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Strategic vs. Financial Buyers: Find the Right Buyer for Your Exit

Tejan Kapoor
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A crucial part of selling your business is understanding and targeting the right buyers. Buyers generally fall into two main categories: **strategic buyers** and **financial buyers**. Below, we explore each group in detail, examining their motivations, propensities, and priorities when acquiring a business.

When it comes to buyer targeting, **business owners should first define their ideal exit** to prioritize the right type of buyers — whether financial, strategic, or a mix of both. This includes determining what you need to finance your life post-sale, how long you want to stay on to assist with the transition, your desired outcome for the company's brand and legacy, your plans for employees, and your ideal exit date.

By knowing these things, you can create a more precise buyer profile that allows you to target the firms that are most likely to help you meet your exit goals. You can use this profile to create marketing materials aimed at targeting buyers that are more likely to help you meet your exit goals.

Once you have your ideal buyer profile and marketing materials, the next step is to **target as many qualified buyers as possible**, both strategic and financial. By expanding your pool of qualified buyers, you increase the chances of realizing your ideal exit.

In this post, we will:

- Explain the different motivations held by strategic and financial buyers, and how they exist on a spectrum between price and stewardship.
- Discuss how personal and business goals help determine your ideal buyer profile.
- Show how partnering with an M&A advisor will help achieve your ideal.

Strategic vs. Financial Buyers: The Spectrum Between Price & Stewardship

You can think of strategic buyers and financial buyers as existing on a spectrum. On one end is a strategic buyer, that generally brings with them a higher offer and a lower level of stewardship. On the other end is a financial buyer, who generally brings with them a lower offer with a higher level of stewardship. Keep in mind a “lower offer” from a financial acquirer can still be a fair offer. Offers are determined largely by how your business is valued and how negotiations are handled — both key areas where an M&A advisor can deliver great results.

The key differences between strategic acquirers and financial ones make sense when you look at what motivates both parties to buy a business.

Strategic buyers acquire businesses to grow their own.

They are often your competitors, suppliers, or even customers. They’ll pay a premium price when there are synergies to be gained by an acquisition. For example, they may buy a business to expand into new markets or acquire intellectual property, market share, or talent, such as members of your company’s management team.

Because their focus is growing their own business, they’re usually not the best fit if stewardship is an important aspect of your ideal exit. They’ll eliminate any aspects of their newly acquired company — from existing operations to your customer relationships — that don’t enhance or align with their own growth objectives.

Financial buyers invest in companies where they see growth potential.

They’re generally not absorbing their target company, but rather growing it as a standalone entity to realize a return on their investment. So, they’re looking for companies that they can grow and companies where they can reduce costs through economies of scale, creating efficiencies, and more. Financial buyers are made up of private equity firms, hedge funds, independent sponsors, family offices, search funds, and high-net-worth individuals.

Financial buyers can still make a competitive offer on your business, but sometimes in exchange for a less premium price you’re getting more in terms of stewardship. This can include your business brand and legacy living on after you exit, continued employment for your employees and a seamless transition for your customers.

4 Factors Strategic and Financial Buyers Value in a Business

Another way of framing the differences between strategic buyers and financial buyers is to look at the factors they prioritize in acquiring businesses.

FACTOR	STRATEGIC BUYERS	FINANCIAL BUYERS
Revenue Model	Value both recurring and project-based revenue models.	Favor predictable, recurring revenue.
Synergy Potential	Identify synergies and offer a competitive acquisition price.	Focus less on synergies and more on generating ROI in your business.
Owner Dependency	More flexible but may require a short-term commitment.	Prioritize acquisition targets without the owner.
Scalability & Growth	Can be less focused on growth potential and more on integration.	Seek growth potential.

For example, you can see that if your goal is to exit your business quickly — without having a longer transition period — then you'll likely have more luck achieving your ideal exit with a financial buyer.

But, while all of the above is generally true at a high level, there are plenty of nuances and exceptions. For example:

- **Different types of financial buyers fall on different areas of the spectrum**: A private equity firm can offer a higher price but give you lower control over your successor. A search fund often (but not always) will offer the lowest price, but a search fund is someone who wants to step into the role as CEO. This means you literally get to pick your successor.
- **Different types of strategic buyers will offer different types of stewardship**: If you're selling your business to a competitor, then they may offer a seamless transition for your customers or keep working with some or all your employees. We covered a case study below where the business owner sold to a strategic buyer and retained 30% of ownership for his family who were employed at the company

This is why the key part for business owners is understanding the goals for your exit. As business owners set their priorities for their sale, some tend to lean towards either a higher valuation or finding a trusted steward whose vision for the business aligns with their own, but most of the time they're closer to the middle. Where exactly you fall depends on what you want to achieve with the sale in terms of your personal and business goals.

How Personal and Business Goals Determine Your Buyer Profile

When you're defining your ideal exit, you want to think through your personal and business goals.

Personal goals are things such as:

- **What sale price do you need to fund the next stage of your life?** Whether you're planning to retire or start another venture, you want a clear understanding of what you need financially from the sale of your business. If your main motivation is financial, then you'll look for ways to get the most premium sale price for your business, even at the loss of stewardship.
- **How long do you want to stay on to help with the transition?** Transition periods are almost always part of an exit, even for strategic acquisitions. But there are types of buyers within each category that will require less of your time as an owner. For example, if a competitor is acquiring your business, they may not need as long of a transition period since they are used to selling to the same customers and operating in the same industry.

Your business goals are things you want for your business post-sale.

- **Do you want to retain any ownership, for you or members of your team?** For example, there was a recently closed deal within the Axial network where one business owner wanted to retire, and the other owner wanted to stay involved in the business.
- **Do you want your brand, legacy, or customer relationships to exist after your exit?** For some business owners they want their brand — their business name, their logo — to live on post- acquisition.

Knowing these goals are important to the selling process. When we surveyed investment bankers about the reasons why sales fell through, they cited a lack of exit planning and unclear goals as a main contributor. Without clear goals, it's a) hard to target the right buyers (as your buyer profiles are informed by your exit goals) and b) hard to evaluate buyers who show interest in your business, as you're not sure what the end goal is.

But, when you know your goals and can reach a large pool of buyers, then you increase the chances of achieving your ideal exit.

How to Target Enough Buyers So You Secure Your Ideal Exit

A key aspect of getting your ideal exit — in price and in stewardship is by targeting a large number of buyers. But these can't be just any buyers. They need to be buyers that fit your profile. They'll likely be a mix of both financial and strategic buyers. Most businesses can't target a high number of buyers on their own. They have neither the network nor the time.

M&A advisors can help you increase buyer coverage by 10x. M&A advisors have extensive networks of potential buyers, including hundreds or thousands of relationships, and use platforms like Axial to find additional ones. *To maximize the benefits of this network, it's crucial to work with an advisor who has recent, relevant experience in your industry and with representing businesses like yours*

An advisor doesn't just increase buyer coverage. They also target strategically, market your business to your buyers, and manage your buyer funnel.

- **M&A advisors can better codify your ideal buyer profile.** This comes back to understanding your personal and business exit goals. Advisors know what questions to ask to generate a comprehensive set of objectives and preferences that help you determine the types of buyers you should prioritize.

- **M&A advisors know how to market your business to potential buyers.** We talked about how your exit goals and buyer profile will shape your marketing materials and the story you tell about your business. Advisors will tailor the story around your business based on the type of buyer they're targeting. For example, if marketing your business to a private equity firm, the advisor will highlight its recurring revenue, potential growth, and likely return on investment.

- **M&A advisors are skilled at managing a buyer funnel.** You don't want to work with one buyer at a time, that'd take too long. It's ideal to have 5-10 interested buyers at the table.

Additional Benefits of Working with an M&A Advisor: A Partner for the Entire M&A Process

Above we looked at how an M&A advisor will help define your ideal buyer profile and buyer targeting. But advisors help with every step of the M&A process, not just buyer targeting.This includes:

- **Determining an accurate valuation range for your business.** An advisor will use rigorous methods such as Discounted Cash Flow, Precedent Transactions, and Comparable Companies analysis to arrive at an accurate range that your business can sell for.
- **Evaluate buyers and execute an LOI (Letter of Intent).** After your advisor has screened potential buyers and vetted any IOIs they've submitted, they'll help you decide on a single LOI to execute. You want to have a high conviction that the buyer is someone you'd like to close the deal with before executing an LOI. This is because LOIs comes with an exclusivity agreement where you can't engage other buyers for a set time, usually around 90 days.

- **Negotiate and close the deal.** After securing a qualified buyer and executing the LOI, your advisor will continue assisting in structuring the deal and ensuring a successful close. This process can be lengthy, as the terms address key factors such as the control each party retains, the stake being transferred, and any ongoing liabilities or responsibilities post-sale.

This is where the advisor's experience proves invaluable. We find that sellers who work with an advisor are **75% more likely to close a deal** and **achieve a 25% higher sale price** on average, compared to sellers handling negotiations alone.