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Financial vs. Strategic Buyers: Why Selling to a Strategic Buyer Might Make Sense for Your Business

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Key Takeaways:

- Understanding how much money you will need to live your life is essential.
- Strategic buyers can achieve some synergistic value by purchasing your company.
- Transaction structure is critical.

There are many ways to transition from your business. Many owners wish to keep their companies in their families or transfer ownership to employees. Others hope to sell their businesses and capitalize on the value they have created. If your goal is to sell your business, considering a strategic buyer may make sense in some cases.

Strategic buyers — as opposed to financial buyers (usually private equity groups) — are generally buyers in the same (or a related) industry that can achieve some synergistic value by purchasing your company through cost savings or revenue enhancements. An example might be a company that sells a product or service that is complementary to yours and could benefit the buyer by accessing your customer base. Another example is a competitor seeking to expand geographically. The key is that this type of buyer can realize value greater than your company's current value solely by acquiring your operations.

- In contemplating whether selling to a strategic buyer is an acceptable option for you, there are a number of questions to consider, including:
- What are your financial needs?
- What are your non-financial objectives?
- How will the transaction be structured?

Is a strategic buyer the right fit for you?

Assessing your needs and objectives

As with any business transition conversation, the first place to start is your personal financial needs. Understanding how much money you will need to live the remainder of your life in the manner you wish is what should drive all subsequent decisions. If selling does not provide you with sufficient proceeds, other alternatives should be considered. The best way to know how much money you need and whether a sale will meet that financial requirement is to engage in personal financial planning.

Once you know with relative certainty that selling your company will provide for your financial needs, it is prudent to consider your non-financial objectives. These could include your continued involvement with the business, providing for children, providing for employees, protecting your company's legacy or reducing your risk. Identifying and addressing your non-financial objectives is an important step in determining what transition option is best for you.

Will selling the company provide for your personal financial needs and non-financial objectives?

Overcoming possible conflicts

Strategic buyers often make a series of changes to the business, some of which may conflict with your goals. For example, strategic purchasers are unlikely to keep all of your key employees. One of the synergies from which strategic buyers often benefit is the ability to absorb certain functions into their existing workforce, and the cost savings related to the elimination of duplicative employees creates immediate additional value.

Likewise, strategic buyers may eliminate locations that overlap with their current operations. Entering a transaction without a full understanding of the potential ramifications may leave you disappointed in the result. On the other hand, if your goal is to sell and immediately walk away with no further responsibility to the business, selling to a strategic buyer might be a good fit.

If your goal is to eliminate your responsibilities to the business, you might consider selling to a strategic buyer.

Considering the structure of the transaction

Transaction structure is another subject that should be well contemplated. Transaction structure includes what you are selling along with payment terms and timing. Will the payment be made in cash or the stock of the acquiring company? What is the timing of the payment? Will you receive everything at closing or will some of the proceeds be paid over time? Will the payments be contingent on the business meeting performance goals?

All of these questions are important, and each has implications for areas such as personal tax planning, estate planning and risk. Understanding the structure is crucial in considering a sale.

Understanding transition structure is crucial in considering a sale and has implications in areas such as tax planning, estate planning, and risk.

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The process of transitioning from your business can be overwhelming, and for many business owners, the thought of selling their businesses to third parties is terrifying. Even knowing where to begin can be difficult.

The most important thing is that you do begin and plan as much as possible so that when the time comes, you're ready. For some, selling to a strategic buyer may be the best way to transition and meet their goals, both financial and non-financial. The key, as with all transition decisions, is to plan ahead so that you understand the balance between qualitative and quantitative considerations, know how each is affected by the transition option you are considering and how each affects your personal planning.

Plan ahead with a trusted strategic buyer so that when the time comes, you're ready.

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