



Finding a Buyer for a Middle-Market Company

For a company in the "middle market" (usually defined as \$2 million to \$50 million in sales), finding a ready, willing, and able buyer is a tough job. Convincing potential buyers of your company's value requires a thorough analysis of the business and a well-defined marketing strategy.

Using the services of an outside advisor can facilitate this process. A knowledgeable, experienced professional can thoroughly analyze the selling company and its industry, spotlight its most valuable characteristics, identify qualified buyers willing to pay for this value, and systematically advise them of the company's availability. An outside advisor can also protect the seller's interest in confidentiality during the initial stages of its search and throughout the sale process.

Given the added risk inherent in smaller companies, prospective buyers tend to rely less on pure financial analysis and place more emphasis on a subjective review of management, operations, customer contracts and relations, etc. A descriptive selling document should be prepared for distribution to qualified buyers, and should include historical, pro forma, and projected financial statements, as well as a detailed description of the business, its operations, management, facilities, and industry.

Identifying Buyers

Prospective buyers usually come from one of the following groups:

- Direct competitors
- Companies in related industries
- Customers or suppliers pursuing integration
- Individuals with relevant experience and financial backing
- Financial buyers
- Venture capital sources

The geographic scope of the search depends on factors such as the size of the company and its ability to relocate. Most searches begin close to home because the probability of finding a willing buyer is greater. Generally, the larger the company for sale (in terms of revenue), the broader the scope of the search.

Buyers can usually be categorized as financial or strategic. Each has its advantages and disadvantages. Financial buyers usually have experience in buying businesses and know what it takes to get the deal done. Because financial buyers probably aren't in the seller's industry, many sellers view them as presenting less risk of disclosure of confidential information and greater opportunity for the existing work force and key managers.

Strategic buyers, on the other hand, are often looking for acquisitions that complement their current businesses and may recognize additional value that will be reflected in the purchase price.

Financial Buyers

Although a financial buyer's contribution is frequently limited to the administrative management of the company, some may bring synergies or other skills that stimulate growth or increase operational efficiency. Such a buyer may possess skills that can improve neglected areas or may already own another company that can add value through consolidation of management, engineering, or marketing.

An increasing number of financial buyers are taking a more strategic approach. Some are concentrating on defined markets, as opposed to building highly diverse portfolios, and are looking for strategic additions to their existing business bases. Some look for high growth potential while others look for a sustainable market niche or leadership position with consistent cash flow generation.

Strategic Buyers

Strategic buyers look to capitalize on common operating functions such as marketing, manufacturing, engineering, distribution, and management.

Marketing synergies offer great prospects for adding value and market share with the least amount of risk. They might include the ability to move acquired products through the buyer's distribution channels or opportunities for geographic expansion in markets currently served.

The acquired company may possess a complementary product that the buyer's current customers would perceive as added value. Current advertising programs and sales formats could be used to create new marketing networks.

Manufacturing synergies might include underused or excess capacity, or similar manufacturing operations that could be consolidated for greater efficiency and economies of scale. Engineering talent possessed by either the buyer or seller could be used by the other. And consolidation of management personnel and management systems can reduce costs and create instant knowledge of business and processes in an area targeted for growth by a buyer.

These synergistic benefits can increase the value of the company for sale to a strategic buyer and potentially increase the purchase price.

Create a Plan

Although locating the top prospective buyers can be an intense, time-consuming commitment, a thorough and systematically executed plan will reward the seller with fewer hassles and larger returns.

Generally, skills required to successfully market a company in the middle market increase as the size of the company decreases. Consultants experienced in buying and selling businesses can provide invaluable assistance in planning, analyzing, and organizing the buyer search.

Most merger and acquisition advisors have developed comprehensive databases of strategic and financial buyers. They can draw from these listings as well as other sources and contacts to produce a pool of potential buyers from which to select the best prospects. Many of these professionals can also assist you with valuation, negotiations, deal structuring, tax planning, and document preparation.