



Five things you should know about prospective M&A advisors

Selecting advisors is one of the most important decisions you can make when selling or buying a business. Because most of us don't have the knowledge, contacts and time to buy or sell a company on our own, deciding that an M&A professional can help you with the complicated process is an important first step.

Gathering information

Fortunately, there are many qualified people willing to assist you. But how do you decide who'll represent you out of a pool of candidates, each of whom argues they're the best for the job?

These five general questions will enable you to narrow your list of prospects and select the advisor who best matches your business and your goals:

1. Training and experience. The M&A field is specialized and, depending on the transaction, may require specific training and experience. While working with you, your advisor may need to draw on knowledge of corporate finance, accounting, business valuation, contract law, real estate, insurance and negotiating.

So ask about the educational background, professional qualifications and, most important, work experience of your prospective advisors — including every member of the team.

2. Reputation. Request the names of at least three recent clients and contact them. The more references you talk to, the better. Ask past clients what the advisor did well and if they'd have any reservations about engaging the advisor again. Also get the names of attorneys, accountants, bankers and other professionals who work with the advisor. Are they reputable? The company your advisor keeps is a good indicator of his or her standing in the M&A field and business community.

Further, contact the appropriate regulatory agency to learn whether the advisor has been cited or penalized for questionable behavior. Your local Better Business Bureau and your state's securities regulatory agency may also have information on client complaints.

There are a number of professional organizations that educate and accredit M&A professionals, depending on their profession and type of expertise. Ask advisors about their professional affiliations and participation in continuing education seminars.

3. Strategy. A good advisor should have a well-defined strategy, so ask the advisor how he or she plans to meet your goals. Request a timeline with specific milestones and a detailed description of what the advisor will do at each step in the process. This includes what business valuation methodology the advisor or the advisor's valuator will use.

Some M&A professionals specialize in representing both buyers and sellers, whereas others focus on one type of client more than the other. Business brokers tend to work for people who want to sell a business, while investment bankers generally represent sellers and buyers. Either type of intermediary may be able to help you. What's important is their demonstrated knowledge of, and experience with, the kind of transaction you're seeking.

4. *Contract and fees.* Knowing how much advisors charge is as important as knowing what services they'll provide. Start by verifying the length of the contract and ask if the services will be unbundled or bundled.

If you think you may locate a buyer or seller yourself at some point in the process but know you'll need help with other aspects of the transaction, you can request a fee-reduction provision in the contract. But if you want the advisor to handle the entire process, a bundled contract is appropriate.

Further, learn how the contract is split among the upfront retainer, ongoing retainer payments and the success/placement fee. Finally, understand what percentage of the final sales or purchase price the total commission represents.

5. *Personal qualities.* A business relationship depends heavily on intangible, personal qualities. As you interview prospective advisors, ask yourself if they:

- Are good listeners,
- Seem interested in your goals and understand them, and
- Appear to be willing to take the time to complete the transaction to your satisfaction or are more focused on getting the deal done as quickly as possible.

Finally, does the advisor seem like a good negotiator? This is an extremely important skill when it's time to close a transaction. To make the most effective use of the answers, consider creating a grid and assigning scores to the responses of the prospective candidate.

Making the decision

As you perform your due diligence, remember the three fundamentals of business relationships: cost, service and quality of result. When you find an advisor who can provide all three, you've found a good match.