Differentiating Buyers That Are Strategic From Those That Are Financial

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A company that's looking to divest to a buyer will have to examine whether they should seek out one that's either strategic or financial. In these current times where capital is following, there are reports of companies being sold for extravagant sums to strategic buyers. Those entrepreneurs looking to invest in a company often find that strategic investors recognize higher valuations than the venture capitalists, who are more financially oriented.

To understand the difference between the two, a strategic buyer believes that your business will help make theirs perform better, whereas a financial buyer focuses on the economic value that your business will create on its own. In most cases, strategic buy will pay more and occasionally buyer when no one else will.

Locating Strategic Buyers

The best way to find a strategic buyer for your company is to consult with a VR M&A advisor. We will assist you in finding qualified candidates through identifying possible synergies such as:

Vertical. Integrating vertically allows the buyer to bring its solution to industries, in which the seller currently focuses. An example is a larger executive-recruiting company that acquires a business specializing in executive recruiting for the health care industry.

Horizontal. Integrating horizontally allows the buyer to bring its solution to the market, in which it currently focuses. A marketing company, for example, might acquire a Web developer so it can provide Internet-based solutions to its established clients and prospects.

Channel. The strategic buyer has a sales channel that can easily adopt the acquired company's products. As a result, the buyer will have more to sell to existing customers.

Capacity. The acquiring company has an unused capacity that can be filled with the target company's product. For example, the manufacturer can make the acquired company's products in its existing factories without adding new real estate or additional equipment.

Geographic. The seller gives the buyer access to its strongest geographic markets. For example, an office-furniture distributor headquartered in Chicago acquires a similar business based in Detroit.

Operational efficiency. The buyer may be able to operate the combined business at a higher margin by eliminating redundancies. For example, a bank may acquire a competitor and eliminate 15% of back-office costs by combining staff.

Time to market. The buyer quickly needs what the seller has in order to fill a strategic gap in its product line.