Casting the Net – Strategic and Financial Buyers

By Kenneth B. Collins

One of the most challenging aspects of selling a business is assembling the best pool of potential buyers. You want a wide range of buyer prospects, but you also want to avoid sharing proprietary company information with more people than necessary. The answer lies in the caliber of the target list rather than in sheer numbers.

In the course of discussing buyer prospects with a client, I find it very helpful to classify them as A, B or C – that is, the very best prospects from a strategic and financial point of view; those we believe will express interest; and the remaining prospects that for one reason or another may have an interest. In my experience, the successful buyer comes from the A of B list more than 80% of the time. The C list is essentially, "Hey, you never know."

I try to dissuade clients from going down a one-lane road with a single prospect who may be their main competitor or someone who has approached them in the past. Taking that route to its logical conclusion ultimately puts the seller in the position of facing a "yes-or-no" decision: should I sell my company to this buyer on these terms or not? Better by far is to set the stage for an "either-or" decision after you and your advisor have attracted offers from several buyers whose bids offer meaningful negotiating leverage.

Strategic buyers will normally head the list of prospective buyers. They are the operating companies that provide similar products or services and are often competitors, suppliers or customers of your firm. They may also be looking to grow in your market to diversify their revenue sources. Their goal is to acquire companies whose products or services can be integrated into their existing operations to produce cost savings and potentially to increase sales and/or pricing leverage.

To identify those benefits, or "synergies," strategic buyers need to dig deep into the client's business to analyze the value drivers: which products and services are sold to their customers; is there customer overlap; are there manufacturing and distribution economies of scale; back-office savings; intellectual property; etc. Strategic buyers plan to own the business indefinitely and integrate it into existing operations.

Financial buyers should also be included on the target list – private equity firms, venture capital firms, hedge funds, family investment offices and private investors. These firms are in the business of making investments in companies and realizing a return on their investment. They're looking for private companies with attractive growth opportunities, competitive advantages, growing markets and strong management. Financial buyers plan to realize a return on their investment within a few years through a sale or IPO.

A good M&A advisor will help you develop a broad yet targeted list of prospective buyers that will ultimately invite bids and enable you to maximize your negotiating leverage, pitting buyers against each another for the best price and the best terms. Once you select the buyer and sign an LOI, your advisor will work with all parties to ensure a seamless due diligence process, working with you and the attorneys to finalize the purchase agreement and close the transaction.

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