Selling Your Business: Strategic Factors & Types of Buyers

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In our recent article, "Seven Ways to Maximize Value - and Price - When Selling Your Business," we discussed how to maximize your company's potential sale price by focusing on a handful of value drivers during the time leading up to the business' sale. Here, we discuss the strategic aspects of selling your business and the different types of potential buyers.

When it comes to selling their companies, Los Angeles and Southern California business owners can sometimes get very emotional. After all, most owners have worked for many years building up their businesses and have invested a lot of "sweat equity" into them.

However, it's important that you try to remove emotions from decisions about selling your company as much as you possibly can, and instead base your decision to sell on strategic factors. Selling your business is too important a step for you not to approach the decision and process from a rational, logical and strategic standpoint.

Why Do You Want to Sell — *Really*?
The first step in the process of selling your business is to take a step back and honestly assess *why* you believe you might want to sell your company. For example:

- Are you ready to retire and reap the financial rewards of your many years of hard work?
- Are you burned out on running the business and ready to take a well-deserved break?
- Do you want to try your entrepreneurial hand at starting and running another business (or businesses)?
- Is it time to hand the management and ownership reins over to your children or other heirs?
- Have you taken the business as far as you can given your skills, knowledge and abilities?

Once you have made an honest assessment of why you want to sell your business, the next step (assuming you truly do want to sell) is to build your team of M&A experts, starting with your investment banker. This individual will play a critical role in the business sale process, essentially serving as the "quarterback" of your team and guiding you step-by-step through the sale process. Other key team members generally should include an accountant and attorney who specialize in mergers and acquisitions, and perhaps an outsourced CFO as well. The sale of your business is likely the largest and most complicated transaction you'll ever undertake, so you want to recruit as much experience onto your M&A team as possible.

Your investment banker will serve in the role of "market maker" by first building a database of prospective buyers and then working to create interest in your business among them. He or she will also create a confidential offering memorandum that presents your company in the most favorable light to potential buyers. The memorandum should be written in such a way that it attracts not just any buyers, but the *right* kinds of buyers, and also positions your company to sell at the highest possible price.

Types of Business Buyers
Keep in mind that there are several different kinds of potential buyers for your business, including the following:

Complementary buyer — As the name implies, this is a business that provides services or manufactures or distributes products that complement those of your company. Often, the buyer operates in an industry or niche that is similar to, but slightly different from, the one you operate in. Ideally, combining the two companies will result in synergies that strengthen the new merged business.

Strategic buyer — This type of buyer is looking for acquisition targets that can enhance its strategic advantages. Strategic buyers are often competitors who are able to improve upon the products and services offered by the companies they acquire. It's important to consider the cultural fit between the two merged companies when examining a strategic or complementary buyer. Clashing values, cultures and business philosophies are a primary factor behind failed mergers and acquisitions.

Employees or management — A Management Buyout (MBO) or Employee Stock Ownership Plan (ESOP) is the most common vehicle used to accomplish the internal sale of a business. One of the benefits of this strategy is that you can transition ownership and control of the business to management or employees over a period of months or years, thus phasing out slowly if you want.

Private equity investor — PE investors may want to grow your company and sell it at a profit some time in the future. Private equity is similar to venture capital, but PE investors are generally looking to buy more established and mature businesses, rather than risky startups. And they often tend to hold onto the businesses they buy longer than venture capitalists do before selling them.

Concluding Thoughts
While it's easy to get emotional when it comes to selling your business, it's important to remove emotions from the equation as much as possible. Instead, you should base your decision to sell on strategic factors. Once you have made an honest assessment of why you want to sell your business, you should build your team of M&A experts, which may include an outsourced CFO services provider. Such a provider can bring an objective perspective to the sale process and work together closely with your investment banker, accountant and attorney to help ensure the best possible sale outcome.

About CFO Edge
CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives at small and mid-sized companies throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.