companies tend to deploy a series of purposeful tactics and avoid common mistakes when pursuing acquisitions. The following list isn't exhaustive and should be viewed through a case-by-case lens.

Smart Buy-Side Tactics

Engage With Targets Early (Before the Transaction Process): Being a known entity can provide a competitive advantage when pursuing a target. Senior leadership's involvement with the seller's management team and/or owners likely demonstrates seriousness and credibility. Further, cultivating relationships with investment bankers in the target sector can help you get placed on preferred lists as a potential buyer.

Build Internal Buy-In: For transformative transactions, it's a good idea to discuss opportunities with your company's senior leadership team or board of directors (if applicable) early on to identify and address concerns. For smaller add-ons, company leadership ideally should be already aligned on an acquisition strategy to expedite approvals.

Develop Integration Plans as a Part of the Process: When applicable, a collaborative, thoughtful approach to post-closing integration and management roles can build goodwill and significantly improve the attractiveness of your proposal to the sellers. It also is important to be mindful of any antitrust considerations in discussing integration plans with the target prior to closing.

Put Your Best Foot Forward With Initial Bids: Being aggressive on valuation, diligence, and timing is important, as is considering all parties (board members, CEOs/CFOs, bankers, lawyers, etc.) who evaluate bids. It's also important to limit any seller concern about financing sources and ability to pay to further evidence conviction and certainty.

Be Efficient During Due Diligence: Proactively developing a clear due diligence work plan, engaging necessary advisors, arranging financing sources, and preparing transaction documentation and management agreements is a common differentiator, so it's important to be prepared and act swiftly from the onset.

A Premier Advisor for Nearly Nine Decades

Since 1935, William Blair has guided owners of closely held businesses and their trusted advisors through monumental decisions. Our relationship-driven approach empowers owners to maximize the value of their businesses—and turn that capital into an enduring legacy. We invite you to contact us to discuss the ways we support and advise business owners and help our clients capitalize on the tremendous opportunities available to them today.

Common Mistakes

Incorrectly Reading a Seller's Initial Reaction: After submitting your indication of interest, make sure to get detailed feedback on all material components of the bid letter. If you're told your perceived value is "undifferentiated," it's a good idea to probe deeper to get a better sense of where you stand. That being said, sell-side bankers will very rarely (if ever) share that you are leading the pack, even when that is the case.

Playing Games With Second-Round Bids: Review bid letters with the seller's perspective in mind—and don't submit incomplete bids. Try to avoid bids below your initial value range when possible (and provide specific justification when not possible) and treat any interim or "revised" bids you make like final bids, as sellers can make quick decisions to move forward from that stage in the process.

Misalignment With Management: Properly gauge how much a target company's management will influence the final selection of the winning bidder. Ensure management considerations/incentives are addressed and focus on building a strong cultural connection in the process.

Underestimating the Importance of Certainty and Timing: Valuation is only one aspect of the seller's decision-making process—in many cases a seller will choose a lower headline value bid based on completion of diligence, time to signing, and perceived financing or other risks to a successful closing.

Overconfidence—or Showing Hesitation: Being overconfident can lead to problems, including incorrect assessments of other bidders. You should also be careful not to let the seller see worry or apprehension—even as you tactfully flag potential issues. Treat those elements as hurdles to collectively overcome (continue to show confidence externally), knowing you can always disengage if diligence uncovers material concerns.

While every acquisition is different, the above insights provide useful guidance for business owners looking to get a head start on differentiating themselves on the buy side.

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