



The Case for Face-to-Face

New technology has changed corporate finance, but has the human element been lost?

by Mark D. Working

Over the last decade, the industrial world has undergone a sea change as technological innovation has been applied to business processes in the relentless search for greater productivity. Day-to-day business practices have changed, employees have learned new skills, and overall production efficiency has increased. Companies that have failed to meet this challenge have shrunk, gone out of business, or been absorbed by others who have invested in modern techniques. Those of us who execute corporate finance transactions of one kind or another have also experienced the inescapable influence of technology on our business practices. Most of the changes have been beneficial, others we are not so sure about.

THE OLD PROCESS

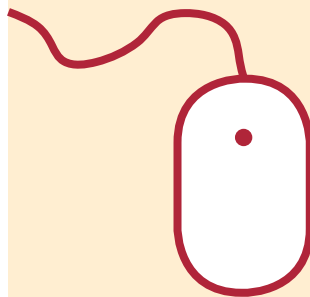
Not that long ago, the sale of a private business would include the distribution by mail of a written information memorandum, followed by a meeting with management, a tour of the facilities, and a visit to a due diligence “data room” to allow potential buyers to become knowledgeable enough to submit a meaningful offer to buy the business. The “data room” was actually a specific place, usually located at the company’s law firm, where prospective buyers could sit and review, under supervision, binders and binders of organized documents that covered different aspects of the business. Once the final buyer was selected, lawyers would send a first draft of purchase documentation by mail or courier. Shortly thereafter, the buyer’s and the seller’s deal teams would congregate to conduct face-to-face negotiations. Closing was an event, where both parties and their teams of advisors met in person to sign and exchange documents.

THE NEW PROCESS

The process is very different today. Starting at the initial phase of investigation, information on the subject company is transmitted electronically, often supplemented by review of the company’s website and other digital media (e.g., animated presentations, films, and video conferences). The job of understanding the business, “seeing” the facilities and employees at work, and even meeting

THE NEW AGE/TECHNOLOGY DEAL PROCESS

Instead of an on-site visit, click your mouse and you’re there through the web.



Instead of talking, send emails.



Instead of traveling or person-to-person meetings, do a video conference.



management, can now be accomplished without leaving one’s office.

The data room of yesteryear has been replaced with a sophisticated virtual “data room” accessible via website in which authorization can be restricted and regulated to “view only” or copy. The activities of each prospective buyer can be monitored on a real time basis.

When it comes to documentation, phones, video conferencing, email, and electronically transmitted documents mean that hard copies never have to be exchanged and in-person meetings are no longer required. Closings are almost always “virtual,” where each party’s attorneys come to a stage where

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they declare the deal complete and money changes hands via wire transfer. Earlier this year, in an actual face-to-face meeting between the two sides and their transaction teams, one of the attorneys working for the buyer acknowledged that this was the first time he had been in a face-to-face negotiating session in over two years! Sometimes, the attorneys never even meet their clients in the process.

HUMAN ELEMENT CRITICAL

In conversations with transaction specialists (e.g., attorneys, bankers, and investment bankers), all agree that the physical logistics of transactions have become much easier to manage. Many also comment that the infusion of modern communications technology

into dealmaking has not curbed the time and cost associated with transactions. Reality is often quite the opposite. At the same time, the improvements fashioned by the electronic age have the unintended consequence of eliminating the human element that is so important to the psychology of a deal.

People do business with people. Nothing is perfect and no one is singularly virtuous. In person, we are able to see these facts, accept them, and work around them. When working from behind the curtain, it is too easy to avoid hearing or understanding the other's position.

Saying "no" in person is harder than by email. It is also difficult to grasp the entire context of someone's comments when there is no opportunity for interactive, real time, probing questions and answers. Body language, facial expressions, and tone are essential elements of communication that often reveal more about meaning than words alone. In essence, the efficiency of transmitting data has led to the removal of the rest of our senses, and thereby, made negotiations much more difficult and precarious.

TECHNOLOGY AS A TOOL

Technology clearly has its place, making

many aspects of transactions more efficient. However, these tools should be used judiciously, not at the expense of the personal interaction that can be critical to meetings of minds and relationship building. The relationships that evolve from the insertion of the human element into negotiations help to get deals done. The personal touch also serves to reduce post-closing recriminations that often haunt deals, even after both parties have signed off on all the words. ♦



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