

# WHO IS ON YOUR BUYER LIST?

When you decide to sell your business one of the first things you will want is to research and build a “Buyer List”. The Buyer List is a list of companies, investment entities and private individuals to be approached during the sale process. Potential buyers fall into two primary categories:

**STRATEGIC BUYERS** - These are operating companies that provide products or services and are often competitors, suppliers or customers of your business. They can also be unrelated to your company, but looking to grow into your market to diversify their revenue sources. Their goal is to identify companies whose products or services can synergistically integrate with their existing business.

**FINANCIAL BUYERS** - These include private equity firms, venture capital firms, and high net worth individuals. They are in the business of making investments in companies and realising a return on their investments.



Once a Buyer List has been researched and built, a key decision is to determine how many buyers will be approached and whether you will employ a sequenced or parallel process. There are three general techniques:

**One party at a time:** Your M&A Specialist will identify and contact the most logical potential buyer(s). They will approach one buyer at a time and negotiate exclusively with that buyer. If unsuccessful, they will approach the next party and continue to work down your list until a buyer is found.

**Targeted competition:** With this process, they discretely contact a limited number of potential buyers. Typically, meeting with between 5 and 20 buyers they will solicit indications of interest, and then negotiate with the most appropriate and interested buyers. This is the most common approach and they will often source the potential buyers through marketing channels using non-identifiable advertisements.

**Full market:** Identify and contact a broad universe of potential buyers. Strategic buyers will include firms that are your competitors, suppliers and customers. It will also include strategic buyers that are not currently operating in your industry. In terms of financial buyers, they would go out to a sizable number of individuals and businesses with the financial wherewithal to buy your company. This process is most suitable if the sale does not need to remain confidential.

Each approach has its strengths and weaknesses.

Elaine Ford  
Managing Director  
0274 459 852  
elaine@divest.co.nz

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The strengths of one party at a time is reducing disruption to your business and limiting the chances of confidential information leaking out. However, it has been observed that those sellers for whom a more thorough list of qualified buyers are approached, are more likely to have a successful sale process. While certain circumstances can uniquely call for the limited approaches, they are very risky for business owners. The reality is that there are a tremendous number of considerations that a buyer is making when deciding whether or not to make an offer for your business. Many of these considerations can have nothing to do with your actual business. You never know for sure who your buyer is going to be. A buyer's decision is influenced by many factors, many of which we may never fully know. In all the sale processes I have been involved in only a small fraction of the time does the initially identified "perfect" buyer end up being the actual buyer.

The time and effort required to prepare the information for sale and the emotional preparation for the roller-coaster ride of the sale process is required whether you are reaching 1 potential buyer or 10.

There are many terms and issues other than purchase price which are crucial to negotiate in a business sale. Different buyers will often propose different structures and bring different strengths and weaknesses to the table. By having more options, you increase the likelihood of finding a buyer and deal structure that fits all of your goals.

When employing limited approaches, sale processes do tend to drag on as there is little pressure on the purchaser. When buyers see an opportunity and are excited about it, you want to build off of this initial enthusiasm. As time passes, other opportunities will come across their desk and their interest in your business can fade. By building a sufficient buyer list of interested parties and keeping to a schedule of well-known milestones for indications of interest or a Sale and Purchase Agreement, you generate momentum in your sale process.

Price and value are two very different concepts as many business owners have discovered. Different buyers can have differing views on the value of your business. In turn, they will be willing to pay differing prices. You may or may not like what you hear, but the more potential buyers you hear from, the better you will know what the market believes the current price of your business is.

Selling a business is a serious and complex process to undertake without a Broker or M&A Specialist to manage that process for you. As well as experience and a track record of success an effective marketing system integrated with systems and Intellectual Property poses a significant barrier to entry for those seeking to efficiently carry out a business sale without these tools, particularly in the \$1M + market segment.

So, if you are thinking of selling and you want to give yourself the best chance of closing a successful deal, or just want to have a chat about it, do get in touch pretty much anytime on [0274 459 852](tel:0274459852) or contact a Divest M&A Specialist.

Elaine Ford  
Managing Director  
0274 459 852  
[elaine@divest.co.nz](mailto:elaine@divest.co.nz)



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