Considering a Sale of Your Business… *Types of Buyers*

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This is the third article I've written to provide general background information for business owners contemplating the eventual sale of their business. In this article, I discuss the "usual suspects" of buyers of businesses.

There are two broad categories of buyers of businesses: **financial buyers** and **strategic buyers**, with the distinction between them sometimes blurred. I reference these categories more as FYI background since the terms are used in the industry; the specific type of party, versus the broad category, is more relevant and helpful for brainstorming and planning purposes.

Financial buyers are akin to investors in the stock market, but instead of investing in stocks of publicly traded companies or mutual funds, they invest in a business, typically acquiring total ownership or at least a controlling interest. They may or may not have deep familiarity with your industry, but in any case, it unlikely they'll seek to run the nitty-gritty, day-to-day business operations after their acquisition. Financial buyers may include venture capital or private equity funds, or "family offices" (which are very wealthy individuals or families that are active in investing in or purchasing private businesses); however, it really depends on their intentions as to whether they're a financial buyer or not, as any of those sorts of parties could also be a strategic buyer discussed below.

Conversely, a strategic buyer *is* interested in the actual operations of a business for various strategic reasons, and unlike a financial buyer, strategic buyers will assume operational control of an acquired business, maybe with existing management, though sometimes with new management.

With that academic background, I'll provide a more detailed list of types of what I believe are the most common types of third-party buyers, all of which would be categorized as strategic buyers:

- **Competitor/Similar Business**. This could be an out-of-market business in the same industry looking to expand their geographic footprint, or an in-market competitor simply looking for an opportunity to grow, with the added benefit of reducing competition. I'd also include in this category businesses that have very similar businesses, regardless of geography, but the acquisition of your business could provide an additional, but aligned, product line or customer base.
- **Customer**. A key customer of yours could be interested in a vertical expansion, to either incorporate your business into its own for internal purposes, or to be able to expand their revenue generating, business operations.
- **Supplier/Vendor**. A supplier could likewise be interested in a vertical expansion, just the opposite direction than a customer.
- **"Roll-up" Firm**. By "roll-up" I'm referring to a well-funded (hopefully!) private equity fund that is looking for smaller, piecemeal acquisitions to create a large collection of similar businesses. (I'd stay clear of a party that is highly leveraged, unless the purchase price is paid 100% at closing and only in cash.) The roll-up scenario is an exception to the general assumption that private equity firms are only interested in huge deals. That said, they'll still have a preference for larger acquisitions, but may make an exception for a smaller deal as part of their roll-up effort.

Lastly, there's a final type of buyer could be categorized as another type of strategic buyer, or a whole separate category, and that's an **individual or group of individuals**. This could include one or more current employees (typically managers), or someone wholly unconnected to your business. Current management can make a lot of sense since they're familiar with the business and have a vested interest in its continued success, but in the vast majority of cases, it will require significant seller financing paid back over time, and some owners aren't interested in a prolonged sale process/pay-out. The issue with individuals unassociated with the business who may be looking to acquire a business is that viable candidates can be difficult to find, and most business owners prefer not to publicize they are looking to sell their business out of concern that it might spook customers and employees.

Whatever type of buyer you may encounter, consider in advance what issues are most important to you. For example, some owners want to ensure the operations will remain in the community, or significant layoffs are unlikely, and/or there's a cultural fit between the business, while other sellers simply want to maximize their sale price. Everyone is different and has different priorities. It's good to try and identify yours before you start the process, and then be open about them to prospective buyers.

A closing thought deviating a bit from the primary topic of this article… when it comes time that you're earnestly considering a sale/exit, if you're not completely tapped out and in need of a prompt exit, it might be worth considering the opposite of a sale, i.e., explore acquiring or merging with a strategic party. (I know… a total change of gears here!) You may still be able to begin to remove yourself from day-to-day operations if that's your goal if competent key management is in place with the other party. And a merger of businesses won't require a huge outlay of cash or incurrence of debt that an acquisition would; in simplified terms, your ownership would go from 100% of your current business, to x% (less than 100%) of a combined business. A potential benefit of a business combination is that larger businesses typically command a higher multiple for purposes of business valuations. So after successfully integrating the two businesses, even if the combined net income is the same as the sum of the two previously separate businesses (though hopefully it'd be greater), because the combined business is larger there's a good chance it will be valued with a higher multiple, resulting in a higher value/selling price. Also, a larger business may increase the number of potential buyers- and when it comes to interested buyers, a general (but not hard fast) rule is more is better. Needless to say, a business combination isn't without risk and should only be undertaken after thoughtful and careful planning.

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