Chapter ***5***

Strategic Sale

A parent company no longer wanted to own a small subsidiary the parent operated in a different state. The subsidiary was once a key supplier to the parent company, but technology changes rendered the customer-captive supplier relationship unnecessary.

The small company operated in an extremely narrow industry. We contacted potential buyers up, down, and across the small company's value chain.

A neighboring state buyer bought the small company for several obvious reasons. The seller provided the buyer related technology, common customer base, and the company's knowledgeable people. But the buyer also bought the company for another reason – to solve the buyer's capacity problem.

This buyer was a strategic buyer, both by being able to enjoy incremental revenues, and by being able to spread selling, general, and administrative costs across a larger critical mass. This buyer was also a strategic buyer because the seller was uniquely positioned to solve the buyer's capacity problem. The seller brought to the table industry knowledge, the right geography, available people, plus accommodating and available facilities.

We received much better pricing by selling to a strategic buyer.

With this buyer being a strategic buyer, we had a very special win/win situation, and were able to secure much better pricing than had we sold to a financial buyer.

While an economic buyer requires an expected return on the stand-alone acquired business, a strategic buyer has the potential to realize synergistic or incremental profits from the purchase. These synergistic benefits typically result in a higher selling price, usually reflected through an increased or strategic buyer multiple.