

How to attract qualified, motivated buyers for your business



By Heath Frantzen
Delta Business Services
www.deltabusinessservices.com



There's no doubt about it...

The process of selling a business can be lengthy, frustrating, and overwhelming, especially if you don't understand how to attract the most qualified buyers.

Selling the business you love, the one you built with your own two hands is an emotional experience.

Even if you are feeling burned out or tired, there remains that strong connection you feel, along with a sense of pride and accomplishment.

Unfortunately, potential buyers have no such emotional bond with your business. Their biggest fear is one which dogs most of us- the fear of risk.

That's why the key to attracting the kind of buyer you want for your business is seeing things from the buyer's perspective, understanding his or her fears, and doing things that help allay those fears.



Before you even look for the ideal buyer, there are a few important questions that sellers should ask themselves.

First off, can your business really be sold?

Everyone who works for himself believes that his company has value to a potential buyer. However, there are several elements that must be present in order for a company to be attractive to buyers.

It must have solid history of profitability or some type of competitive advantage that can be monetized, a large and loyal customer base, and tangible growth opportunities.

A sell-worthy company's value is determined by a compilation of factors such as sales, performance, market outlook, key personnel and management, and net book value.

Value can also be influenced by intangible assets such as community standing, brand image, and good will.

If these factors are present when you honestly evaluate things, then you have a company that can be sold.

Who are your buyers and what motivates them?

It pays to know a bit about your potential buyer and, more importantly in my opinion, what motivates them to consider purchasing a business.

Essentially, you can identify three kinds of buyers: financial buyers, strategic buyers, and owner-operator buyers.

Let's take a look at each of these and understand what pushes their "buy" button.

Financial buyers

Financial buyers tend to be the most aggressive when it comes to price. That's because financial buyers consist mainly of professional investors such as investment partnerships, hedge funds, and private equity firms.

For these kinds of investors, buying a business is a chance to acquire an existing stream of positive income, one that might have the potential to grow even larger in the future.

Financial buyers are motivated to acquire a business at an attractive price, often with the thought of selling it in the future.

Strategic Buyers

Strategic buyers are companies already operating in your niche, companies that are often larger than yours. Or, they could be companies with lots of positive cash flow who want to expand quickly by buying up as many smaller businesses as possible.

For example, if you were an independent appliance parts dealer, you might be approached by a bigger chain of appliance parts dealerships looking to gain a foothold in your geographical area.

Many times, strategic buyers buy out competitors with the sole aim of closing them down, thus eliminating threats to their profitability and growth.

Strategic buyers, on the whole, are more inclined to pay a higher price for a business because they have definite goals in mind when they buy. However, they are not the types of businesses to whom you will want to sell if you wish your business to continue operating intact.



Owner/Operator Buyers

These are people for whom the primary reason for buying a business is to create a nice income and enhance their lifestyles. They usually plan on running the business themselves, perhaps along with family members.

Occasionally, you will encounter experienced people who want to buy a business simply because it is totally unlike their previous business. These are people looking for something different and challenging, the “serial entrepreneurs” of the world.

More than likely though, you will get a rookie buyer. This inexperience could add up to more risk for you.

Often these first-timers won't understand the nuances of buying a business and will require lots more assistance during the sales process.

This assistance could include your willingness to stay on as a manager or consultant until the new owner reaches a certain comfort level.

It follows, then that owner/operator buyers are also likely to have fewer financial resources and might experience difficulty getting loans.

Goals



You can see why it is a good idea for you to know ahead of time exactly **why** you want to sell in order to determine which type of buyer you wish to attract.

Being honest with yourself about your true motives for selling will go a long way toward helping you do the right things to attract the right buyer.

Questions you want to ask yourself include:

- 1. Do I really want to be involved with the business after I sell or am I looking for a clean break?*
- 2. Do I care if the business is broken up by the new buyer and sold off in pieces or closed down altogether or would I prefer to see it stay as is?*
- 3. Am I willing to wait longer to get the best price possible?*

Once you've clarified your goals in selling your business and thus determined which type of buyer is most likely to help you achieve those goals, you can begin putting together a plan to attract them.



Risk: What all kinds of buyers want to avoid

Most human beings have an inherent aversion to risk and will do nearly anything to avoid it. Buyers of businesses are no exception. Every category of business buyer has at least a few areas in which the risk factor is a big concern.

For example, many owner/operators see risk in not having anyone to teach and train them in their new business.

So, to attract them you must be willing to stay on past the sale or assist them in putting a competent management team into place.

Strategic and financial buyers, on the other hand, may have their own ideas of how to improve cash flow once they take over. Risk, to these buyers, might include purchasing a business in an industry that is leveling off or declining, buying a business with cash generated by only one or two key accounts, or acquiring a company with an unstable history of earnings.



Establishing the highest value

For both seller and buyer the bottom line is: what's your business worth?

This is what makes valuation such an important part of the selling process.

As a seller, you naturally want the highest possible value for your business. However, if you are unrealistic and set too high a price, you risk scaring off qualified prospects.

Price too low, on the other hand, and you will be left holding the short end of the stick.

Establishing a reasonable value and supporting that value with hard data is a crucial step toward attracting more and better buying prospects.

For most people looking to purchase a business, the future is a primary concern. This means that not only do you need an established track record of 3 or more years of profitability, but you must be able to illuminate your vision of the future

by presenting clear opportunities for both the near-term and long-term growth of your company.

You need to frame this potential in such a way that buyers see your business's future is promising and which allows him or her to know that they are buying, not only the last couple of years of your company's performance, but are also getting what the company will do for years to come.

Presenting a well-thought-out strategic plan for capitalizing on your vision of the future is one thing you can do to attract buyers and get them enthusiastic about your company.

Another way to assist in establishing your business's highest value in a buyer's eyes is to focus on key components such as products and services, cash flow, vendor relationships, management and customer base.

Products or services

Buyers have a choice when it comes to products or service. They can either build what they are considering buying from scratch themselves, which takes a lot more capital investment, time, and resources, or they can buy a company that is already doing what they want to do.

Potential buyers who know what kind of business they want, especially those who have bought businesses before, can bring a critical eye to your competitive position. Chances are they have studied the kind of business you own, and have a good idea of how well you do what you do.

Are your products or services the same old same old, or are they different and unique? Do you have a process or protocol that makes the way you do things more effective and lucrative? If so, then be sure to showcase this to potential buyers..



Cash flow

Take time to organize all financial records you will need in order to prove that you produce a stream of solid revenue each and every month. Buyers want to see exactly what is going in and out of a business. Good business records are an essential tool in attracting the kind of buyer you want.

Vendor relationships

Certain businesses are very dependent on their supply network. An outside vendor who fails to perform might mean a huge financial blow to the company or perhaps cause the loss of a key customer. If this is the case in your business, be prepared to show the strength of vendor contracts you have in place and to discuss past performance of those vendors. Remember, buyers don't like surprises. They want to know that critical vendor relationships are strong and will remain intact after the sale.



Management

Some buyers interested in your business will want to bring in their own management team and systems. Others are less hands-on and will want to keep the current experienced management team in place. Either way, having a seasoned, effective management team in place is a valuable asset that you can use to attract buyers.



Customer base

A company whose bottom line is dependent on only one or two large clients is not as attractive to a potential buyer as a business with multiple repeat customers. Be able to show that your top clients have done business with you for several years and show a track record of increasing sales to those customers. Creating profiles of key customers is a good way to prove your retention rate to a potential buyer and allay fears they might have that you have too few customers.

Be sure to keep files of good reviews your business has gotten, letters from satisfied customers, and photos and videos of any client events you've sponsored.

An enthusiastic, happy customer base can considerably raise your company's value in the eyes of a potential buyer.



Find the flaws and polish them smooth

There's a conversation going on in the head of even the savviest business buyer.

Actually, it's really more like an argument where they are looking for every possible reason to talk themselves out of buying.

Remember that human fear of risk?

Well, it's a hard fear to completely quell so you can count on your prospects to run a fine tooth comb over every inch of your business, looking for flaws that might equate to risk.

Your job as seller is to locate the flaws long before they do and do everything possible to correct them.

Some things of concern might include: environmental issues and permits, pending lawsuits, product liability, outstanding workers' compensation claims, patents and intellectual property issues, etc.



Pre-sale planning under the direction of a seller-focused expert, such as Delta Business Services, can make a difference.

Acting for the benefit of the seller, Delta Business Services can help you spot critical flaws well in advance of a potential sale and can show you how to maximize value by minimizing or eliminating the risk factors.

Delta Business Services is not a broker, but rather an experienced group of professionals that has bought and sold many businesses over the years. Because we know the buying mindset intimately, we can react to issues that could hinder your ability to get the best price for your business.

At Delta Business Services we will show you how to attract the kinds of quality buyers you want without the added expense and hassles of using business brokers to help you sell.

Give us a call or contact us on our website to arrange for a confidential analysis of your situation.



HEATH FRANTZEN, BBA

Founder, Chairman & Chief Executive Officer, Delta Business Services
Wealth and Retirement Income Strategist™

210-369-4161

<http://deltabusinessservices.com/contact-us/>