M&A Today

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Who Will Buy My Business?

by Franklin Wyman, Jr., Chairperson and Treasurer of Charles W. O'Conor Associates

The owner of the privately-held business is generally so deeply involved in its day-to-day operation that he does not think about who will buy his business should he ever decide to sell it. Typically he has received many inquiries over the years from intermediaries and from competitors which he has ignored.

Now the decision to sell has been made. Who will buy the business? Who are the players in the market-place? Depending upon his personal objectives, the business owner must consider each of the following entities as prospective buyers:

1. Business Competitors

The business owner is always wary of approaching a competitor. He is concerned that his customers will be taken from him or that word he is for sale will be spread to his employees and throughout his market. Nevertheless, a competitor having the strategy of expanding by acquisition rather than by internally generated growth may pay an above market price for the business. In most cases a carefully controlled approach with signed confidentiality agreements will minimize the risks.

2. Companies Selling in the Same Market

This category of buyer can add the sellers product line to its own and by distributing though identical channels achieve significant savings in the marketing process. Again, such a buyer may pay a premium price because it can realize these savings.

3. Suppliers

In certain situations the seller's account may represent an important part of a supplier's business. The supplier may have special needs that the seller's account represents. An example of such an acquisition is the recent purchase of a well-known Boston mail order house by a Georgia manufacturer of envelopes. The manufacturer not only wanted to protect its account but it also did not want the envelope business flowing from the mail order company to its competitors.

4. Customers

Another category of buyer is the seller's customers. Here also the business owner is very often unwilling to approach such prospects. He is afraid that the customer will be concerned about his source of supply and turn to his competitors. In many cases, however, a customer will wish to protect its source and may even have the strategic objective of vertically integrating. A careful and informal approach can generally protect the seller and may realize for him an above-market price.

5. Foreign Companies

For sellers with sales in excess of $10 million the possibility of interest by a foreign buyer is an area to be explored. While the need for a "Safe Haven", which fueled foreign acquisitions in the USA prior to 1989, no longer exists, foreign buyers are still active, will generally pay a higher price and will retain qualified management. A good illustration of the premium such a purchaser will pay for a business is the recent transaction involving the Norton Company in Worcester. The French buyer, St. Gobin, paid $90 per share for shares then selling in the US market at $45.00

6. Financial Buyers

As the venture capital industry began to develop in the 1960's so did the category of financial buyers. Such entities develop a listing of specific acquisition criteria such as size, markets served, geographic location, financial performance and management required. This category of buyer will always look to maximum leverage and may require the seller to retain an equity position as a motivating mechanism. Some groups will bring in their own manager who will often have a minority interest. In most cases the deal will be structured so that the owner remaining in management or the new manager is pressured to perform.

"Selling to a family member is generally the most satisfactory answer."

7. The Entrepreneur or Individual Buyer

The individual entrepreneur as a potential buyer has arisen from the turbulent business environment of the 1980's. Executives in their forties, fifties and sixties, in unprecedented numbers, who have had successful careers in large corporations, have been laid off, taken early retirement, or resigned under stress. These individuals have often accumulated significant net worth as well as a good career track record. They are essentially looking to buy a job. Rarely do such prospects make good candidates. When they view the risks involved in collateralizing notes, perhaps to include their house, cars and spouses signature, they tend to back off from the transaction. For the seller, who does not wish to take his business back, individuals are generally not acceptable buyers.

8. The Seller's Employees

Much has been written about Employee Stock Ownership plans (E.S.O.P.'s) as a means of transferring ownership to company employees. Under the 1986 Tax Reform Act the ESOP approach to transition has significant advantage as compared to a sale to a third party. Under the ESOP formula there is no income tax implication to the selling shareholders provided the ESOP acquires at least 30% of the stock of the company and provided the owner reinvests the proceeds in other securities. Under the ESOP the owner can sell his stock on a year-by-year basis over a period of years, convert part of the equity into cash and still control and retain equity in the corporation. As a by-product, ESOP plans generally improve employee morale and productivity. There are complications in developing ESOP plans for many companies, however, and, since bank borrowing is required to fund an ESOP, the company must have unencumbered assets and cash flow to support such debt.

The transition of ownership from one generation to another requires years of far sighted planning.

—Franklin Wyman, Jr.

9. Members of the Seller's Family

Fortunate is the business owner who has capable and experienced members of his family in the business. From the viewpoint of employees, customers, and suppliers, selling to a family member is generally the most satisfactory answer to the question of "who will buy my business?" Too often, however, the family members do not have the resources to buy the business. Perhaps also they have not developed confidence on the part of the business owner that they can run the business well enough to repay the notes he must accept for them to acquire it. The business owner must recognize that transition of ownership from one generation to another requires years of far-sighted planning. If the younger generation has been effectively prepared for the responsibility of taking over the business, however, this category of buyer should be considered before all others.

The problem of ownership transition in a closely-held corporation is exceedingly difficult for most companies to solve. The business owner facing such a change must diligently develop his own objectives before he considers which of the wide range of prospective buyers he will approach. ■

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