NOTEBOOK OF IDEAS FOR DIVESTITURES OF PRIVATE SECURITY COMPANIES

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MAKING ACQUISTIONS THE "i-DEAL" WAY

Apple's inventions of the iPods, iPads, iPhones, etc. started an "i" revolution! Their products were designed to have a dramatic impact on the way we interact, communicate, and utilize the internet. So now we have discovered a new buzz word in our business sector - the "i-Deal". It describes the process of managing/ negotiating deals utilizing the latest in technology, but is it truly ideal?

No doubt about it - this technology has made communicating more efficient and cost effective than ever. We can communicate with a worldwide audience at the touch of a few keystrokes. We can research topics, read magazines, books and newspapers; take classes, watch movies and concerts; close a business deal and much more - all without leaving our homes and offices. Technology has profoundly changed the way people interact and business is handled.

But beyond all of the positive changes that technology has brought us, there is a downside; namely, the temptation to use technology to completely replace personal, face-to-face contact, which can be a costly mistake in many business situations, including the process of buying and selling a business.

BUYING COMPANIES THE "OLD-FASHIONED" WAY

Before the technology age, the process of buying and selling businesses was mostly handled through meetings, meetings and more meetings - some

We initiate and manage transactions for sellers of private security companies.

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conference calls, but mostly all in-person meetings between the sellers and buyers; and the sellers' and buyers' advisors (attorneys, tax advisors and key personnel) - the "team".

The initial meeting was a basic "get acquainted" meeting. The buyer and seller sat down and shared information about their companies, projections, special interests, etc. and a friendly working "relationship" was developed. An offering price was established, and the time-frame and basic terms of the deal were discussed. This long meeting usually wrapped up with a celebration dinner. It was important for the two parties to spend some relaxed time together over dinner to get better acquainted and further their personal relationship. That personal relationship would help the sellers and buyers get through the tedious and sometimes almost confrontational aspects of the deal that would surely come up as the negotiations progressed.

Subsequent meetings, sometimes between just the seller and buyer, were required to talk about various aspects of the transaction and what to expect after the transaction closes. The seller's team spent many hours copying the due diligence material and stacking it up in a data room in some obscure location where the buyer's team spent days verifying the information - all necessary for the buyer to prove that the company is worth what the buyer is paying for it. The team often worked into the night to complete the review so they could return home as soon as possible. Negotiation of the final purchase agreement required yet more in-person meetings between the attorneys and sometimes included other members of the negotiating team.

All these meetings, of course, meant that one or more team member spent considerable time traveling back and forth between locations. Hours of travel to and from airports, to and from hotels; at airports and on planes meant hours of unproductive time. And of course, the travel costs (car rentals, hotels, meals, etc.) made doing business this way quite expensive.

An analysis of a transaction we managed for a medium size company in 1996 revealed the following activity:

- 15 face-to-face meetings between the principals and their "team"
- 261 conference calls
- 33 overnight packages
- 43 faxes

BUYING COMPANIES IN THE "NEW AGE"

Today, the process is quite different thanks to the advent of technology. Although the buyer and seller still meet face-to-face initially to establish the basic aspects of the deal, after that first meeting, the principals and their teams have less and less direct contact. The buyer's due diligence team doesn't have to travel to the seller's location to examine the files. The seller's information can be **securely** transmitted electronically or accessible through a virtual data room. This allows the buyer, their accountants, lawyers, and the key operational personnel to review the information in the privacy of their own offices and usually at their own convenience.

The time it takes for the buyer's team to review the information has been reduced dramatically. The seller's data is in a **secured** file format that allows direct integration with the buyer's software; the information is organized, categorized and easily identifiable. Since the buyer's due diligence team doesn't have to waste time traveling to the seller's location, today's process of verifying the records is a lot more efficient

An analysis of one of our more recent sale engagements of a large security guard company reveals the following about the new process:

- 5 face-to-face meetings between the buyer and seller principals
- 4 meetings with the operational people to talk about what happens in the transitioning of the accounts.
- About 100 secured e-mail files containing actual copies of about 300 customer contracts, 3 years of historical financial statements, numerous reports required by the buyer as well as workers compensation loss runs, copies of the benefit packages, etc.
- 6 rounds of e-mails passing the drafts of the Purchase Agreement back and forth until the parties agreed on the final version.
- Electronic confirmation that the wire transfer for the monies due the seller at closing has been credited to the seller's banking account.
- The buyer and seller do a virtual handshake over the phone congratulating each other on a "win-win" transaction.

THE IMPORTANCE OF MAINTAINING PERSONAL CONTACT

The way deals used to be managed compared to today seem to be so inefficient, BUT they ultimately got done and were very successful due mostly to the face-to-face planning meetings.

The problem that often arises with today's way of doing business, primarily through e-mail, is that as the flow of information moves back and forth electronically instead of through in-person meetings, the decision-makers for both sides get more and more removed from the process. This causes a threat to the success of the proposed transaction. Accordingly, there has to be an extra effort made to make sure the principals are active in the conversations and know what's going on in each stage of the negotiations especially when there's seemingly a long lull in the activity. If the decision-makers are not kept up-to-date, they may think the other side is dragging their feet. The lack of communication regarding the process could easily be misinterpreted as potential problems with the transaction.

Sellers, having started and built a nice company, are entrepreneurs, and entrepreneurs are impatient. They must see things happening and they must happen quickly. If not, the sellers get impatient holding the company together waiting for the closing. And rightly so - not only are they having to run the company longer than expected, they're also putting major business decisions on hold - the company needs to upgrade its computer system, there are office leases coming up for renewal, the insurance policies are getting ready to expire, etc. These will need immediate attention if the buyer decides to walk away from the deal.

The sellers will probably also have a lot of questions about the transaction and how the company will be run after the deal closes:

- Which employees will the buyer hire?
- How will the loyal customers be treated?
- What protection will they get from a buyer during the account guarantee period?
- What will their role be after the sale?

These are very important concerns and questions that need to be addressed, quickly. They can best be answered through a face-to-face meeting with a buyer, but must be addressed even if it has to be handled through a one-on-one conference call between the principals. The buyers should not delegate this to their attorneys or clerks working on the document part of the due diligence. After all, it was the principals who worked out a deal and it shouldn't be handled off to lieutenants that have no decision-making authority.

A 2009 global study by Harvard Business Review Analytic Services for British Airways surveyed 2,300 business executives. The results clearly showed they've had very positive experiences with face-to-face meetings when doing business. Specifically, they preferred in-person meetings for the following purposes:

- Successfully building and maintaining long-term relationships - 95%
- Negotiating important contracts - 82%
- Understanding and listening to important customers - 69%
- Sealing the deal - 89%

Meeting in person allows buyers and sellers to get acquainted on a completely different level than using electronic media. It allows them to "read" each other by listening not only to the words spoken, but also by reading body language, which sends important messages about what they are thinking and feeling. As the saying goes, often the most important thing in communication is to hear what is not being said. That requires face-to-face contact rather than the use of e-mail.

For an owner who started a business 25 or 30 years ago, the price might not be the overriding factor in the sale. Instead, that owner is concerned about how his loyal customers and loyal employees, who have been with him for years, will fare with the new owners. That owner still needs the personal attention, reassurance and "pampering" that can only be done by meeting in person and by staying in touch personally throughout the transaction. It assures that owner that he's handing the business over to a buyer who will not only give him the best price, but will also treat his loyal employees and customers the way they should be treated after the sale is consummated.

"OLD-FASHIONED" AND "NEW AGE" - A WISE COMBINATION

The challenge that we face when buying and selling a business today is in maintaining the right mix of technology and face-to-face time that allow buyers and sellers to establish a relationship that will satisfactorily see the deal through to a successful conclusion. While there are no hard-and-fast rules about how much face-to-face contact the principals should have, it is important that the two get acquainted and then maintain constant contact throughout the selling process.

A well-balanced blend of tried and true old-fashioned human contact combined with the use of the amazing time- and cost-saving technology available to us is sure to leave both buyers and sellers satisfied with the transactions. And of course, the principals must be actively included in the loop for all decision-making as the attorneys and the lieutenants attend to the all the other tasks that must be completed.

Here's what buyers and sellers should do to make sure they stay on track through constant communication:

1. **Buyer and seller principals must be engaged in the process and committed to reaching a timely closing; this must be the most important item on their "to-do" list.**
2. They should have frequent face-to-face meetings with all member of their "team" to learn first hand where they stand on the completed steps and open issues. Being in the "loop" will enable the buyers and sellers to have meaningful conversations when they have their periodic face-to-face meetings or direct calls with each other to talk about the progress of the negotiations. As an alternative (but not as effective), the members should have frequent conference calls, which, thanks to advanced technology, can now be handled wherever the member may be.
3. Important/informational e-mails should be sent to ALL the members of the negotiating teams for the buyers and sellers. This can be easily handled in one key stroke on the computer by setting up a working group e-mail folder.
4. Timelines should be established for completing the stages of the negotiations, the closing documents and the actual closing. If the timelines are not met, the buy-side's principals are responsible for

calling the sellers to explain why. This should not be left as a discussion between the attorneys and due diligence team members.

5. There should be clearly defined procedures for resolving the business vs. legal issues of the transaction and the persons who have the decision-making authority for each should be identified
6. If there are contentious issues in finalizing the closing documents, the principals and the advisors on their team should have a face-to-face meeting rather than a conference call, if at all possible. This face-to-face meeting allows the parties to regain the personal relationship and reminds them of the reason they wanted to do the deal in the first place - all very important in resolving some of the "give and take" resolutions to getting the transaction past the goal line.

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