Sellers Funding

Selling To An Aggregator

# How To Plan The Right Ecommerce Business Exit Strategy

Marketplace aggregators looking to acquire Amazon FBA sellers tend to be like homeowners in a seller's real estate market — they have the leverage.

With **well-funded** marketing strategies, authoritative domain rankings, and vast pools of capital, they're positioned to control every aspect of the sale, from who they acquire to how contract terms are negotiated.

To sell your ecommerce business to an aggregator for top dollar under enviable terms, the key is to create a "seller's golden parachute". Respond to what aggregators value most and set the stage for a sale that creates maximum value for you as the store owner.

To hit the ground running, start by becoming a student of the aggregator acquisition, identifying the tangible and intangible aspects that impact the **value of your ecommerce business** so you can thoughtfully weigh your options, without the pressure of having an urgent deal on the table.

In this guide, we'll help you create a step-by-step business exit strategy, based on an internal valuation process that will make your store irresistible to the right buyers.

# What we'll cover



**Need an all-in-one analytics platform for your Amazon business?**
***Sellers Signals makes it easy*** **to see all your performance data in one central place.**

# What is an FBA Aggregator? And should you sell to one?

Before thinking about how much they pay, let's start at the beginning by defining the role of an FBA aggregator. By starting here, you'll be better prepared to avoid getting starry-eyed over an aggregator's initial valuation and can focus on commanding the right price for your store.

## What is an FBA aggregator?

- **What is an Amazon brand aggregator?** Amazon brand aggregators scale the brands they acquire to gain revenue for their investors. They're on the lookout for inventive partnerships that can help them incubate profitable ecommerce brands.

- As defined by Ecommerce Aggregators, Amazon FBA aggregators are businesses that attract investment capital **to acquire and consolidate** smaller third-party brands selling on Amazon FBA.

- **They buy multiple FBA businesses** to either flip them after a few years or hold out for an IPO. The thinking is that one aggregated business that generates, for example, $40M in annual revenue is more valuable than 40 smaller businesses generating $1M each in annual revenue.

- **The aggregator space is on fire** right now. Remember the dot.com boom of the late '90s? Well, Amazon, the clear victor of that era, is currently the primary host to the blazing hot aggregator era too.

- **Over 150 companies worldwide** are in the Amazon aggregator category. They're all actively raising capital and competing against each other to acquire smaller FBA (and Shopify) brands, just like yours.

## How much do Amazon aggregators pay?

According to the team at Ecommerce Aggregators, Amazon aggregators offer valuations (or multiples) based on the following annual profits.

- $100K to $800K annual profit = a valuation of 3-4 times profit
- $800K to $1.5M annual profit = a valuation of 4-5 times profit
- $1.5M to $5.0M annual profit = a valuation of 5-8 times profit

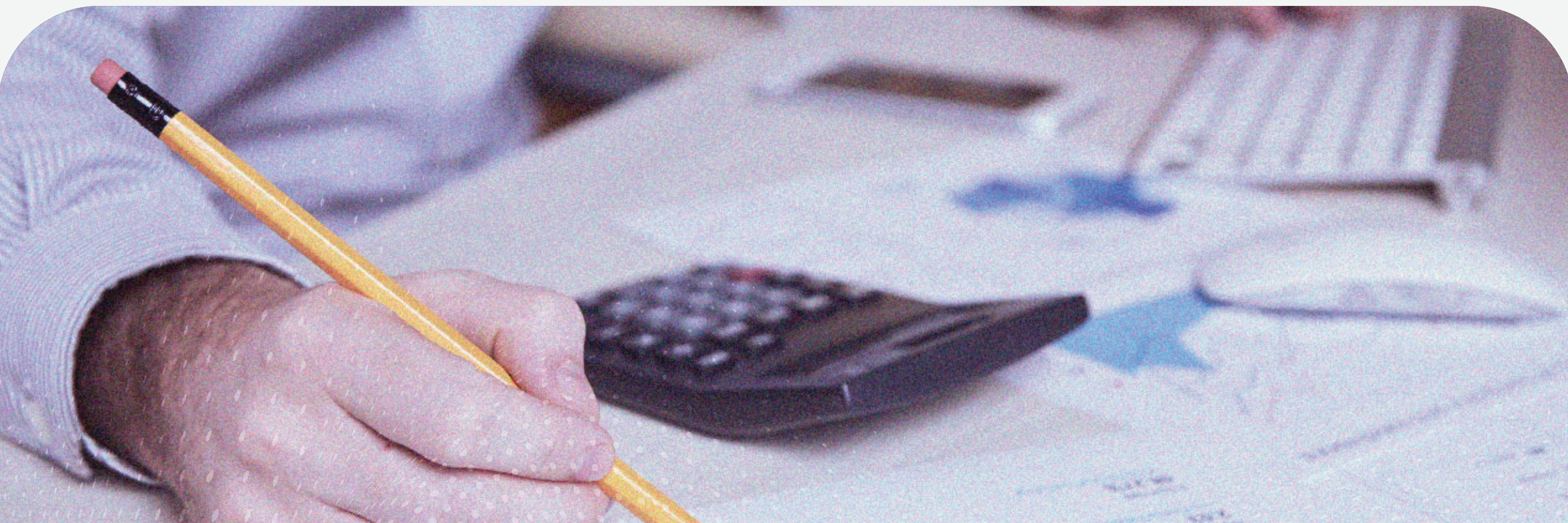
**For example, if the annual profit from your FBA business is $500,000, you could receive a valuation between $1.5M and $2M.**

It's critical, however, to pay close attention to what type of profit each aggregator multiplies.

Believe it or not, there are several types of profit, and all are negotiable according to the contract terms that an aggregator agrees to. This could include:

1. Gross profit
2. Net profit
3. EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)
4. SDE (Seller's Discretionary Earnings)

Take note of SDE, says Ecommerce Aggregators. It's the profit type most commonly used by Amazon aggregators. **SDE is your net profit plus 'add-backs,' which are daily business operation costs** (e.g., rent, R&D, digital and traditional marketing expenses, staff costs, and more) that the buyer will typically **<u>not incur</u>** post acquisition.



## How does the aggregator business model work?

- **The aggregator business model is a consolidation model** that functions optimally when aggregators yield the highest profits, primarily by consolidating multiple businesses into one large business that can be taken to Initial Public Offering (IPO).

  This typically includes the acquisition of small Amazon businesses with established product supplier and manufacturer relationships that serve profitable niche markets.

- **Some aggregators have significant capital** from investors. Combined, estimates show aggregators had raised **nearly $15 billion** by July 2021.

- **This business structure is extra attractive** right now because of the pandemic-fuelled boost to ecommerce sales to the tune of 21% of the total US retail sales in 2020, effectuating record growth of 44% YoY.

## Is selling to an aggregator the right choice for you?

With solid aggregator options in virtually every niche and retail category, plus viable paths to making a sale (direct to an aggregator, a **seller's marketplace**, or a broker), finding a buyer who's interested in your products and customer base might not be as hard as you think.

But just because you can sell, doesn't always mean that you should.
To know if selling to an aggregator is the right path for you, start by going back to the reason you started your ecommerce business in the first place.

**Knowing your why** will help you plan the steps you'll take to evaluate what your business is worth and determine where you need to strengthen your offering in order to get a top-dollar valuation from an FBA aggregator.

If your vision has changed, or if the hassle of continuing to run your business outweighs the benefits that matter to you most, then selling to an aggregator may be the right next step for you.

**Want to learn more about the aggregator market?**
**Learn the 3 ways aggregators are changing ecommerce for good.**

# What is your store really worth? Maximizing the opportunities for sellers

For a profitable exit, you'll need to get clear the **tangible** and **intangible value** of your store. Tangible value covers revenue growth rate, profit margin, and profit amount. Intangible value covers the aspects of your business that grow your bottom-line by differentiating your store from others — making it desirable to all kinds of aggregators, not just FBA aggregators.

## The Challenges

- **Insecure inventory and supply chain:** Recent shipping and manufacturing disruptions have created a minefield of potentially devastating inventory challenges.

  **Intangible value-building opportunity:** Regroup by analyzing, updating, or integrating new practices in your inventory management workflow. Include an automated inventory management process and system to offset delays and increase productivity.

- **Preventing future stockouts:** Even with demand forecasting tools that provide timely insights, assessing which are at **risk of stockout** isn't easy.

  **Intangible value-building opportunity:** Reimagine your inventory management process to align with sales ebbs and flows during each season.

  Increase your advertising and visibility around peak sales times and invest in a digital marketing campaign that will give you real-time control over daily PPC and display ad budgets. Daily metrics on customer engagement will tell you which products need to stay in stock no matter what.

- **Stiff competition:** Aggressive overseas competitors and large retailers are crowding the Amazon marketplace.

  **Intangible value-building opportunity:** Rather than attempt to match budgets and large order volumes, offer your customers enticing deals through printed packaging inserts that present them with bold calls-to-action (CTAs) and an opportunity to join your email list.

- **No or low cashflow:** To attract an FBA aggregator, balance inventory and existing cash demands using non-dilutive funding that won't impact your valuation.

  **Intrinsic value-building opportunity:** Consider accessing an **ecommerce funding** platform that provides working capital and low-cost global payment solutions to growing stores.

## The Opportunities

- **Get a boost in brand visibility:** Building relationships with customers through SEO and digital marketing before you sell to an FBA aggregator is a great way to boost your revenue growth rate, profit margin, and profit amount — and ultimately increase your valuation.

- **Fine-tuned niches and products:** With real-time marketing metrics, you can target high-performing products that solve your customers' most critical problems. Before you sell, polish your product portfolio by pinpointing and supporting your best-sellers with complementary products or exclusive drops to keep customers engaged.

- **Ability to act on seasonal buying patterns:** By responding to seasonal ebbs and flows you'll be able to identify customer buying habits with greater specificity. Plan a marketing and promotions calendar to leverage this information and create offers your target customers can't resist.

- **Deeper data insights:** Use the data from your seasonal promotional calendar to identify which products are doing well, slowing down, or stalling. Optimize future events and campaigns to maximize conversions.

# Rainmaker Tactics
# **How to position your store for the perfect exit**

Now that you've carefully evaluated the tangible and intangible value of your business, it's time to develop a step-by-step business exit strategy that targets what aggregators value most. Your strategy should focus on highlighting the factors that make your business desirable to buyers, while protecting the financial goals that drove you to start your business.

## What are the different types of exit strategies?

There are as many as eight types of exit strategies that fall under three categories: mergers and acquisitions, selling a business, and taking a company public. Let's dive into the strategies for planning the right steps to sell your ecommerce business to an aggregator.

- **Closing a business due to changes in market conditions:** Use this exit strategy as a contingency plan to dispose of tangible business assets that are in danger of being devalued based on predetermined criteria that might not be met or exceeded due to severe market condition changes.

  When selling your Amazon business, it's crucial to exit when the timing is right for the buyer, not the seller.

  Most Amazon aggregators use debt financing to fund their acquisitions. They must spend that money within a certain timeframe, so they're willing to give valuations based on what your 12-month profitability would have been without the severe market condition changes.

- **Selling an ecommerce business:** Use this exit strategy as a contingency plan to dispose of tangible business assets when you are at the height of your profitability based on the soundness of your niche category, consistent revenue growth, and monthly profit amount.

  Act sooner rather than later. It's possible that in six to 12 months, the first page of Amazon will feature only brands owned by large multinational aggregators, boasting countless staff members and plush marketing budgets.

- **Selling an unsuccessful business to limit losses:** Use this exit strategy as a contingency plan to harvest some of the value of tangible business assets that are losing value, based on predetermined criteria that weren't met in a timely fashion.

  Your add-backs can be more than you think, so carefully assess and add their value to avoid entering into a deal that benefits an aggregator's IPO aspirations and leaves your aspirations in the dust.

  Amazon aggregators have sizable storage, operational, and production facilities. If you use gross profit at the start for your SDE calculation, your valuation will be considerably higher than using net profit or EBITDA.

## How do you write a business exit strategy?

The reason that drove you to start your business likely also prompted you to chisel it in the stone of a business plan. Now is the time to pull that out and dust it off. Take time to update your plan and document your steps for exiting the business so that you're armed and ready for negotiations.

Take the following steps to write your business exit strategy

- ***Business exit strategy example***
  *Looking at your own internal valuation, your written plan needs to detail the following:*

→ **Exit Goals:** Do you want to cut ties completely or maintain some control? Do you need cash that selling the business would supply? Does the business deliver enough long-term profitability potential? Based on your internal valuation, what price is a good deal for you?

→ **Exit Strategy Option:** Whether you're selling due to market changes, to limit losses after a rough year, or selling to cash-in after the strongest 12 months in your company's history, clearly outline this as your guiding principle.

→ **Option Alternatives:** While you can't plan for all possibilities, your exit strategy needs to consider more than one possibility. For example, if your business is profitable, you might exit when you retire. If you become disabled or ill, you might exit the business immediately.

→ **Timeline:** While succession planning can take up to 15 years from start to finish, selling a business is generally a faster process. Set a timeline for key milestones and final exit.

Generally, aggregators will use some combination of the following indicators to evaluate your business:

- Annual revenue
- Number of SKUs
- Product category
- Profit margins
- Unique list of potential buyer

As you weigh your **intangible value-building opportunities**, look to add value to your business in these areas.

- **Annual Revenue**
  Increase external traffic sources and optimize ad campaigns with bold CTAs that make it easy for customers to buy additional products. Pull ads that aren't working and get help from consultants to cut wasted ad spend and increase conversions.

- **Number of SKUs/Product Category**
  Assuming you're not selling **products in categories** aggregators tend to frown on, focus on amplifying the products that resonate with your customer base in terms of quality and sales.

  Check with each aggregator to get their SKU number limits. Typically, a small number of SKUs is preferable, with a heavy concentration of sales coming through Amazon FBA.

- **Profit Margins**
  Aggregators have limits for revenue and profit margins, but no two aggregators have the same limits. Learn about an aggregator's recent purchases in your niche market to get an idea of their standards and the types of brands they're looking to acquire.

- **Unique List of Potential Buyers**
  Defined audience segments allow aggregators to develop an accurate picture of your brand power and presence. These customer segments also help them understand how your products are received in the market.

# Think like an aggregator to sell to your advantage

Aggregator deal terms are all uniquely different. And that's not always a bad thing for sellers. By understanding the nuances, you'll be able to enter any deal with confidence that you can negotiate knowledgeably on any terms they introduce.

So do your homework. Become a student of the aggregator acquisition, especially if you choose to use a broker or a business sales marketplace. At the end of the day, the deal must make sense to your bottom line — not the sales pitch of any aggregator, broker, or marketplace.

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Learn more about SellersFunding [here.](#)