

A Breach Of Confidentiality Could Spell Disaster

A Neumann & Associates, LLC, a New Jersey-based Mergers & Acquisitions and Business Brokerage firm, discusses the confidentiality in selling a business.

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/EINPresswire.com/ -- Undoubtedly, maintaining [confidentiality](#) throughout the process of selling a business is one of the most important aspects of a business transaction. Some contend that confidentiality is THE most important aspect, often even exceeding the value determination. Why so?



“Simply stated,” says Frank Arcoleo, Managing Director, Central Pennsylvania and New York, of A Neumann & Associates, LLC, a leading Mergers & Acquisition and Business Brokerage firm headquartered in New Jersey, “a breach will result in all kinds of negative outcomes, including the loss of customers, the loss of employees, and the loss of access to bank credit.”

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The first impact of a breach will be the loss of customers. This is particularly significant in consumer hospitality businesses with long-term client reservations, such as banquet facilities. The “news” that a banquet facility is for sale will result in immediate cancellations, essentially destroying future business revenues. More significantly, it applies to manufacturers that “control” a significant percentage of a customer’s product sourcing. Any potential risk pertaining to the continued reliability of product deliveries (due to a change in ownership) will most certainly trigger those customers

seeking alternate product sources.

Another aspect is the loss of a competitive advantage. “If a particular manufacturer has a pricing or design advantage, information leaks regarding a pending sale will almost universally lead to the need for the manufacturer to price match competitors to ‘keep’ those customers,” says Achim Neumann, President, “As a result, the breach of confidentiality will immediately deteriorate profit margins and [valuation](#).”

Finally, there is the probability that certain key employees will leave – particularly, the ones most important to the business. Generally, employees do not like uncertainty and are prone to imagine the worst from a transfer of ownership. And if they just happen to have recently heard from a recruiter or competitor, this could very well be the triggering event for them to “jump ship.”

It is important to note that the “fear of the unknown” PRIOR to a sale is the most negative aspect, not the actual transfer itself. Businesses are sold every day, and if done properly, there is no negative impact on clients, pricing, margins, and future business growth. It is the uncontrolled negative perception PRIOR to a transfer that needs to be avoided at all costs.

Importantly, this applies to both investors and sellers. “Quite often, we are contacted by investors who actually want to work in the business or who want to contact certain key customers prior to closing,” says Aaron Soury, Managing Director Southern NY State, “and we need to explain to these folks that doing so would only jeopardize the well-being of the business they are looking to acquire.” So how can the confidentiality breach be avoided?

First of all, all marketing needs to be undertaken in a non-divulging fashion. The name of the business or its address should never be stated in advertisements or postings available to the general public.

Secondly, a process needs to be in place to carefully vet potential investors. This needs to include a thorough financial qualification process, not simply the signing of a cursory Non-Disclosure Agreement.

Finally, not all information should be released in the first meeting or even in the first documentation set. “Selling a business is like leading a horse to water” is an often used phrase in the industry, and indeed it’s largely correct. Only after an offer has been submitted and an escrow account funded (thereby indicative of an [investor](#)’s serious interest) should details pertaining to customers, employees, etc., be revealed.

In sum, maintaining confidentiality is crucial in selling a business, and only firms with established processes and a long history of successfully executing such steps should be considered by any business owner contemplating a sale. The professionals at A Neumann & Associates would be happy to discuss our time-proven process in detail with any interested party

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