Who will take over your business?

This question is an important part of the decision-making process for business owners hoping to sell their business. Every business is unique, so the right answer will vary, but there are a number of different types of potential buyers for your company.

Strategic buyers

These are buyers within the same industry, including competitors, suppliers, or even customers. They usually have strong knowledge of the industry and sales processes, such as the competitive landscape, regulatory considerations and other value drivers. Potential synergies may occur, allowing for smoother and less costly operation for the buyer. This type of buyer is more likely to offer a higher price.

Financial buyers

Financial buyers are generally private equity investors. With a short timeline for their investment, private equity investors usually buy a business, grow it, and then sell it at a premium. This allows their interest in enhancing business performance to align with that of the current business owner. However, financial buyers have a more conservative price range in order to reduce risk. Additionally, depending on the strength of the management team, the owner may have to remain engaged in the business throughout the transition period.

Internal buyers

These are people within the company, such as management or employees. The benefits of this type of buyer for the business owner are a smoother transition, less disruption in operations and more confidence in the ongoing leadership of the business. However, internal buyers will often provide payments over time as opposed to full payment of the purchase price.

Family buyers

Selling to family helps continue the legacy of the family enterprise and transfer shares to the next generation. The payment transaction can be less direct than for other types of buyers, and may be payments over time, estate freezes or funding through a mix of sweat equity and bank debt. However family dynamics may come into play, leading to disputes over the distribution of parents' estates to children and disagreements about business decisions between the older and younger generations. Open communication is especially crucial with this option to maintain family harmony and business health.

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The type of buyer a business owner chooses depends on their situation, including the need for asset liquidity, hopes for the future of the business, and if they want to continue to be involved in business operations. To find the best strategy for exiting your business, talk to a BMO financial professional.

BMO Wealth Management

We're here to help.™

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