

Who will Buy? How to find the right buyer for your business

There are millions of potential buyers out there, but how do you know if a buyer is right for your business? Buyers generally fall into one of three categories: strategic companies, private investment groups, and individual investors. Each type has a different objective and a different level of experience. Learn about those differences here, and you'll have a better chance of getting what you want.

Strategic Companies

Strategic companies usually pursue businesses they consider synergetic: Your product or service will be complimentary, and therefore financially prudent for them to acquire. Similarly you might have an established presence or loyal customer base that makes acquiring your business desirable. Because of this, the offer you get from these buyers may be higher, since they are anticipating immediate profitability, and a quick return on their investment.

If you accept a bid from a strategic company, you'll be completely giving up your own business. Shareholders, management, and employees will probably not remain with the company after the initial transition. If your buyer is in another location, your business operations will almost certainly be absorbed and relocated.

Because strategic buyers are sensitive to liabilities they may acquire upon purchase, you'll need to be able to ensure the clarity of historical corporate records. Therefore, as is the case with virtually all transactions, it's recommended that any outstanding issues be clarified prior to discussions with a strategic buyer.

Working with a strategic buyer has its advantages: they usually have a high level of expertise, so the process and the closing often runs smoothly. They generally have more financing options and the resources to keep your company growing. The disadvantages include a corporate assimilation and absorption of your business, which may result in the elimination of benefits or even employees from your company.

Private Investment Groups (also known as Private Equity Groups)

Private Investment Groups represent a formal fund (or a number of related funds) created by a group of investors. Their strategies and focus can vary: some focus on a certain segment of the industry, while others set their sites on geographic locations. Often, a group is trying to build a portfolio of businesses with synergy, with the ultimate goal of achieving the highest possible return for investors.

If you sell to a private investment group, it's more than likely your business won't change much. These groups prefer to let their acquisitions continue to run as is, but under new ownership. The existing management team will probably be asked remain after the sale. Additionally, these groups usually have a planned exit strategy and expect to hold a portfolio business for a pre-determined period of time—usually between five and seven years.

The advantages of working with an investment group include a level of experience that expedites the transaction; ample resources and available equity capital; and the fact that your company will probably not be changed too much. Disadvantages can include the fact that existing management and employees may need to stay, which can conflict with shareholders' exit plans; the price may not be as high as with a strategic buyer; and the business might be sold in another five to seven years.

Individual Investors

Individual investors are high net worth individuals seeking to own and manage their own company. Individual buyers expect to be integrally involved in the leadership and management of the company after their purchase. This buyer segment is usually focused upon the geographic location, as the buyer is typically not seeking to relocate.

Most individual investors are seasoned businesspeople, with experience in either corporate positions or other entrepreneurial ventures and ordinarily prefer established businesses with proven performance to newly started companies. Due to capital constraints, individual investors usually purchase businesses at the smaller end of the middle market spectrum.

The advantages of working with an individual investor include their direct involvement and a high level of interest in the success of the business; they usually only need active shareholders for a brief transition period; and they're probably not going to relocate or dramatically change the corporate and operational culture. Disadvantages include inexperience, which can prolong negotiations; a lack of financing resources compared to larger buyers; and the offer may be considerably lower.

So while you certainly want to solicit the best offer you can for your business, you should also consider your ultimate goals—whether you'd like your business to continue to operate as is, or whether you're okay with having it bought by a larger corporation. By understanding your buyer's goals and your own, you'll be better armed to make sure all parties are satisfied in the end.