

When should you accept a lower bid for your business?

As counterintuitive as it sounds, it may actually make sense for you to refuse the buyer offering the highest price for your business. M&A transactions are rarely only about price. Many other factors affect the ultimate value of a deal for sellers, including risk, structure, organizational compatibility — even gut feelings.

Consider the risk

There are plenty of reasons for business sellers to settle for less, and perhaps primary among them is risk. If, for example, a buyer's financing appears to be shaky, the deal could break down before it gets to the finish line. In this case, a bidder offering less, but standing on firmer financial ground, may be a better bet.

The likelihood that a highest bidder's acquisition will be challenged by government regulators is another good reason for concern. Going with a lower bid from a company not likely to draw regulatory interest could mean fewer hurdles and greater assurance that the deal will go through.

The deal structure can affect risk — and the desirability of a deal — too. Sellers typically prefer cash over stock deals because they involve less risk. If your highest bidder proposes a transaction largely financed with company stock, you risk the share price dropping before the deal's close or after the merger of your two organizations.

Ask hard questions

If you do agree to a stock deal, you might ask for more shares, or request a collar to protect against increased risk. Also ask these hard questions: Is successful integration of the two companies likely? Are their cultures and visions compatible? Does the buyer have a plan to retain talent and compensate redundant staff? Do the synergies the buyer anticipates, such as expanded geographic reach or lower combined operating costs, actually exist?

Failure to integrate smoothly is often cited as the major reason mergers fail. So the ease with which the two companies merge will greatly affect the new organization's profitability — and the value of the stock you receive.

Look before you leap

You may be tempted to jump on the bid that trumps other offers — particularly if it's much higher. But if the deal could face regulatory challenges, or the buyer is offering a stock deal that seems too risky, reconsider the offer. What initially seems attractive may, in fact, be unworkable.