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Understanding the Most Common Types of Buyers

By: Carlos Tavares

Have you considered how different types of buyers may impact the legacy you have worked so hard to build?

In preparing for a transition, the starting point is always the personal goals of the individual business owner. Regularly, we notice those goals are tied to the legacy which will be left behind. Perhaps it's the employees that need to be protected, or the facility to remain in the same location and continue to employ members of the community, or the culture that already exists within and ensuring it will be protected.

You're in a position to finally realize the return on your life's business venture but which buyer is the best for you and the future of the foundation you have built? In this article we will go over the top 3 types of buyers and how they will affect your business. Not including employees or an inter-generational transfer, these 3 types of buyers are the most common we come across.

INDIVIDUALS

Individual buyers are entrepreneurs who enjoy the challenge of business ownership and not having to start from the beginning. They would rather walk into a situation where they are actively involved in the day to day operations and are comfortable in turnaround situations. It's very important to understand how this individual will fit in with the culture already in place and if they will motivate your current staff. Try to get to know this type of buyer well and ascertain if your staff will respond positively to that person once the transition has been completed. Typically an individual entrepreneur will offer 90% - 120% of the value.

PRIVATE EQUITY GROUPS (PEGs)

Private Equity Groups are financial investors that come in many different forms. Some are family groups, others are former business owners themselves, but they are typically always savvy investors. They are skilled at generating a return and will generally target a 3 – 5 times cash on cash return when they resell. They will purchase your business, invest in it and resell usually after 5 - 7 years. They will always have the goal of reselling and that is important to keep in mind. Some will only look for majority share and are happy to keep you on as an active leader in the organization.

STRATEGIC

A strategic buyer will have the objective of taking your product or an element of your business and integrating it into theirs with the goal of generating larger future profits. They have a growth mandate and your business may be the missing piece to achieve their goal. They could be a competitor or a near competitor from an outside market, a supplier or perhaps even a customer. They are attracted to your business because they feel it is similar to theirs and they understand it. We know that these buyers will often pay 90% - 200% of the historical value of the business

which is a healthy return but, keep in mind, they may not always consider keeping your location and your employees. Your brand name could also be absolved as the value to that buyer may only be a patented technology you own or a product line they can quickly attach their brand to.

Bottom Line

As you can see, each type of buyer comes with their own strengths and weaknesses. Hopefully, you have a better understanding of how you will need to prepare for a sale. Also, do keep in mind that you may still be actively involved in the transition of the business regardless of the type of buyer. Whether it's 6 - 12 months or even 2 years each buyer will look for support in the transition and it's important to remember you'll be heavily involved at least in the short term.

About the Author



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Carlos joined the Robbinex team in 2020 and works closely with business owners, assisting them with growth initiatives and transition alternatives.

Carlos is a sales professional with extensive experience in consumer packaged goods and media/advertising. He began his career with Pepsi Beverages Company and quickly became a top rep earning the trust of his clients. Carlos later joined Metroland Media (TORSTAR Corporation) where he quickly became a product expert in digital advertising strategies.

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To assist clients who are considering transition to make

...the right decision at
...the right time for
...the right reasons™

by providing experience-based knowledge

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