Augmenti Consulting

FINDING PARTNERS THE RIGHT WAY

A well-planned business partner search prevents winner's regrets.

To maximize the generation of shareholder value, CEOs frequently have to bring in new partners during the course of their tenure.

Depending on the specifics of each company, this can take many different forms. In our experience, a leveraged industrial company necessitated fresh equity capital to replace a high-cost loan or a damaging put clause, in order to reduce the stress of debt. In another instance, to sustain expansion, a regional agrochemical player needed to invest in new manufacturing capacity to be backed by a wealthy new equity partner. In the third example, a mining conglomerate used the strategy to unlock value by carving out a portion of the business; the rail unit's cash flow, as a distinct corporation, demanded greater valuation multiples than the mining sector did.

We instinctively know that the key to success is finding the ideal partner for each circumstance. Finding one is harder said than done in real life, as summed up by the adage in private equity that "no plan survives the first encounter with customers."

Finding and negotiating with partners can be fraught with difficulties. The following five examples are typical:

01.

Placing more emphasis on "who is available" than "who should we associate with." We frequently miss out on partners who offer superior value.

02.

"Boiling the ocean" paralysis, which results in inaccurate assumptions about partners' intentions and unneeded delays. Sometimes qualified candidates were lost to rivals who took preemptive action.

03.

"Deal first driven," where partners are chosen based on how well they suit the deal-type being pursued, rather than building the right deal structures to attract the partner with the needed skills.

04.

Taking a reactive stance, primarily by participating in dialogues initiated by other parties, who are probably better prepared than you.

05.

Choosing an impromptu route and approaching potential partners through free-form dialogue. If we divulge too much information, it could hurt our negotiating position and cause the transaction to fall through.

We advise clients to follow these three building blocks to increase their chances of success:

The ideal partner.

must satisfy two major requirements: 1) they must closely fit with our strategy (do our conceptions of the source of competitive advantage line up?); 2) ensure that the deal is feasible in terms of availability (what parts of the firm are included in the sale?), affordability (is there a mutually agreeable desire for control?) and interest (is the timing good for both parties?).

On the right terms.

Most terms begin to take shape early during dialogues. From the beginning, we must understand what is desired. Create scripts to prevent early disclosure from influencing the bargaining position. Make sure the relevant content and approach are well defined prior to any contacts with potential partners. Before deciding on exclusive negotiations, hold a few preliminary discussions and make quick fact-finding / corroboration investigations.

At the proper moment.

Start early conversations with likely candidates to gauge interest and fend off competitors' preemption. Move swiftly toward an agreement by gathering the bare minimum of information necessary (based on a pre-defined burden of proof), following the proper procedures in the right order, diving deep as necessary, and avoiding competition preemption.

Winner's curses and regrets are prevented by a thoughtfully planned and executed partner search. So, plan ahead and carry out your tasks diligently.

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