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Too Many Questions = Paralyzed and No Deal

The seller nicknamed the buyer "Columbo" after the TV detective who had a habit of, when leaving the room, always saying, "One more question." To this buyer, questions were his security blanket and as long as there was another question (and there can always be another question) he didn't have to make a commitment.

One of my favorite sayings is, "The bigger the spreadsheet the less chance of a deal." Spreadsheets can be a form of analysis paralysis. I remember sitting with a client who had a massive spreadsheet we were going through. It has links to numerous other spreadsheets and more formulas than most engineers use.

Unfortunately, it also had some erroneous assumptions, the most blatant being he kept overhead expenses at the same percentage of sales as sales grew (for example, rent stayed at 10% of sales even when sales doubled while actual rent would have increased by CPI). So of course, he concluded the business wasn't worth owning because it had maxed out its profit level.

Finally, I pulled out a legal pad and started writing the company's big picture numbers. We then discussed when there would be the need for new employees, new equipment, larger space, and related items. The conclusion was the company would make a lot more money as it grew.

Harry had a spreadsheet rating his top 10 factors for a business. They included the standard things plus if the business environment was dog friendly. He told me there was one business he really wasn't attracted to, but it scored high on his spreadsheet. My reply was, "I'll bet that means there's a dog run behind the facility." The spreadsheet was his focus, not the traits of the business.

Nice stories, but what do they mean to a buyer and seller? As there are no perfect businesses or perfect deals it's a way for a buyer to stay mired in the weeds and avoid deciding. Here are some ramifications:

- Both buyer and seller will experience "deal fatigue." Usually the seller will experience it first, wondering if the buyer is wasting his time. And if it keeps going the tipping point will be when the seller figures there can't be any more questions and then the bank will ask their questions. Amplifying this is the fact many sellers think their business is the greatest thing since sliced bread and cold beer combined and wonder why there has to be more than a few big-picture questions.

- Deal fatigue also happens when the seller gets overwhelmed. She's running a business, answering questions, dealing with her lawyer and CPA, and starts wondering why it's not as easy as selling a house. One of the best techniques I've seen is a buyer who broke the diligence process into categories. I think there were seven areas including financial, marketing, customers, and employees. Questions were segregated, and every meeting and conference call covered only one area.

- The seller will perceive a lack of confidence in the buyer (and is probably correct). Being organized, keeping good notes, and prepping for every meeting prevents covering the same thing multiple times, which often happens because the buyer is "taking a drink from a fire hose (of information).” That said, buyers will often ask the same question more than once, often with a slightly different spin on it, to see if they get the same answer.

- If the buyer gets too worried over why the phone bill is up $150 from last year they’ll lose focus on growth strategies. And I’ve not met any buyers who don’t use the words scalable or growth when they discuss business attributes.

- Amiable personality types aren’t known for their analytical prowess. So when an amiable gets too deep into the analysis it means they’re looking for a way out. One buyer had a very nice deal, about $4 million, exactly the type of industry he wanted, and in a location that was perfect for him. He then beat the heck out of his spreadsheet and called to tell me he wouldn’t have income any higher than about $50,000 a year. No matter that a conservative banker had allocated a mid-six-figure salary before debt service and the deal was above the bank’s debt coverage ratio floor (and even above my floor, which is noticeably higher than any banks).

A good question is, how can sellers or advisors prevent this? Here are three ideas:

Have a due diligence schedule – Categorize by topic, try to stick to one or two topics per meeting, and check off topics when done. Have a shared folder like Dropbox or Box so buyer and seller, and their teams, are always up to speed.
Build a great relationship – A great relationship makes things a lot easier. A buyer who doesn’t completely trust the seller will be more suspicious, ask more questions, have doubt, etc. Seller’s come across as having “An open kimono” it will speed up the process.
Make and enforce deadlines – This goes both ways. The seller needs to provide information when requested and the buyer needs to check-off topics on-time. They need to hold each other accountable.

It’s awfully easy to get buried in the weeds and lose sight of the ultimate objective

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