

## Today's Business Buyer: A Profile

Today's independent business marketplace attracts a wide variety of buyers eager for a piece of ownership action. Buyers of small businesses are most likely replacing lost jobs or searching for a happier alternative to corporate life. Buyers of mid-sized and large operations are, typically, private investment companies seeking businesses to build and eventually sell for a profit. This is the broadest possible look at the types of buyers out there. Business owners considering putting their business on the market should be aware of the finer "distinctions" among buyers, as well as what they are looking to buy, and why.

### 1. Individual Buyer

This is typically an individual with substantial financial resources, and with the type of background or experience necessary for leading a particular operation. The individual buyer usually seeks a business that is financially healthy, indicating a sound return on the investment of both money and time. If these buyers do not have the amount of personal equity required for acquisition, they most likely will turn to family members or venture capital sources for financing. (Buyers and sellers should be aware that, in many cases, seller financing will be an essential element, benefiting both parties in the long run.)

Even when such sources are available, the individual buyer will hit a strong bottom line when it comes to price. Therefore, these buyers will usually limit themselves to transactions involving less than \$1 million, cash.

### 2. Strategic Buyer

This buyer is almost always a company, having as its goal entering new markets, increasing market share, gaining new technology, or eliminating some element of competition. In essence, it is part of this buyer's "strategy" (hence the name) to acquire other businesses as part of a long-term plan. Strategic buyers can be either in the same business as the company under consideration, or a competitor. Example: a bank in one of a state purchases or merges with one in another part of the same state. The acquiring bank enters a new market and "eliminates" competition at the same time.

Strategic buyers will be looking chiefly at businesses with sales over \$20 million, with a proprietary product and/or unique market share, and effective management in place and willing to remain.

### 3. Synergistic Buyer

The synergistic category of buyer, like the strategic type, is usually a company. The difference is that, with this buyer, the acquisition or merger flows from the complementary nature of the purchasing company and the company for sale.

Synergy means that the joining of the two companies will produce more, or be worth more than just the sum of their parts. Example: a large real estate company purchases a mortgage company. It can now use its existing customers (those who buy homes) and offer them the mortgage funds to finance their purchases. The benefits of this type of acquisition help both companies be more competitive and profitable.

### 4. Industry Buyer

Sometimes known as "the buyer of last resort," this type is often a competitor or a highly similar operation. This buyer already knows the industry well and, therefore, does not want to pay for the expertise and knowledge of the seller. The industry buyer is interested mainly in combining manufacturing facilities, consolidating overhead, and utilizing the combined sales forces. These buyers will pay for assets (but probably not what the seller thinks they are worth); they will not pay for goodwill, covenants not to compete, or consulting agreements with the seller. There can be

some cases in which the industry buyer is also a strategic buyer, with the price determined by motivation.

### **5. Financial Buyer**

Most in evidence of all the buyer types, financial buyers are influenced by a demonstrated return on investment, coupled with their ability to get financing on as large a portion of the purchase price as possible. Working on the theory that debt is the lowest cost of capital, these buyers purchase businesses with the sole purpose of making the maximum amount of money with the least amount of their capital invested.

Each type of buyer has distinctive characteristics that correlate to the motivation behind the purchase of a particular company. In addition, the price each is willing to pay for a company is directly proportional to the motive. The relative sizes of acquisitions by different buyer types (compressed into their broader categories), is shown in the accompanying chart:

[Chart]

Type of Buyer	Less than \$3 million	\$3 to 10 million	\$10 million+
Individuals	44%	26%	4%
Public Companies	28%	21%	17%
Private Companies	11%	14%	14%
Investment Groups	17%	29%	18%

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