



TODAY'S BUSINESS SCENE

the newsletter for privately held businesses



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The Different Buyers You May Encounter

If you're selling a business for the first time, you might have a preconceived notion of the type of buyer that's most likely to purchase your business. However, the truth is that sellers often get competitive and attractive offers from buyers that they were not expecting to have an interest in their business. Let's take a look at some of the variety of buyers you might encounter on the path to selling your business.

Your Family Members

One common buyer would be a member or members of your family. One of the advantages to selling to family members is they may already have a deep understanding of what it means to own and operate your business. As a result, they may feel more prepared.

On the other hand, just because someone is your family member does not mean they have the chops to actually run your business. Further, if you sell to a family member, you may end up dealing with someone who has less cash available to buy.

Competitors and Synergistic Buyers

You may not have warm fuzzy feelings towards your competitors, but the truth is that you need to be open to the idea of receiving offers from them. In fact, many competitors immediately look to their competition first when they decide they are going to expand their business. Your competitors make a lot of sense as good candidates because they understand your industry. Purchasing your business represents a viable way to rapidly expand their own offering with products and/or geographical reach.

Lion Business Advisors is here to strategically and confidentially sell your business.

2023 Business Broker of the year by Acquisitions International. Top 10 M&A Consulting Firm 2022 by Financial Services Review. 5 Best Business Brokerages US 2022 by Silicon Review.

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The Different Buyers You May Encounter (cont)

Along similar lines, synergistic buyers acquire new companies in order to leverage their existing operations. You will find these buyers are typically larger entities in the same or related industries. In buying your business, their goal is to support and quickly add value to their current organization.

Individual Owner Operators

Many sellers end up with a deal on the table from an individual buyer. There are definite advantages associated with this type of buyer including the fact that it can streamline the sales process when you are dealing with one person rather than a group. Individual buyers oftentimes have corporate experience that helps them to effectively take over and manage a business. Another advantage to the individual buyer is that he or she oftentimes has a personal interest in the business and plans to successfully operate and improve it.

Financial Buyers

A financial buyer is most interested in their ROI. They will zero in on finding out about the cash flow and long-term exit strategies. These investors are typically only interested in very solid companies that are generating solid revenue. They will be less likely to want to take the time to make changes and improvements, so they will expect healthy returns on their investment on day one.

Your business broker or M&A advisor will help you understand the pros and cons of various buyers when it comes to your unique situation. Ultimately, you'll find the type of buyer that is best suited to buy your business and that fulfills your needs and goals simultaneously.



The Main Reason Why the Sale of your Business can Fall Through

Selling any business can be complicated. Finding the right buyer is one hurdle that must be overcome. However, even once the right buyer has been found, there are still many reasons why a deal can collapse.

Unpredicted Events

It is important to realize that you can do everything perfectly and “acts of fate” can still intervene and impede the success of your deal. For example, one issue is that you might not be able to satisfy the buyer in regards to demonstrating the earnings of the business. A second issue is that during the sales process problems may arise with federal, state and/or local government bodies and agencies. Many of these problems may be quite difficult to predict in advance. A third issue is that the buyer's investigation ultimately reveals some problem regarding the business that was previously unknown.

Simply stated, a seller cannot guard against every single possible unforeseen act of fate. The best any seller can do is look for potential problems and try to remedy them in advance. Working with a business broker or M&A advisor can be an excellent way to identify all types of business problems and adjust accordingly.

Buyer Issues

Another major reason that deals can fall through are issues with the buyer. Many sellers are just “testing the waters” or lack the commitment and resolve to see the sales process through, which is often much more complicated than many sellers realize. This issue marks the importance of working with an experienced business broker or M&A advisor who hopefully can weed out these uncommitted buyers in the beginning.

Often buyers will fail to be honest about their situation or how capable they are of buying the business. Business brokers are experts at assessing the potential of interested buyers, and that means they can typically save sellers a great deal of time and aggravation. But even with the best brokerage professionals on your side, it's important to realize that buyers can still be unpredictable.

Third-Party Interference

A particular source of deal killing frustration can be that buyers are influenced by third-parties who are opposed to the purchasing of the business, for a variety of reasons, and will work to kill the deal regardless of its merits. Everyone from landlords who may not want to transfer a lease or grant a new one to outside business consultants, such as attorneys, may all intentionally or unintentionally create a range of problems that interfere with the success of the sale.

There are many pitfalls that can derail the successful sale of a business. Identifying those kinds of issues far in advance is one way to dramatically boost your chances of a successful sale. Working with an experienced business broker or M&A advisor can help to dramatically increase the odds of finding the right buyer for your business.



Help Buyers to Understand How You Excel

No business is perfect, but when you are preparing your business to be sold, it is imperative that you lead with your strengths. That's why it is important to work with a business broker or M&A advisor to identify, catalog and work to remedy any weaknesses. When presenting your business to prospective buyers, focus on your key selling points first and what makes you really stand out from the crowd. You want to sell a prospective buyer on the value of your business and its long-term potential before addressing any shortcomings or areas that need to be improved.

Most business owners who are selling a business are doing so for the first time. If you've never sold a business before then there are many mistakes and traps that can befall you. Selling a business is typically not a fast and easy process, but can instead take many months or even years.

Working with a business broker is one way to ensure that the process goes smoothly, but there are other steps that you can take to help ensure that your business sells. At the top of the list of steps business owners can take to help their business sell is to maintain normal operations. Again, it is very unlikely that your business will sell as soon as it hits the market. To protect the value of your business and to avoid financial trouble, you have to maintain normal business operations throughout the sales process.

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The next key step to take is to get your business ready. It likely took years, or even decades, to get your business to where it is today. You shouldn't expect that preparing your business to be placed on the market should be an overnight process. One of the best ways to properly present your business is to inspect every aspect of your business and its operations. In this way, you'll discover what areas need work and what strengths are best to promote.

Brokerage professionals know where the competitive advantages of businesses reside and have an understanding of what buyers really want. An incorrectly priced business can scare away otherwise excellent potential buyers.

The same holds true for poorly organized paperwork and financial records. In short, the preparation you make now to sell your business later can be invaluable for achieving the results you seek.

At the end of the day, you must remember that selling your business is a financial transaction. Like all kinds of sales, you must understand not only what the buyer needs but what they want as well. Not every business is right for every buyer.

Four Questions to Ask Yourself Before Purchasing a Business

Truly understanding a business is much like understanding the condition of a car. It is necessary for a skilled mechanic to "pop the hood" to access the true condition of a car. In much the same way, you and your team of experts need to "pop the hood" of the business in order to understand the business's long-term health and viability. Here are four things to consider before signing on the dotted line.

Will You Enjoy the Work?

Owning a business, especially if you are planning on being an owner-operator, can be a demanding path. You will likely have to log many hours, especially in the beginning. For this reason, you'll want to select a business that you will enjoy owning.

Life is too short to own a business that you would not want to be involved in. Importantly, if you do not like the business you own, the odds of facing burnout and losing interest are higher. It goes without saying that these kinds of obstacles can dramatically harm your business. Think long and hard before selecting a business to buy, as it is a decision that you will have to live with for years to come.

Did You Examine the Business Plan?

A second factor to consider is that there is no replacement for a good business plan. When you are considering buying a business, you'll want to dive in and understand every aspect of the current owner's business plan. If the business plan has major holes or just doesn't seem to be adding up, you should move on.



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Four Questions to Ask Yourself Before Purchasing a Business (Continued)

Do You Understand the Financials?

Similar to understanding the particulars of a business’s business plan, it is also critical that you have a very precise and clear view of a business’s financials. You should look over everything from profit and loss statements to tax returns and more. It is a smart idea to consult your accountant and a brokerage professional regarding what financial documents you should review. Before you buy a business is the time to understand every small detail of a business’s financial health, not after.

