

This is an excerpt from our book, **Strategic acquisitions: A Smarter Way to Grow a Small or Medium Size Company**. Published in late 2009 and available from Amazon.com. This excerpt deals with the concept of *gray area sellers*. Gray area sellers are business owners who are not actively selling their companies, but would consider selling if properly approached.

You can see a full table of contents for this book by [clicking here](#).

Gray Area Sellers

A few businesses are actively on the market and may be found through ads, brokers, or through other traditional methods. While you might find a few good acquisition candidates from the pool of businesses that are listed for sale, the odds of doing so are not great. What's more, once a desirable business is actively advertised for sale, it will attract several qualified buyers leading to significant competition among the suitors.

There are a lot of business owners that aren't actively looking to sell but would consider selling under the right circumstances. We call these the gray area sellers. It is among these gray area sellers where we believe the best strategic acquisition opportunities lie.

Finding these gray area sellers is not easy. Selling one's business is an emotionally wrenching undertaking, such that even an owner considering selling will not always readily respond to a query about selling.

As we specialize in finding these gray area sellers, we have a great deal of experience in finding and arranging the purchase of businesses that aren't officially for sale. Our methods involve the proverbial mix of science and art, so it's difficult to layout a procedure in a recipe like format. Having said that, here are some of the methods we have found to be successful over time.

Direct Approach via Traditional Mail

Now that communications methodologies like instant messaging, texting, and Twittering are commonplace, even email seems almost old fashioned. Sending a paper letter by first class seems to some to be downright antiquated. Nevertheless, this is still one of our main methods of finding leads for gray area sellers.

Yes, we still often use first class letters that are hand stamped and hand signed in our initial effort to locate acquisition opportunities for our clients. It's not because we are old fashioned. We have tested other methods and varied our approach, but have come back to snail mail as a very effective tool for this type of endeavor.

Our search letters are very pinpointed, by industry, size, geography, and more. We use the list services of a few companies that enable a user to do this pinpointing and list buying online. One source we use is InfoUSA and another is zapdata. The former company compiles their lists from Yellow Page listings and the later uses D&B information (D&B is their parent company). We also use Thomas' Register (ThomasNet.com). ThomasNet is not really designed for this purpose, but in some circumstances it is quite usable for certain very specific industry segments.

Our letters are always addressed directly to the owner(s) and the envelope is always marked "confidential". We always make clear that we are not fishing for a listing, nor seeking a fee. Our most effective letters explain, in detail, what our buyer is looking for. Business owners are accustomed to getting solicitations with vague promises of generous buyers for their businesses but that ask for large upfront fees before those buyers are revealed. We need to differentiate our letters from those shady solicitations.

Finally, we always promise discretion and confidentiality, even to the extent that we won't share sensitive information with our client company without their permission. This is a key point: if business owners who are actively selling their companies are concerned about confidentiality (and they are), those who are at the *just might consider it* stage are doubly as concerned about their customers, competitors, and employees learning that a sale is being contemplated.

This direct mail approach is cumbersome and expensive. Not only do the letters have to be printed and folded, etc., but record keeping of responses and follow-up needs to be hand entered into a database. In an age of electronic communications, it is comparatively very slow. We do it for one key reason: it gets results. It's not magic; depending on the industry we often consider a response rate of 2% pretty good, and that's a *willing to talk* response, not necessarily a seller. But in the sensitive area of approaching business owners about an issue as weighty as selling their business, it works as well as or better than any other method we have tried.

Email

As the availability of appropriate emailing lists improve, email becomes a more viable method of finding gray area business sellers. However, the necessity of reaching the owner directly and of confidentiality makes email a less than ideal search method. Also, the old fashion first class letter on quality paper seems to have more impact than does an email no matter how well it's worded or how sophisticated its graphic decorations. E-mail is also often ignored by the receiver both because of the amount of spam received everyday and since it is so easy and inexpensive to send. In fact, a significant percentage of your e-mail inquiries may end up filtered out as spam. However, emailing is quicker

and cheaper than snail mailing. The list compiling companies mentioned above offer email lists along with their traditional postal list services.

Networking

It couldn't hurt to get the word out that you are looking to buy a particular kind of company. Sales representatives and vendors make it their business to know what's going on with their customers and may hear of possible opportunities. In all likelihood, a lead from a source like a vendor would be just that: a lead. It would be along the lines of "Joe at ABC has been saying he wants to retire soon so he may be interested in talking" or "Bill at XYZ seems to be spending more and more time away from his business and might be open to discussions."

Why Phone Calls Often Don't Work

We have tried using telephone calls to solicit potential sellers. These seldom succeed unless we have a pre-existing relationship with the seller. Unfortunately, when you call a potential seller you not only run the risk of interrupting him when he is doing a more pressing task, but you also often trigger an almost reflexive no. After all, he just received a surprise phone call from somebody that he does not know asking him a highly charged question: "do you want to sell your business"?

Private Equity Groups

Private equity groups (PEGs) are in the business of buying companies, improving them and enhancing their value, and then reselling them or exiting them through a public offering.

If you are looking for a relatively large company to acquire, private equity groups are a source to look to. You are unlikely to find bargains, but you will find sophisticated and rational dealmakers who are more than willing to talk to you.

A good, though expensive, source to search for private equity owned companies by industry and company type is www.privateequityinfo.com.

Intermediaries

Unlike most intermediaries, we focus on aggressively searching for synergistic acquisitions targets for our clients. We maintain a comprehensive database of inquiries we receive from owners who are considering selling, but haven't pulled the trigger yet. We have also developed some proprietary technology that efficiently searches other

intermediary sites, business for sale sites (such as bizbuysell.com), private equity sites, and other sources based on our client's acquisition criteria.

Summary

At any given time, a few businesses are actively on the market. Also at any given time, there are some businesses, those we term *gray area sellers*, that are not actively on the market, but may be open to talking about being acquired in whole or part. A strategic buyer looking for a particular type of acquisition is more likely to find it in the second group. There is no magic method for finding the perfect acquisition. However, the methods described above have proven successful for us.