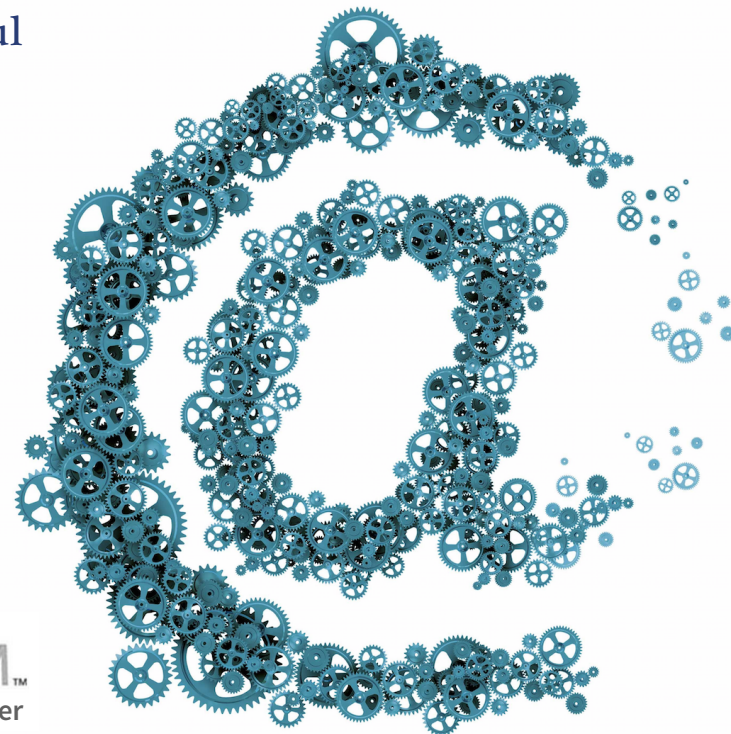


ADVANCED

FEINTERNATIONAL 

GUIDE TO BUYING AN ONLINE BUSINESS

The advanced guide to the successful
purchase of an internet business



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Official Partner

Foreword

Thank you for downloading this 'Advanced Guide to Buying an Online Business'. We hope you enjoy reading it.

This book aims to pick up where our 'Guide to Buying an Online Business' left off and dig deeper into the key components of buying an online business successfully.

Over the following pages we take an in-depth look at how to establish the right online business for you, where to find it and how to evaluate it. The book then shifts focus to the practical aspects of executing a business purchase, giving best practice advice on structuring an offer, conducting due diligence and drafting a contract. In an extension on the previous guide, we look at what to do post-sale and how to manage the business for success.

We hope you find the information found within these pages useful for your business dealings in future. If you have any questions, comments or feedback please don't hesitate to get in touch.

The Brokerage Team

FE International (FEI)

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Why Now Is The Time To Buy An Online Business

Ten years ago the idea of owning and operating an online business was seen by the majority as an activity reserved only for computer wizards and those born after 1990. Fast forward to now and making an income online is starting to become a mainstream activity with baby-boomers, offline entrepreneurs and investment funds all starting to move into the space.

This section explores how economic, internet and business buying industry trends are starting to align to the benefit of those interested in acquiring online businesses, making now a timely moment to consider a purchase.



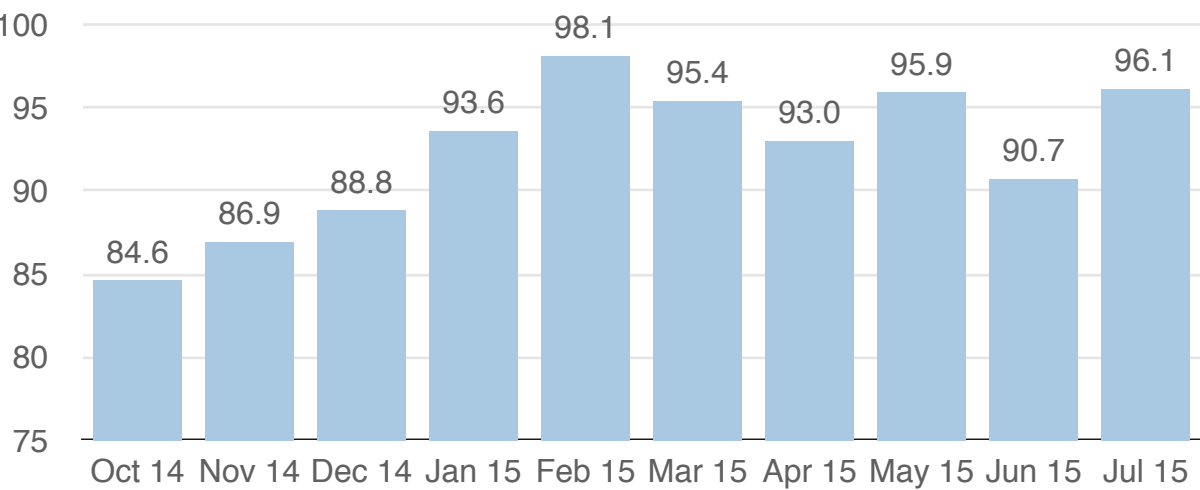
‘The best time to plant a tree was 20 years ago, the second best time is now.’

Chinese Proverb

Macro Favors the Opportunist

With so much uncertainty in both the US and global economy at the moment, it would be easy to put together a pretty convincing argument either way for economic collapse or prosperity in 2016 and beyond.

When it comes to small business ownership, though, there is strong cause for optimism. Consumer confidence continued to climb through 2014 and despite a minor recent dip, has jumped up to its highest since 2008. Good news for consumer-facing internet businesses.



US Consumer Sentiment
Source: University of Michigan (2015).

On the other side of the coin, small business confidence looks to be high, with a recent survey by [BusinessesForSale](#) indicating that 74% of respondents feel optimistic about business growth in 2015 and beyond.

Investment levels always tell a lot about the market’s sentiment toward both the economy and small business growth. While one shouldn’t follow the herd, it’s important to note that we operate in an economy based largely on consent, so if everyone else is investing, it can be a good sign for making acquisitions.

Most recent data shows that US venture capital investment [overtook 2013 in October 2014](#), with the strongest investments made in software and internet companies. Equally, new data from BizBuySell showed 2014 was a [record year](#) for business purchases, and 2015 is predicted to be even bigger.

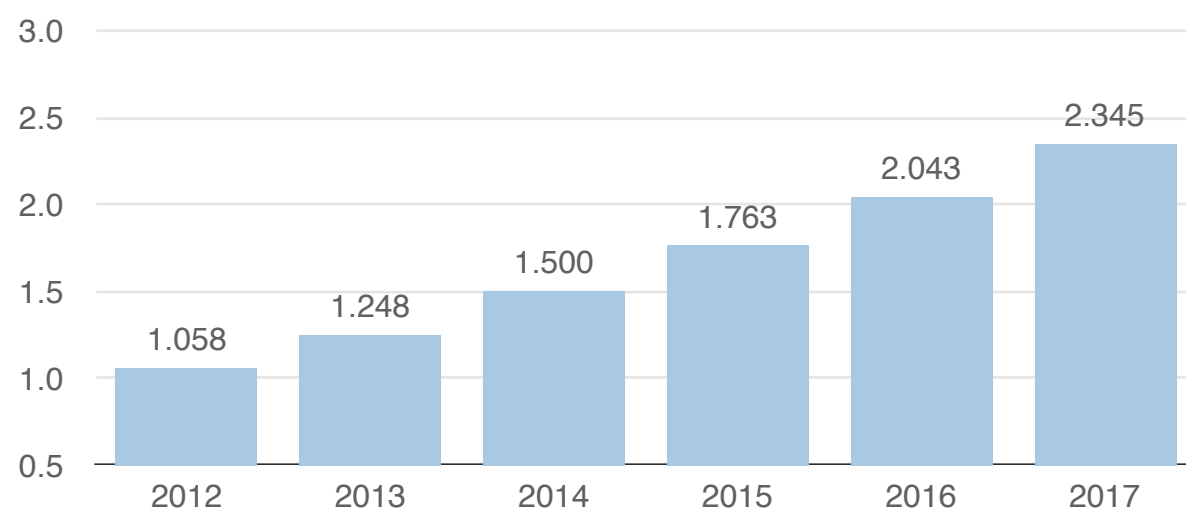
Lastly, borrowing is an essential component for acquisitions and economic growth, and it’s interesting to see that while SBA lending [softened](#) a little in 2014 to \$3.8bn (from \$4.0bn in 2013), the lender is anticipating a huge boost in 2015 to \$4.8bn.

Surging Internet Growth Continues

Internet trends in general continue to point upward in growth across in almost every sphere. The old Chinese proverb, “The best time to plant a tree was 20 years ago, the second best time is now,” holds just as true now as it did 20 years ago.

In particular, e-commerce continues to be one of the biggest areas of internet growth, with eMarketer expecting the global e-commerce industry to increase another [\\$263bn](#) in 2015 to

\$1.763trn, which bodes very well for site owners and potential business acquirers.



B2C eCommerce Sales Worldwide, 2012-2017 (\$, trn).

Source: eMarketer (2014).

Content sites will not miss out on a continued surge in internet usage as multi-device and particularly [mobile usage](#) make the web a major source of advertising dollars.e-commerce

Internet advertising revenues are continuing to rise across [every single sector](#), from 5% YoY in entertainment, to 20% YoY in retail. Digital advertising revenue is now worth more than [\\$40bn in the US alone](#) (as of 2014), second only to TV, and rising at 15% per annum (5x faster than any other medium).

Not only are growth opportunities appearing in the internet investment landscape, the risk factors are somewhat fading. Many online business acquirers are cautious of pending Google

algorithm updates particularly when looking at websites with high search traffic - and they are wise to be. With the 2013 and 2014 seeing an unprecedented amount of [algorithm changes](#), things have now started to calm and the industry is expecting a smoother runway in 2015 and beyond.

That's not to say there won't be movement but there is much less concern over, for instance, 20% single-day traffic decreases, as was seen with the Penguin and Panda rollouts in 2013 and 2014. The good news for site buyers is that investors now have the pick of sites that are still standing after the updates, and they also have some runway ahead before Google considers another major algorithm update.

Mobile Is An Explosive Growth Opportunity

A major part of the trends above is the continued penetration of smartphones across the US, Western Europe and Asia as well as the proliferation of multi-device. Multi-device ownership is increasingly commonplace in developed markets, with [1 in 4 smartphone owners](#) in the US and EU5 also owning a tablet.

Almost every internet marketing expert predicts mobile's importance this year, and it's clear from listings at FEI that site owners who have mobile-optimized sites (at the least) or built new service or content offerings around mobile, are very well positioned for selling. With Google putting [greater emphasis](#) on

the mobile user experience, incorporating “mobile-friendliness” into its search ranking algorithm, [mobile-friendly](#) is now essential.

Digi-Capital predicts [61.3% CAGR](#) of revenue growth in mobile app revenue (ex-gaming) in 2017, which is a staggering growth rate and a huge growth opportunity for buyers of e-businesses and apps in 2015 and beyond. Advertisers worldwide are recognizing the increasing penetration of mobile and its impact on consumers, and in response, plan to spend more than [\\$64bn](#) on mobile ads in 2015, 60% higher than 2014.

Favorable Industry Trends

While there’s undoubtedly more buyers in the industry than ever before (FEI’s buyer network doubled in 2014), the market is formalizing, and this can only be a good thing for raising industry standards among brokers, sellers and other industry participants.

An exciting new development has been the launch of Escrow’s new [domain name holding service](#) in 2014, which has dramatically increased the scope for creatively financed deals in 2015. With domain(s) held in Escrow during the deferred consideration period, there is much less fear about payment default, which warms sellers to the idea of earn outs, holdbacks and other financing methods. All of this is great news for buyers

looking to stretch out their funds or structure deals for lower risk (see ‘Advanced Offer Structuring’ in Chapter 4).

Educationally, things are improving as well. The online business buying industry is now starting to publish useful content for buyers, and there has never been more quality information available about website buying. This guide and its predecessor should serve as essential reading for those seriously exploring the purchase of an online business.

Conclusion

With macro, micro and industry stars aligning, new and seasoned buyers alike should be looking to move on buying opportunities right away, and we hope that with the information contained with this guide, you will feel confident and knowledgeable enough to do so.



Chapter 1

Establishing the Right Online Business For You

‘It was something of a personal challenge for me to come up with a business suitable for the Internet world and the Internet age.’

David Tang

Establishing The Right Online Business For You

There are a wealth of reasons why investing in an established online business can have [distinct advantages](#) when compared to investing offline. That said, finding the ‘right’ online business is essential to realizing these benefits, and to post-sale success.

When searching for a business, buyers often find themselves describing candidates as ‘not a good fit,’ but can be unclear on what a good fit might be for them.

This section explores how buyers can assess their skills, background and investment criteria against the spectrum of available e-business models, in order to make the right choice when it comes to acquisition.



‘Life begins at the end of your
comfort zone.’

Neale Donald Walsch

Naturally, the ‘right’ business for a buyer depends on the buyer in question and their individual preferences. Different buyers have different skills, level of experience, risk appetites and time to commit to certain projects. It’s important to approach your business search with an open and flexible mind. Taking an exploratory approach is the best way to understand the marketplace and options available. Nonetheless, to find the ‘right’ business there are certain core factors that are usually considered when deciding whether an online business is a suitable.

Investment Criteria

Taking over an established business (whether off or online) can be a challenge requiring time, investment and dedication. Ultimately though, the project should be an enjoyable and profitable pursuit.

For some, the decision to purchase an online business is approached purely from a financial perspective – what do the numbers say? Like real estate, if acquiring an investment property, the interior design and specific location may be irrelevant. The right property is the one that attains the highest rental yield. The same holds true in the world of online business when analyzed through this lens: The niche and business model may be irrelevant; the ‘right’ business is the one that happens to

produce the necessary monthly cash flow and has the highest ROI, compared to other internet businesses for sale.

For other buyers however, the choice is far from being this black-and-white, and undoubtedly takes account of more qualitative criteria. This is particularly true of buyers who intend on running the online asset as a lifestyle business or a way to make their first move into online. These buyers may pay lip service to the underlying numbers, instead putting more onus on finding a business that matches their interests, passions or particular skill-set.

A common ‘buyer profile’ is when a buyer decides they wish to invest online, but is unsure of the skill-set required to succeed, has little idea about the different niches and finds it difficult to hone in on a specific business model. Being clear on each of one of these is the first step that should be taken when trying to find a business.

Equipped With The Right Traits?

Before trying to decide on a niche or business model, it is worth taking a step back to ensure that investing online is right in the first place. Running any online business requires some fundamental traits / skills, and understanding what is expected down the line is the first step to establishing the right business.

1. Communication & Networking

Being able to engage with other participants on the internet is critical for success. Networking online has taken on a whole new meaning in the internet age, and regardless of business model, an ability to engage with visitors, customers and suppliers is part and parcel of running an online business. Social media has rapidly become one of the more popular ways of networking and is an integral part of the entrepreneur's toolset.

It is important however, to remember that there is more to social media than just Facebook and LinkedIn, and learning the [rules of the game](#) is highly recommended.

While social is important, web owners should also be able engage with their audience, wherever they may be. The ability to sell an idea or product online is no different from the offline world, and is a baseline attribute of any successful entrepreneur. Skills include the ability to evaluate audience analytics and develop content that builds authority within a niche. Communication doesn't have to be pushy. In fact, adopting a '[soft-selling approach](#)' can often be advantageous.

[Forbes argues](#) that the only real skill required to be successful online is copywriting. Copywriting is the ability to intimately understand a particular audience and write persuasively to market a product, service or idea. When taking over an online

business, it is likely that writing will be an important part of the role, at least to begin with. Writing is pivotal for engaging an audience, it is the best source of SEO for a website. Websites such as [CopyHour](#) offer boot camps to improve the strategy and skills required to write for the purposes of selling. If carrying out the above seems daunting, it's not a problem. The majority of these tasks can be outsourced, in which case, the ability to manage contractors will become of greater importance.

2. Strategy, Planning & Organization

Online entrepreneurs should be able to create or tweak an online strategy. Technical knowledge is not necessarily required here. The focus should be on devising a long-term objective, which will determine how the brand is [developed over time](#). From this, an online entrepreneur should be able to determine the [activities](#) required to reach the end goal.

It goes without saying that a level of organization will be required to run an online business. Planning and prioritizing tasks as well as organizing resources should be second nature. While organization comes more naturally to some people, there are plenty of tools out there to help [organize and sequence](#) work. There are also a number of tips available that describe how to [organize an online business](#) – using financial software such as QuickBooks and tracking systems for order management.

‘Eventually you won't think of
'the Internet business.' You'll think
of it more like news, weather,
sports, but even that taxonomy
isn't clear.’

Bill Gates



3. Online Marketing Know-How?

An appreciation of marketing is critical to successfully taking over and managing an online business, there is no hiding from the importance of online marketing practices. As internet marketing is the way in which one spreads the word about their business, products and service, it is worth taking the time to get to grips with [web marketing basics](#).

Website owners need to be able to take ownership of their overall online strategy, using it to define the marketing effort. To be clear, a business owner does not need to be an online marketing guru, but an understanding of the basics of online marketing (SEO, content, social, CRO) and its commercial underpinnings is key.

What About Other Skills?

The traits listed above provide a good starting point when it comes to running an online business, they form a solid baseline. There are clearly lots of other skills that help such as financial accounting, technical knowledge (web design/development) and graphic / logo design are just some examples. Nevertheless, these are 'nice to haves'. As long as buyers are equipped with the essentials, the rest can be reliably outsourced. For more on outsourcing, see Chapter 6.

Once comfortable with these core skills, the next step is deciding on the right niche.

Choosing the Right Niche

Choosing a specific niche in which to invest can be a difficult.

To buyers unsure of their passions, [following a simple curiosity](#) is a straightforward way of discovering an untapped interest. Having brainstormed various different interests, buyers should look to carry out some [keyword research](#) to assess the niche. Doing so will help to uncover its relative competitiveness and whether there are specific areas of 'white space' or opportunity.

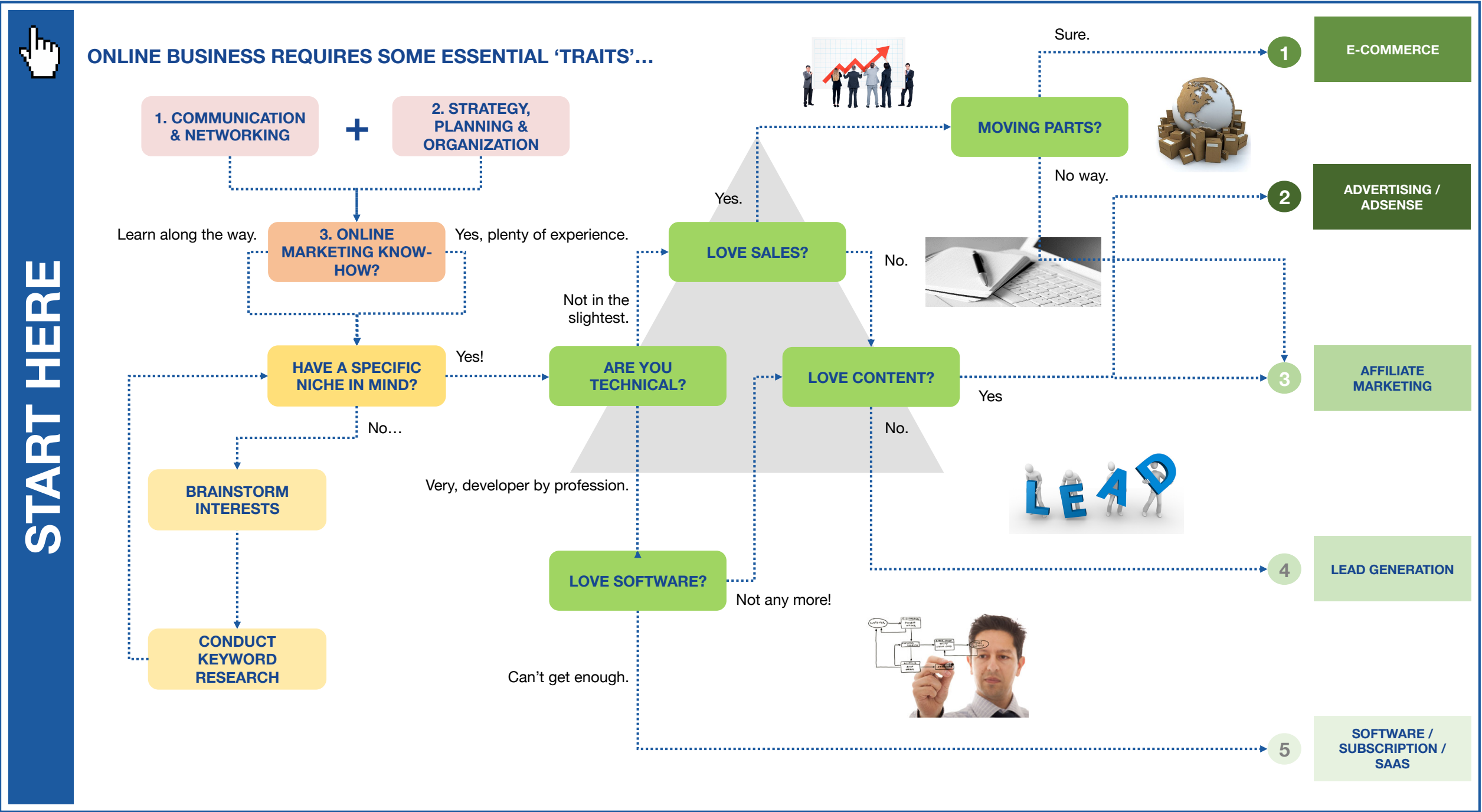
It is important not to be too put off by niche saturation – i.e. lots of players, highly competitive. There are plenty of online businesses available within competitive niches that offer a service or product unrivaled in the niche. At this juncture, some buyers may choose to invest in a niche that is of less/no interest but ultimately, much less competitive.

It is recommended to take a balanced approach, if investing for the long-term, a buyer will need to sustain some level of interest in the niche or the business is likely to suffer neglect over time.

The next step is to decide on the most appropriate way of making money from the niche in question, i.e. choosing a business model.

The flowchart below aims to help buyers ascertain the right business model by asking a series of simple questions designed to filter for the skills and attributes desirable for owning and

running those businesses successfully. More information on each business model can be found in the pages overleaf.



E-commerce

E-commerce has been a dominant theme of the internet for the last decade and is one of, if not the, most common e-business models. By definition, e-commerce is buying and selling of products and services over the internet. There are different types of e-commerce sites depending on the approach to inventory and distribution taken.

In the sports niche, for example, an e-commerce business could be a website that sells protein powders. These could be either shipped by the seller directly (pure e-commerce), or the order details can be sent through to suppliers who then ship (dropship). The business takes a gross margin on the products sold.

Pros:

- Easy to understand for offline investors
- Dropshipping = no logistical responsibilities

Cons:

- Can be quite time consuming
- Relatively high costs compared to other models
- Can require a lot of attention

Specific Skills / Tasks

- Writing / editorial – product and service pages need to be well-written and kept up to date
- There is an inventory management requirement - business owners should be numerate and savvy when it comes to negotiating commercial terms and supplier agreements
- The ability to deal with and manage one or more suppliers is key

Advertising

The web advertising model is one of the simplest and most popular e-businesses. It is the internet's digital extension of the traditional media broadcast model. Effectively, a website provides content, usually for free, interspersed with advertising messages in the form of banner ads or other ad placements. In the sports niche, an advertising business could be a personal fitness blog, with a large following, which is monetized through related sports ads e.g. advertising protein powders.

Pros:

- Simple monetization model
- Low maintenance

Cons:

- Earnings are typically sensitive to traffic, e.g. organic search
- Need continual supply of fresh content to attract visitors
- Can take time to build a following

Specific Skills / Tasks:

- Knowledge of online marketing – SEO, CRO, keyword research
- May involve interacting with and pitching to direct advertisers. If so, a sales mindset could be advantageous

Affiliate

An affiliate business model is one where the business exclusively sells other suppliers' products and services in exchange for a commission payment that is an agreed percentage of each sale.

Affiliate marketers are effectively independent sales entities that are paid on a performance basis (i.e. when an actual sale is made). Websites use tracking codes which identify who referred the sale to them. In the sports niche, an affiliate business could be a website that reviews all protein powder products available and includes links for the audience to click through and buy them, in return for a commission.

Pros:

- High margin (80%+)
- No product/service creation required
- Relatively low risk

Cons:

- Careful product selection required
- Takes time to build authority
- Reliant on third parties

Specific Skills / Tasks:

- Writing / editorial – core requirement for this type of business, content must be engaging and product pages need to be well-written
- Knowledge of online marketing – SEO, CRO, keyword research

Lead Generation

Lead Generation business models are those where a website is used to attract traffic and convert users into leads for a sellable service (e.g. skiing insurance). Typically the site owner creates a website of relevant content for the lead type, then employs an internet marketing strategy to attract traffic to the site. User information is collected (usually through a customer form) and then the lead data is sold to companies interested in marketing to or selling to those collected leads.

The quality of the lead (i.e. how likely it is to convert) will correlate heavily with the price paid. In the sports niche, a lead generation business could be a website all about skiing – tips, where to go and more. Subscribers' information (opted-in) may be then sold to insurance companies that cater specifically for ski insurance. These companies then pay the website for the information provided.

Pros:

- Very high margins (80%+)

- Relatively low maintenance
- Low barrier to entry compared to offering product/service personally

Cons:

- Need to maintain constant traffic and conversion rates
- Keep updated with relevant content
- Heavily vulnerable to commercial terms of lead buyers

Skills / Tasks:

- Content writing / editorial is the core requirement for this type of business
- The ability to network within the niche to build relationships with businesses that may benefit from lead generation data
- Business owners should be commercially astute, negotiating the best possible price for leads
- Knowledge of online marketing – SEO, CRO, keyword research

Software

Software businesses often spring up from hobbyists looking to create a relevant product within their niche. Usually the developer has created a niche software product and either opted to sell through word of mouth and referrals or to employ affiliates to sell it via an established partner network such as ClickBank.

Software businesses can be set up with either one-time or subscription-payment types depending on the nature of the product and the customer base.

Pros:

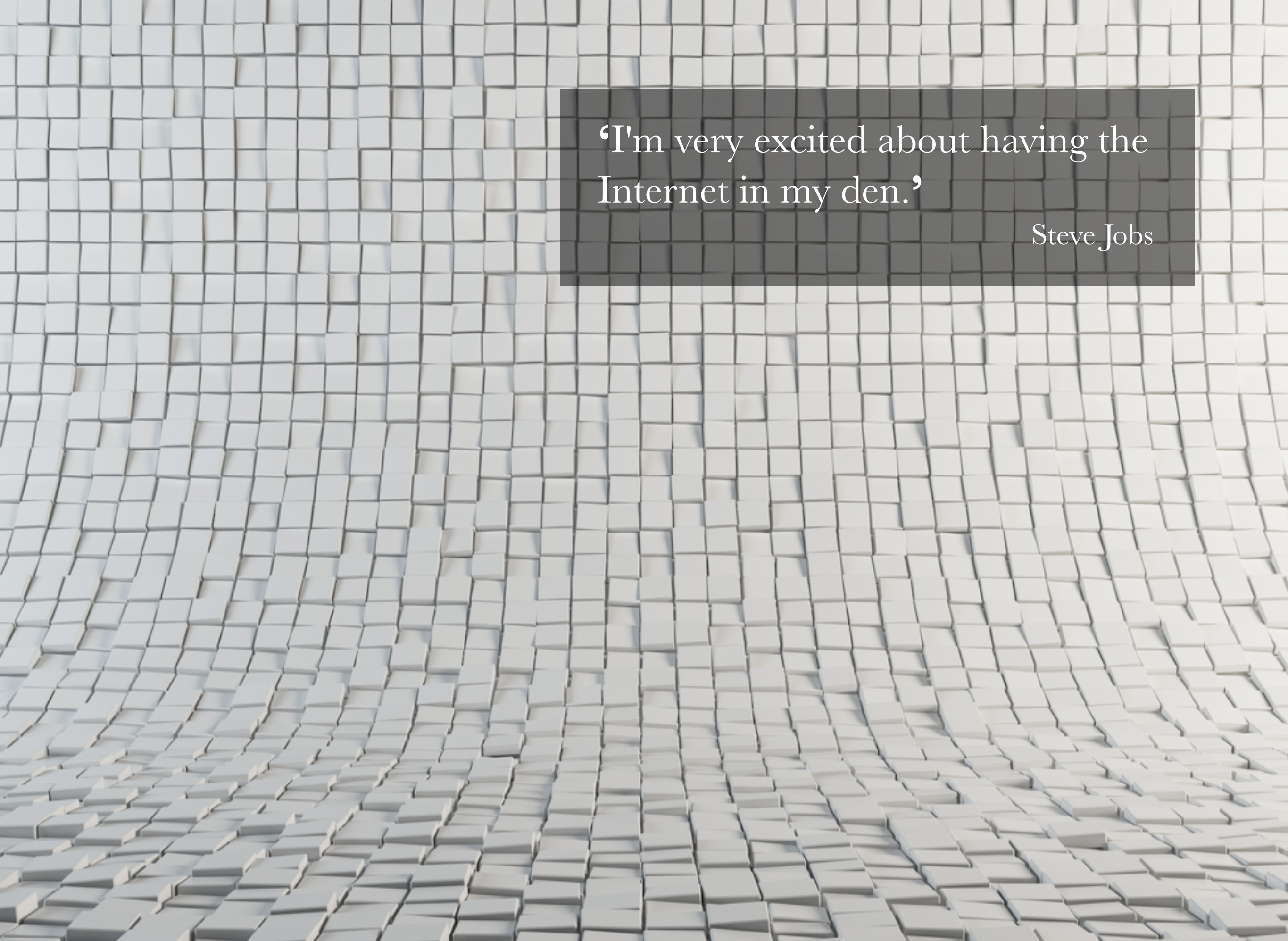
- High margin (60%+) and often stable cash flow
- Relatively low maintenance (depending on update requirement)
- Can employ affiliate model very effectively

Cons:

- Software updates may require technical experience
- Risks of piracy or copycats
- Customer support can be resource intensive

Skills / Tasks:

- Technical skills are an absolute necessity unless development is to be completely outsourced
- Commercial acumen is required to successfully sell software products
- Customer service – products needs to be supported



‘I’m very excited about having the
Internet in my den.’

Steve Jobs

Software-as-a-Service (SaaS)

Software-as-a-service, or SaaS, is a business model where users pay a subscription to rent software hosted online instead of purchasing it outright and installing it locally on their computers. SaaS is at the core of centralized or cloud computing with the aim being that users can run their computer tools as online rented products. All of the processing work and file saving is conducted on the internet with users accessing their tools and files using a web browser.

Pros:

- High level of recurring cash flow
- Strong margins (50%+)
- Higher barriers to entry

Cons:

- Software updates may require technical experience
- Risks of piracy or copycats
- Customer support can be resource intensive

Skills / Tasks:

- Technical skills are an absolute necessity unless development is to be completely outsourced
- Commercial acumen is required to successfully sell software products
- Customer service – products need to be supported

Subscription

The subscription business model is where users are charged a periodic – daily, monthly or annual – fee to subscribe to a service, commonly a content offering (e.g. Netflix, Listen.com). A number of these businesses combine free content with premium (i.e. member-only) content, referred to as a “freemium” model. Often converting customers into long-term billing relationships requires time and effective marketing so many successful subscription models have a well-refined internet marketing strategy and conversion funnel in place.

Pros:

- High level of recurring cash flow
- Strong margins (50%+)
- High barrier to entry once established

Cons:

- Strong marketing and conversion skillset required
- Ongoing customer care / support
- Competitive product required to retain customers

Skills / Tasks:

- Technical skills are an absolute necessity unless development is to be completely outsourced

- Commercial acumen is required to successfully sell software products
- Customer service – products need to be supported

Wrapping Up

The steps outlined in this chapter should provide a good starting point for determining the right type of business based on individual preferences, investment criteria and skillset.

The business search should become easier once you've decided on the business model and niche. It should be noted, though, that maintaining a degree of flexibility is important when pursuing an online business for sale. If too specific, buyers are unlikely to find a site that meets all of the criteria outlined.

Buyers should remember to start their search with an open mind. Taking an exploratory approach is the best way to fully understand the market and options available. It is equally as helpful to determine what type of online business is not suitable as it is to find the right one from the get go and of course, brokers are always at hand to help along the way.



Chapter 2

Finding and Evaluating Online Businesses


‘The Internet is becoming the town square for the global village of tomorrow.’

Bill Gates

Finding and Evaluating Online Businesses

The previous section set out the business models available to invest in. The process outlined is a worthwhile precursor for buyers to explore before searching for acquisition targets. With a myriad of businesses for sale across a variety of channels, being focused from the outset will not only make the search easier but will also speed up the acquisition process.

Before acquiring a website however, a suitable investment target has to be found. With numerous marketplaces and brokers in operation, the pathway is not always clear. This section sets out the various options available to buyers when looking for online businesses for sale and outlines some of the evaluation techniques that can be used in the lead up to making an offer.



‘Getting information off the Internet is like taking a drink from a fire hydrant.’

Mitchell Kapor

Finding An Online Business For Sale

It goes without saying that the best place to start the search for an online business for sale is the internet. The rapid growth in internet businesses and the online business brokerage industry has resulted in:

1. The extension of traditional business marketplaces that cater to online businesses
2. The emergence of online business auction sites, where buyers can liaise with and acquire directly from website owners
3. The growth of online business brokerage companies, all with different levels of expertise and varying track records in the space

FINDING BUSINESSES FOR SALE

• Online Business Marketplaces

- BizBuySell
- BizQuest
- BusinessBroker

• Online Business Auction Sites

- Flippa

• Online Business Brokers

- FE International
- QuietLight
- Website Properties

With excitement and curiosity, buyers often attempt to explore all avenues at once. However, just like seeking out a suitable real estate investment, it is important to select the right agent, platform and approach to avoid wasting time and money. The three most popular routes are marketplaces, auction sites and brokers, which are explored in greater detail below.

Online Business Marketplaces

To many, online business marketplaces would seem the obvious place to start when searching for an online business for sale. [BizBuySell](#) for example, states that it is “the internet’s largest business for sale marketplace” and has seen rapid growth in recent years. Online business marketplaces are attractive as they enable buyers to look across the industry at a range of available listings, helping them to identify potential investment opportunities. Buyers are able to request additional information on listings, which automatically alerts the seller or designated broker (if represented). Most established online business brokers have a presence on such platforms, using them as an additional outreach channel.

While marketplaces are useful, sites such as BizBuySell.com and BizQuest.com allow sellers to [post ads in a relatively short time](#) and are typically only as credible as the brokers and sellers that market through them. With a limited registration process, it is straightforward to setup an account and begin to solicit buyers.

buyers. Therefore buyers should approach with a healthy degree of caution, but take note that there is certainly scope to find high-quality business listings on marketplaces at reasonable prices, depending on the specific requirements of the seller.

One other important consideration with marketplace transactions is that their success is contingent on the transparency and motivation of the seller. It can take longer to get the information needed to make an offer and conduct due diligence. There is typically a less structured sale process too.

Online Business Auction Sites

Similar to online business marketplaces with a slight difference, auction sites act as the eBay of the online business-for-sale world. Flippa is the primary website auction platform, with over 600,000 users. The site claims that nearly 23,000 businesses have been sold via their online auctions. Auction sites such as these attract individuals wishing to sell their online businesses to other individuals (effectively peer to peer).

Whilst online business auction sites offer sellers a quick option to tap into a large potential buying base, there are some drawbacks associated with them. With limited upfront seller and business vetting and less focus placed on operational and income verifications, buyers have been known to fall victim to fraudulent [misrepresentations by sellers](#). With reduced vetting, the onus of

performing extensive due diligence lies with the buyer. Therefore, buyers who are unfamiliar or unspecialized in internet business due diligence should be cautious about this purchasing channel.

Naturally, auction sites have a reputation of housing a wide variety of businesses so there is a wide selection, but it's important that buyers are cognizant of the quality of listings where sustainability is questionable. The other cautionary factor of note with auction sites is the prevalence of 'shill bidding'. Shill bidding is a technique used by sellers on business auction platforms to try and secure the highest possible price for their business. They will often set up a buyer account under another name and bid against genuine buyers, to push the price up. There are ways of [spotting shill bidding](#) in practice in order to protect against it.

While using auction sites carries some risk, those who are experienced in due diligence and buying online businesses can find favorable deals. Any buyer transacting through an auction site should insist on using an [escrow](#) service to complete the sale.

SECTION 1

‘I’m interested in people who
have lived, who are searching
and questioning.’

Maria Bello



Online Business Brokers

Online business brokers specialize in the sale of online businesses. Business owners typically engage brokers to benefit from their knowledge, tools, investor network and prior experience when it comes to executing deals. Many brokers offer a range of listings, which have been pre-vetted from a due diligence perspective prior to listing. Unlike popular auction channels, brokers veer toward the more established end of the web-based business market where verifiable site history, stable income and seller legitimacy are commonplace.

Buyers often take comfort in the fact that a third-party intermediary is at hand to resolve any issues, as well as benefit from a structured [sale process](#). Brokers are usually at hand to discuss business listings with buyers - offering advice, providing figures as well as hands-on guidance across the duration of the sale process. Brokers are economically invested in the sale and are only paid once the deal has completed. Therefore, they will only list high-quality online businesses that they are comfortable will sell.

As the online business brokerage industry is still in its relative infancy, [lesser known/trusted brokers](#) emerge every so often, seeking to benefit from limited market regulation and unsuspecting buyers. Therefore, it is important to [select a broker](#) that has a legitimate track record, infrastructure ([contract drafting](#)

[capabilities](#), secure deal room areas, use of escrow etc.) to ensure the best quality service.

In general, fostering relationships with brokers is perhaps the most effective way of finding quality online businesses for sale, and is something that every buyer should look to put front and center of their acquisition strategy.

Buying Directly

Buyers that know exactly what they are looking for may find it quicker to approach the specific businesses in question instead of waiting for one to come up for sale. There are different ways to [approach a business owner](#) and it is important to ensure the approach is right, to signal seriousness and intent to the seller.

Buyers following this route should look to make use of industry due diligence tools (see Chapter 4) and analyze candidates' traffic and backlink profile before approaching. If the website still looks attractive after some initial analysis, the seller's name and contact details can sometimes be found by conducting a who.is domain search or a straightforward Google search.

EVALUATING BUSINESSES

- **Niche** - Important to establish from a competitive aspect as well as for general interest
- **Traffic** - Trends, growth and sustainability should all be evaluated pre-offer
- **Penalties** - The website's history with Google is of great importance as well as any actions the owner has taken to correct a penalty
- **Financials** - Review trends, seasonability and consistency against traffic
- **Operations** - Evaluate the owner's time and responsibilities as well as the roles of other contractors or employees



Evaluating Online Businesses for Sale

Having found a business that meets the desired acquisition criteria, buyers should take time to conduct some initial due diligence on the web property. Regardless of how appealing a website looks on the surface, a thorough analysis of the business and the environment in which it operates should help to determine whether or not it is worth pursuing.

Seasoned investors often have a structured process that they follow, starting with a reconnaissance run of the business followed by a detailed review of all the available data and trends to understand the crux of the business as well as its current and historic performance.

There are various different ways of completing a preliminary audit, and it can be a brief or time-consuming exercise depending on the size and nature of the business. To structure the task, there are five key areas any investor should explore before arranging a call with the broker/seller:

1. Niche

[The niche](#) in which the business sits is important for a whole host of reasons. Naturally, most buyers prefer to invest in a niche that they can relate to / have experience in, which forms part of the motivation for potential acquisition. Even if a site operates in a niche in which the investor is passionate, it is critical to maintain a level of objectivity throughout.

Asking some of the questions below can help to maintain an objective viewpoint, free of bias. To help, tools such as [Google Trends](#), [KeywordEye](#) and [Keyword Tool](#) and can be used to look at patterns within a niche, over time.

NICHE

- 1.1. Is the niche growing, shrinking or stable?
- 1.2. Do trends indicate that the niche may be a 'fad'?
- 1.3. Are there external factors that may positively/negatively impact the niche in the short to medium-term?
- 1.4. Is the niche competitive? How competitive are target keywords?

Understanding the above is important – investing in a highly competitive niche experiencing a downward market trend means that the business is likely to occupy a small market share that is set to shrink further over time.

2. Traffic

A very important aspect of any online business, traffic is to online business what location is to a brick-and-mortar shop. If a website is listed with an established broker, it is likely to have Google Analytics installed. [Advanced analysis techniques](#) involve a deep dive into traffic data in order to develop independent strategies for user experience, CRO and SEO. At this stage however, it is worth understanding and evaluating some of the headline metrics outlined below.

TRAFFIC

- 2.1. Are the traffic sources diversified? Is the [traffic sustainable](#)?
- 2.2. Is the bounce rate high (>70%)? Are users engaged?
- 2.3. Are traffic trends rising, falling or stable?
- 2.4. How are people accessing the website (mobile, tablet, desktop) and from where?
- 2.5. What keywords does the website rank for (if any)? How has this changed over time?
- 2.6. Has the site got a strong backlink profile?
- 2.7. Are the number of referring domains rising, falling or stable?

If well-versed in SEO, buyers may look at negative responses to the above in a positive light, as weaknesses in some of the areas outlined could be interpreted as lucrative opportunities. That said, if SEO is not a forte, a buyer may not have the experience or resource required to turn around some of the issues being faced by the business.

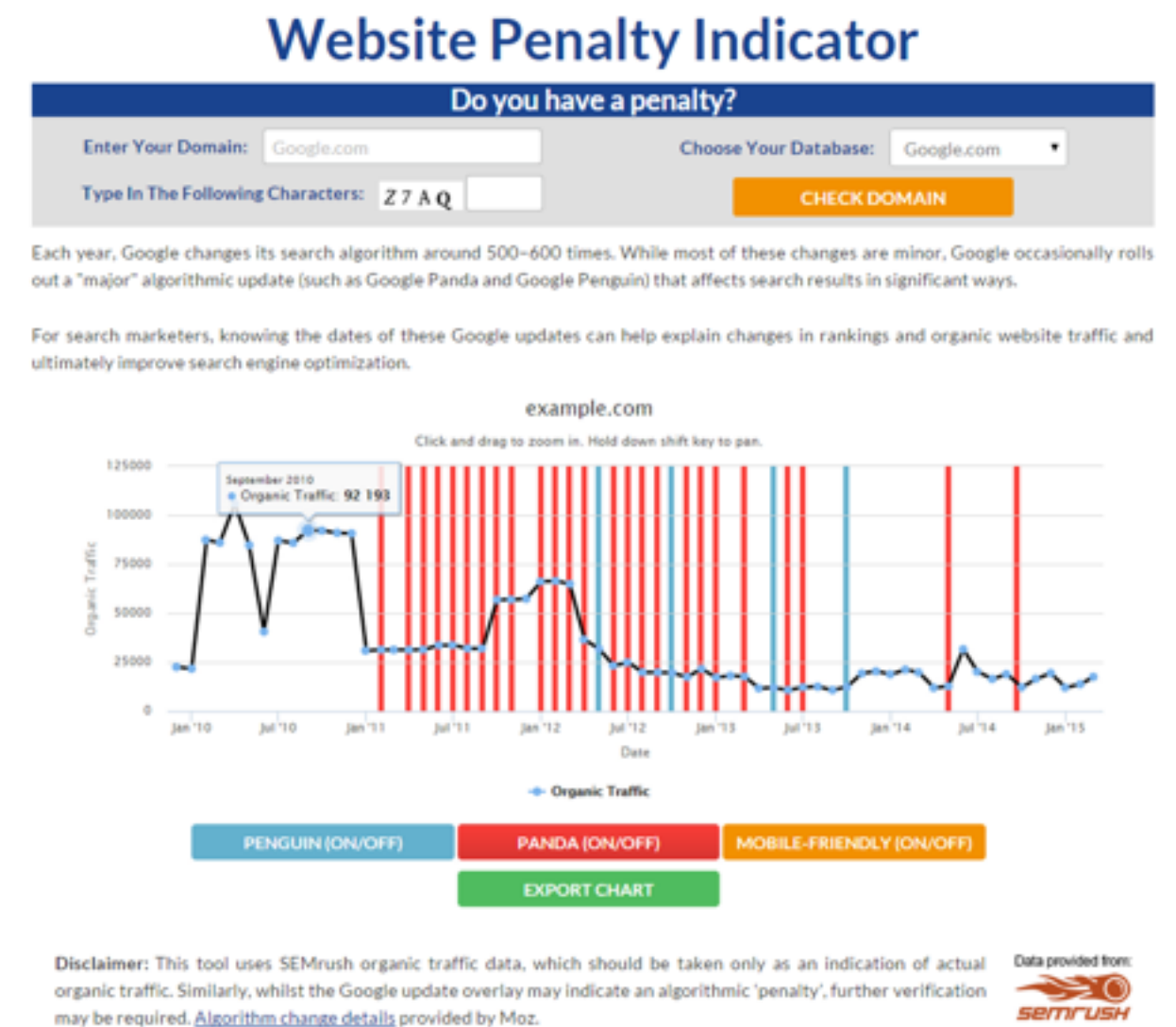
Tools for traffic analysis can be found in Chapter 4 (see ‘Advanced Due Diligence’).

3. Penalties

This goes hand in hand with reviewing traffic trends. Google rolls out algorithm updates on a frequent basis – in 2013 alone it was reported that Google made over [890 improvements](#). ‘Panda’ and ‘Penguin’ updates are carried out routinely with the aim to downgrade websites with low-quality content (thin, duplicate etc.) and those that seek to deceive users (and upgrade others).

In 2015 Google also began rolling out a [mobile-friendly update](#), which positively impacts sites that are optimized for mobile access. A check should always be carried out on a website to validate whether it has been affected by an update in the past. This can easily be done using [FEI’s penalty indicator tool](#). There are also plenty of other resources available that describe how best to [tell whether a website has been hit by a penalty/update](#).

Being ‘hit’ by a Google update or manual penalty indicates that a site is underperforming in certain areas. A loss in ranking power as a result is likely to equate to less traffic and impact financials. Unless the site owner has made necessary amendments to the site (which can be explained and verified) and traffic has normalized, buyers should proceed with caution.



Website Penalty Indicator.

Source: FEI (2015).

‘Measure what is measurable,
and make measurable what is
not so.’

Galileo Galilei



4. Financials

Validating the accuracy of the income statement is set aside for the due diligence period. At this point in proceedings, buyers should instead look to unpick the income statement, pinpointing any specific trends (e.g. seasonality). A well-diversified set of revenue streams is encouraging, but if the main source is dropping, there could still be a fundamental issue with the business.

As well as revenue, it is important to focus on and question the business’ cost/expense base. If there are costs that seem to have been excluded, they should be noted down. [Seller Discretionary Earnings](#) (SDE) is often used as a foundation for online business valuation and it is an important concept to understand in order to interpret potential earnings following acquisition. SDE will vary depending on the buyer and will impact the multiple that one is prepared to pay for the business. Below are some of the questions that should be explored when reviewing the financials:

FINANCIALS

4.1. Is the monthly revenue increasing, falling or stable?

4.2. Does the website experience seasonality?

4.3. Is revenue reliant on one specific source?

FINANCIALS (CONT’D)

- 4.4. Are there any owner-specific, revenue-generating relationships in place?

4.5. Is the business valuation reflective of ongoing financial performance?

4.6. Do published SDE adjustments seem reasonable?

Traffic and financial analysis should be conducted in parallel with the income statement, telling the story of the business. If traffic trends are on the increase, but financials are decreasing or stable, it could be that there are issues with conversion that need addressing, at a cost to the new owner. Generally speaking, buyers should look to acquire sites with a history of stable income and should remember to price their time into an offer on the business where the financials are on an SDE basis.

5. Operations.

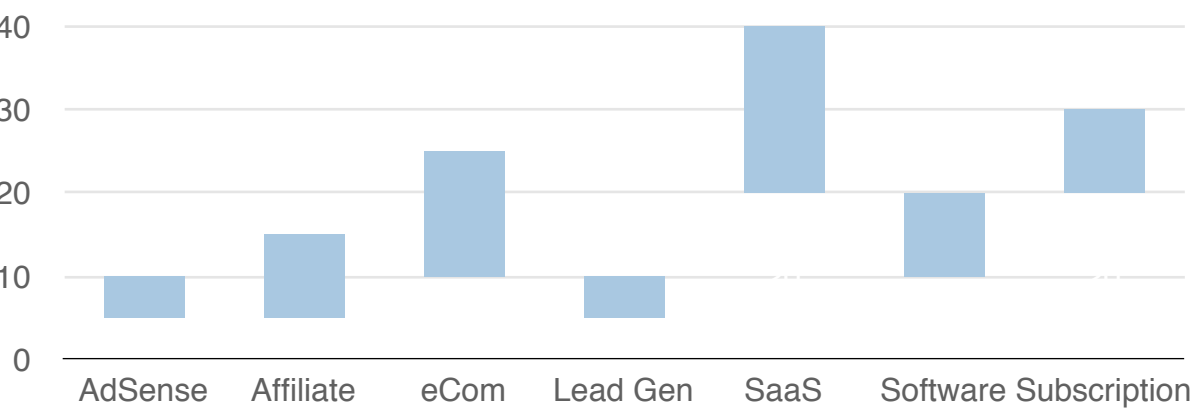
Even if all of the above look healthy and in good order, once the business has been acquired it will still need to be operated. Consequently, buyers should ensure that the business fits with their existing skillset, and that the time required to manage the business successfully is actually achievable in practice. The information pack provided on the business should contain all of

the details relating to the platform, tasks completed, skills required and level of owner time required. Below are some of the key considerations that should be explored:

OPERATIONS

- 5.1. Is the website built on a known platform?
- 5.2. Does the website have [high maintenance requirements](#)?
- 5.3. What kind of technical skills and experience are required?
- 5.4. Could work be outsourced at a reasonable cost or would this be commercially unviable?

Without employees and infrastructure to manage, the owner time commitment on a well-established online business can be very low. Using the transaction data, FEI compiled an estimate of the average owner time commitments for the most common online business models:



Average hours per week spent by owners on the business.
Source: FEI (2014).

Being attracted to an online business that is in the right niche, trending upwards and has a good grounding is tempting. Nevertheless, if a buyer cannot run the site successfully and/or is not well-positioned to take ownership, then this should be noted early in the process. Making a sound investment decision is as much about understanding one’s internal capabilities as it is about spotting the right business to acquire.

Final Thoughts

Buying an online business is an iterative process, requiring plenty of back and forth between buyer and seller. Having completed some initial due diligence, learned more about the business and put together an [initial set of questions](#), buyers should be sure to speak to either the broker responsible for the deal (if broker represented) or the seller directly. In the case of the former, buyers should take advantage of a broker’s ability to source any additional data that requires assessment.

Chapter 3

Identifying Growth Opportunities

‘Growth is never by mere chance, it is the result of forces working together.’

James Penney



Identifying Growth Opportunities

Identifying and evaluating the right online business is a key first step in the direction of acquisition. Next, buyers should look at potential growth opportunities they can use post-sale to increase revenues. Many times these opportunities become the supporting arguments for going ahead with the eventual purchase.

This section outlines some of the main growth opportunities that buyers commonly implement successfully to grow their online businesses within the first 12 months of ownership.



‘Growth is the only evidence of life.’

John Henry Newman

SIX GROWTH OPPORTUNITIES

1. On-site SEO

Can identify surprising quick wins right away

2. Improve third party terms

Contact major advertising and affiliate partners to negotiate higher payouts

3. Mailing list

Optimize emails to boost OR and CRs

4. Mobile optimization

Can bring both conversion and SEO benefits

5. Increase trust signals

Additional signals can reap major dividends

6. Optimize owner time

Going passive can open up time for growth



Identifying Growth Opportunities

There are dozens if not hundreds of ways to grow the value of an online business. Naturally these vary with the type of business being reviewed (e.g. SaaS, AdSense), the niche and the specific situation. If reviewing the listing of a reputable broker, buyers should expect to see a dedicated section on opportunities for growth or at least some discussion of this in the seller questionnaire.

If that isn't the case then buyers should be sure to probe the seller on this, making it a [priority question](#) before presenting an offer for the business.

Buyers can employ a vast range of strategies to either optimize the existing monetization of a business or grow its revenue further with new measures. Overleaf is a list of the six most common growth strategies with advice on how to deploy them for use.

1. On-site SEO

Conducting an on-site SEO audit is critical when first taking over a business, but it can also pay dividends to identify opportunities for improvement right away.

Some of the common SEO quick wins include:

1.1 Ensure Title Tags Are Optimized

Title tags are used on search engine result pages (seen as “snippets”). It is important that they are concise, relevant and easy to digest, so that users make the decision to [click on a search result](#).

Google usually displays the first 50-60 characters of the title tag – ensure that your primary keyword is included within the snippet.

1.2 Ensure Internal Link Structure Provides Optimal Navigation

The [internal link structure](#) of the website is important for on-site navigation and usability, it also has a direct impact on page rank.

A [good rule of thumb](#) is that the site’s ‘click depth’ or number of times a user has to click on a link to get to the desired page, should be no more than three.

1.3 Submit A Quality Sitemap

[Research conducted](#) indicates that submitting a thorough XML Sitemap can push indexation levels from 24% to 68%, directly increasing traffic to the site.

1.4 Ensure Meta Titles/Descriptions Are Optimized

Meta tags are arguably the most important element for on-site SEO, so take some time to learn to craft better meta descriptions.

The precise wording and structure used in meta titles/descriptions will impact clicks and visits to the site.

Use keywords intelligently, use a title that will engage the audience, keep it short and relevant (meta descriptions should be <90 characters).

1.5 Optimize Speed

A website optimized for speed will have a dramatic improvement on conversions (latest data suggests 7% loss for each second delay) and also in search rankings

There are [numerous things](#) that can be done to speed up load times, including removing broken links, deleting spam and pending comments and optimizing images.

2. Improve Third-Party Terms

Many online businesses are reliant on third-party relationships for revenue generation (e.g. affiliate, lead generation) or to provide services to them (e.g. hosting, advertising). If a buyer has a relationship with another partner or service provider that has superior economics, this can be a quick and sometimes major win for the business being acquired.

A common example of this is with [Amazon Associates](#). Some business owners may only qualify for the lower commission tiers (4-5%) due to revenue produced from their single web property. However if the buyer has an existing portfolio of Amazon sites and is currently qualified for the higher tiers (7-8%) this can add significant upside to the business overnight.

Number of Products Shipped / Downloaded in a Given Month	Volume-Based Advertising Fee Rates for General Products
1-6	US\$20,000
7-30	US\$18,371
31-110	US\$16,736
111-320	US\$15,093
321-630	US\$13,444
631-1570	US\$11,788
1571-3130	US\$10,125

Amazon Associates Commission Terms.
Source: Amazon (2015).

Another similar example is with advertising networks. If the business is using AdSense and achieving a CPM of ~\$2.00 but the buyer has an existing portfolio with another networking achieving a [higher CPM](#), it makes sense to change (all things being equal) and reap the free upside.

The benefits are of course not limited to revenue generation. Some buyers can realize cost synergies through better or existing relationships with service providers like hosting, PPC, retargeting and merchant processors. Often these differences may seem small in percentage, but with high-volume usage and over the course of several months, the savings can easily add up to thousands of dollars.



‘There's only one growth
strategy: work hard.’

William Hague

3. Mailing List

Email marketing can often be an afterthought for entrepreneurs growing their business from scratch, but it offers a golden opportunity for buyers looking to find sustainable traffic and customers going forward. Many online businesses for sale boast email lists running into the tens of thousand that have run dormant for years. These lists are ideal for marketing new products and services, as well as discounts on previous offerings.

Buyers should see if the original owner has implemented a weekly or monthly newsletter and, if not, look to roll one out. Newsletters are excellent tools for communicating new offerings, as well as bringing traffic back to the site on a sustainable basis. Email traffic is some of the highest valued amongst buyers, so it ultimately improves the value of the business.

In the situation that emailing marketing is already being used, buyers should take care to evaluate the open and clickthrough rates of recent newsletters and benchmark against industry standards. If the numbers are significantly below, this could be an optimization opportunity. There are various things a buyer can do to improve email conversion rates such as [segmenting lists](#), [personalizing content and making future promises](#), so it makes sense to test these out.

4. Mobile Optimization

In April 2015, Google commenced the rollout of its mobile friendly update, affectionately titled “MobileGeddon.” While the rollout affected seemingly fewer sites than previously thought it did spell an important sea change in the way that search engines perceive mobile friendly sites, and more importantly how internet usage behavior patterns are changing. A recent [ComScore](#) report stated that in 2014 the average American consumer spent 7 out of 8 minutes of their media consumption on a mobile device.

Before considering a purchase, buyers would do well to review the percentage of mobile traffic to the website (in Google Analytics) and evaluate the site’s appearance on mobile devices. Sometimes there are major traffic or monetization pages that are simply not well optimized for mobile, which could be killing opportunity for greater revenue. Depending on the nature of the redesign, this can be a quick win or something rolled out over the first six months. There are various things a buyer can do to [optimize for mobile](#), such as using shorter forms, keeping font sizes consistent and adding sticky menus throughout.

5. Increase Trust Signals

Almost all online businesses rely on trust signals to convert users, be they SaaS (trials, testimonials), e-commerce (product reviews, shopping security) or content (a persona), and so opportunities to add these if they are missing should be readily taken by buyers.

As an example, it's quite common to see niche affiliate sites without an "about me" page. Adding one of these can have a [surprisingly positive effect on conversions](#), particularly if the website is rich in content reviews for especially technical products. Customers like to know that the website owner has a background and experience in the items they are reviewing.

Another example is with e-commerce businesses that don't adequately display shopping cart or information security. Simply adding in an SSL logo can have a very positive impact on conversions across the site. Obviously if the business is missing this entirely, then introducing SSL is an absolute must. It is also likely to have a [SEO benefit](#) on the business. Similarly, [customer product reviews](#) are a must, so be sure to introduce and populate customer ratings across the site.

6. Optimize Owner Time

Optimizing the time that the current owner spends on the business is more of a lateral growth opportunity than working specifically on the website, but it can have a dramatic impact on the future of the business. The value of time should never be underestimated.

Often with owner managed businesses it can be apparent from the outside that the owner is spending too much time on tasks that could otherwise be outsourced at a reasonable cost, freeing up more time for the new owner to spend on marketing and exploiting other growth opportunities they have highlighted.

A common example of this is in customer support. Often with information product or SaaS businesses, the owner can spend several hours a week in customer support forums, answering tickets and replying to emails. Many of the queries are consistent and therefore creating a customer support manual to respond with template answers can save significant time. Hiring a VA from [UpWork](#) (previously oDesk) or [eLance](#) to do this will free up more time to pursue growth elsewhere.

For advice on outsourcing successfully, see Chapter 6.

Thinking Longer Term

Over the 3-12 month time horizon, the options for growing an online business open up exponentially. Buyers have been known to find great success in many things including launching apps, pushing into international markets, expanding into physical items and developing new software features.

More vanilla growth strategies like increasing content posting, opening up affiliate programs and deploying PPC campaigns all return a good investment too.

Chapter 4

Buying An Online Business

‘I'm not an Internet guy - I'm a business
guy.’

William Fung



Do It Yourself or Hire A Broker?

The industry of buying and selling online businesses is undoubtedly growing as awareness of the asset class increases and more and more people seek the benefits of owning an online business. As a result, there are waves of new buyers entering the marketplace each month, each with a diverse array of experience and skills, not always “online,” but one thing linking them – a universal motivation to find and acquire quality online businesses for sale.

This section provides in-depth insight on the critical aspects of online deal making, including offer structuring, due diligence and contract drafting. For buyers uncertain about taking the steps themselves, it also provides background and advice on hiring professional buyside representation.



‘It takes half your life before you discover life is a do-it-yourself project.’

Napolean Hill

Advanced Offer Structuring

Structuring an offer for a business can be one of the trickiest aspects of the acquisition process. Oftentimes buyers find themselves uncertain as to what is 'market' standard or confused over what options are available to them to place a winning bid.

This section goes into detail on the components needed to structure a successful offer. It gives an overview of the financing options available to buyers and discusses their effectiveness in the context of mitigating specific risks in a transaction and achieving overall investment goals.

‘I can give you a six-word formula for success: Think things through - then follow through.’

Eddie Rickenbacker

Advanced Offer Structuring

Having evaluated a website or online business for sale and decided to make an offer to the seller, there are a number of considerations to structuring the best one for the business.

Perhaps due to a lack of experience or information readily available, some buyers can find themselves leaving value on the table by not structuring their offer with all the important factors in mind.

When devising the best structure it's important to get information on at least these three things:



1. Financing Options

Be sure to understand the [funding options](#) available for buying a business before proceeding further. Get to know the different financing tools and how they can be used to mitigate risks in the transaction as well as how they increase value. Equally, knowing when they are appropriate to use and to suggest to the seller is also very important for getting acceptance on the desired terms.

2. Risk Factors

Through research and preliminary [due diligence](#) to this point buyers should have conducted enough of an examination to understand any risks in the business. This will prove vital in how to think about structuring the consideration so that one can protect against potential downside scenarios and mitigate the risk of other undesirable outcomes

3. Seller Characteristics

A successful deal is a win-win for both parties. A good buyer knows to take the measure of the seller, understand their priorities and structure a deal that works out for both. Larger deals could involve longer transition periods so it's good to keep the seller motivated. Equally, an offer that hits the specific needs to the seller is more likely to get accepted, even one that is potentially lower than another offer elsewhere that doesn't meet those requirements.

1. Financing Options

Structuring an offer with the right mechanisms in place is crucial to mitigating any risks in the business as well as incentivizing the seller to help provide further growth.

Before diving in, it's important to note that buyers should consider the use of these tools in the context of the wider environment. For example, a seller is unlikely to accept 70% upfront with an earn out if other bidders are offering similar overall consideration and 100% cash. After all, cash is king. Equally, on smaller cap listings (i.e. <\$75K), most sellers are expecting all-cash offers and most buyers are willing to provide that, so creatively structured deals are less feasible. Above that, things become more interesting.

1.1 Earnout

If there are risk factors that suggest a higher degree of uncertainty in the next 12-18 months, then an earnout can be a useful tool to collectively share the risk and performance. It can also be used as a carrot to incentivize collaboration to grow the business higher than its historic performance.

Useful for:

1. Buyers who can add value and want to share growth with seller
2. Businesses reliant on seller's personal relationships

3. Incentivizing the seller to consult or advise during the earn out period

4. Incentivizing the seller to grow the business post sale

Considerations:

In general, earnouts are superior at incentivizing growth post sale versus protecting downside, where in fact 'performance based' consideration plays a better role (see the next section).

The efficacy of an earnout is largely reliant on two things: 1) the percentage of total consideration that the earnout accounts for and 2) the seller's willingness to invest time and effort in the business post sale. It is also worth noting that earnouts have limited flexibility in that they only correspond to a percentage of revenue or profit, which is somewhat inflexible in the event of significant changes in revenue/profitability.

Common examples:

- A fixed percentage of gross income for 6-12 months

1.2 Performance Based

Similar to an earnout scenario, performance based consideration makes sense to mitigate the risk of downside and keep the seller motivated post sale. There is a much greater degree of flexibility in the terms for performance based consideration.

For example, buyers can structure goal-based targets (e.g. hit a

certain revenue/target level to unlock consideration) and choose their specific payments in certain eventualities (e.g. pay a certain percentage of consideration if a certain percentage of target is hit). Depending on how the buyer structures it, the seller can feel more of a carrot or stick, which can be a useful tool when motivating going forward.

Useful for:

1. Protecting against uncertain financial performance ahead
2. Incentivizing the seller to consult or advise
3. Incentivizing the seller to grow the business post sale

Considerations:

Similar to earnouts, the efficacy relies on the proportion of total consideration that the performance based component reflects as well as the seller's willingness to participate post sale. It's important to carefully balance the stick and carrot incentives offered through the structure, as some sellers will be less amenable than others to these solutions.

Common examples:

- A fixed amount of consideration released upon hitting a revenue or profit goal within a specific timeframe
- A sliding scale of percentage payment upon hitting a certain revenue or profit goals within a specific timeframe

CASE STUDY - PERFORMANCE (SAAS)

- In this transaction the buyer wanted to include performance based consideration to a) guarantee stable performance because the business was relatively young and b) incentivize growth because it was trending upward.
- The buyer struck a deal to pay up to \$100K in additional consideration on the upfront, paid at 3 and 6 month intervals depending on the revenue achieved by the business.
- There was a scaling ladder of revenue goals and consideration that effectively ranged from 75% – 125% of the LTM average revenue of the business. The payout at the 6 month interval was cumulative, so if the business missed in the first 3 months (due to transition), the seller was still incentivized to push for growth in months 4-6 to get the final payout.
- This was a great example of inventive thinking by the buyer as they effectively ensured they paid for stable performance and growth in exactly the fashion they wanted to. Keeping the goal cumulative through the periods meant the seller stayed motivated throughout.

1.3 Hold Back

Hold backs are excellent tools for protecting against a specific known risk or outcome in the business and also for enforcing a particular deal condition.

In the latter case they are sometimes used by buyers to ensure training obligations are fulfilled in the first 30 days post-closing. In the former case they have been used in a variety of ways, for example to ensure particular backlinks stayed in place (under the seller's control) or to ensure a transferable merchant processing account stayed open (see case study).

Useful for:

1. Securing against a known outcome
2. Enforcing a particular objective deal condition

Considerations:

Holdbacks are only useful when the seller can actually warrant the upholding or delivery of the performance condition. For example if there is a concentration issue with a customer and the buyer is looking to protect against them churning away, the seller cannot guarantee they will not. That is a structural risk in the business and the buyer should look to protect themselves against that through the overall consideration and proportion of upfront vs. deferred.

Common examples:

- A fixed amount of consideration released upon provision of training after 30 days

- A fixed amount of consideration released upon satisfaction of a specific event (e.g. closing of an account)

CASE STUDY - HOLDBACK (SAAS)

- On this particular deal FEI identified that a significant percentage of revenues were coming from subscriptions within a PayPal account located in the UK, while the buyer was located in the US.
- PayPal don't allow accounts to be transferred internationally and so to solve the issue, the buyer swapped in their US payment details and the seller guaranteed to keep their UK corporate entity in good standing for at least 12 months in order to keep the PayPal account running normally.
- The hold back amount was calculated as the forecast subscription revenue for the 12 months, adjusted for the estimated churn of customers (based on historic numbers). This is a good example of how a holdback can be used to guarantee a risk factor is completely protected against.



‘Creating something is all about
problem-solving.’

Philip Seymour Hoffman

2. Understanding The Risk Factors

With a solid grasp of the financing options available and the scenarios where they can work, its time to consider the risks that can be identified and mitigated against.

Businesses come in all shapes and sizes and every deal is different. As a buyer one wants to strike a deal that at a minimum ensures similar financial performance in the business (as is currently being achieved) with strong scope for upside. Some of the common risk factors to identify and think about are:

2.1 Consistency

The consistency of traffic, customers and ultimately revenue is of paramount importance when assessing the risk profile of the business. Buyers should be cognizant of the age of the business but closer examination should be on the revenue trends since inception and the driving factors underlying this (i.e. traffic and customer churn).

The desirable trend is clearly a slow and steady increase. Fast is okay if it looks sustainable or the valuation multiple reflects normalized income both historically and going forward. A buyer will want to carefully analyze the drivers underlying the trends and think about how replicable this is in their hands. The growth

could be from anything as wide as search engine rankings to outbound sales calls by the current owner.

Knowing what moves the business' bottom line is fundamental to deciding if the buyer can run the business but also to structuring a good offer. Spikes in revenue, traffic and customers will tell you a lot about a business so examine them very carefully and ask questions of the seller to explain it.

Useful structuring options:

- Performance Based
- Earnout

2.2 Seasonality

Continuing the idea of volatility, many businesses have natural peaks and troughs (i.e. seasonality) and it is generally okay to acquire a seasonal business as long as due consideration has been taken. Take care to note when seasonal spikes occur and to observe what percentage of total revenue and profit this accounts for.

In general, buyers should think carefully about a business with more than 25% of annual revenue from seasonal spikes, if it is higher and the investment case is still strong then it's worth thinking about what can be done to structure out some risk. In

either event, it's also essential for the buyer to confirm the replicability of the event. Compare the year-on-year seasonal revenues to see how the proportions change and observe what other factors played a role (e.g. seasonal discounting, special events) and whether these can be duplicated in the future.

Useful structuring options:

- Performance Based
- Earnout

2.3 Concentration

Concentration is another major component of assessing the risk factors in a business. There are many different types of concentration depending on the business model, one example is affiliate concentration where one affiliate makes up 50%+ of the revenue of the business.

Another can be channel concentration where one monetization method dominates revenue or one partner (e.g. advertising or affiliate network) accounts for all the revenue. Customer concentration is another similar one. For example SaaS businesses where one enterprise client accounts for >20% of revenue presents a concentration risk.

Lastly, traffic concentration is a very common type, though not necessarily a negative one depending on the sustainability. Many

buyers are concerned with search engine risk and it is a valid risk, but it depends entirely on the rankings of the business, history, backlink profile and quality of the site in general.

When analyzing concentration it pays to understand the back story behind each. For example, customer concentration might not be a bad thing if the customer has been using the software for 5 years and they are renewing for another year. Where the story gives pause for concern (e.g. 90% search traffic and no quality backlinks), then it pays to think about how to structure an offer to protect against this.

Useful structuring options:

- Hold Back
- Performance Based

2.4 Survivability

Any concentration naturally leads to a contemplation of the survivability of that concentration. Will the affiliate partner stay around on the same terms? Will the customer cancel? Are the current backlinks going to stay in place? What reassurances are there that the status quo will remain post sale and in 12+ months' time? To what extent is the business reliant on a significant time investment by the seller?

It's useful to evaluate these points at the same time and plot

‘We become what we behold. We shape our tools and then our tools shape us.’

Marshall McLuhan



them on a matrix if need be. This will significantly improve decision-making around the initial “go, no-go” as well as around the price to pay and the structure to lay it out with.

Useful structuring options:

- Hold Back
- Performance Based

3. Understanding The Seller

With a concrete assessment of the risk factors of the business, the buyer should turn to understanding the seller as part of the overall equation. Surprisingly, only a minority of buyers do this habitually and it can make the difference between offer acceptance or not, sometimes even against competitive bids with a higher total consideration. These are some of the things that buyers should seek to understand.

3.1 Consideration

Naturally the tangible value of the deal is of high importance to most sellers but preferences over the structure and timing can vary considerably. Most sellers know their businesses intimately, are reasonable individuals and are cognizant of all the risk factors that buyers tend to highlight before offering. As a result, many can be amenable to creatively structured deals where it makes sense for both parties.

3.2 Certainty

Execution certainty is of great importance in any deal. The world of online business brokerage is fraught with execution perils and partnering the right buyer and seller is half the art in a successful deal. Don't underestimate the value of offering the seller a quicker execution timetable and a deposit, if confident of completing due diligence and closing in that timeframe.

3.3 Future

Think about what the seller wants to do in the future and what role they want in the business? What role should they have? If they are important to the business then a buyer will want to consider a structure that keeps them engaged and motivated post sale. It's worth thinking about what potential revenue upside can be offered to incentivize the seller taking the deal and also to push them to grow the business post sale.

3.4 Benefits

An extension of the thinking about the seller's future, benefits relates to non-monetary deal terms and/or synergies that the buyer can offer to sweeten the deal. This can include making introductions to other business partners/contacts that might be useful for the seller's new business ventures, share platforms, systems or special relationships together and any other number of synergies that might have made themselves apparent in pre

offer due diligence. This is another reason why having a call with the seller or at the least the broker is a good idea for putting the best offer together.

Making It Work In Practice

Earnouts, holdbacks and performance based consideration are good in concept but a prudent buyer should also understand enforceability. To bring these structuring options to life a buyer needs a well-worded asset purchase agreement and a strong escrow partner to work with.

The launch of [domain name holding](#) by Escrow.com significantly opens up the scope for these arrangements, providing great comfort to the buyer and seller that there is an independent third party there to ensure the terms are honored by all.

Conclusion

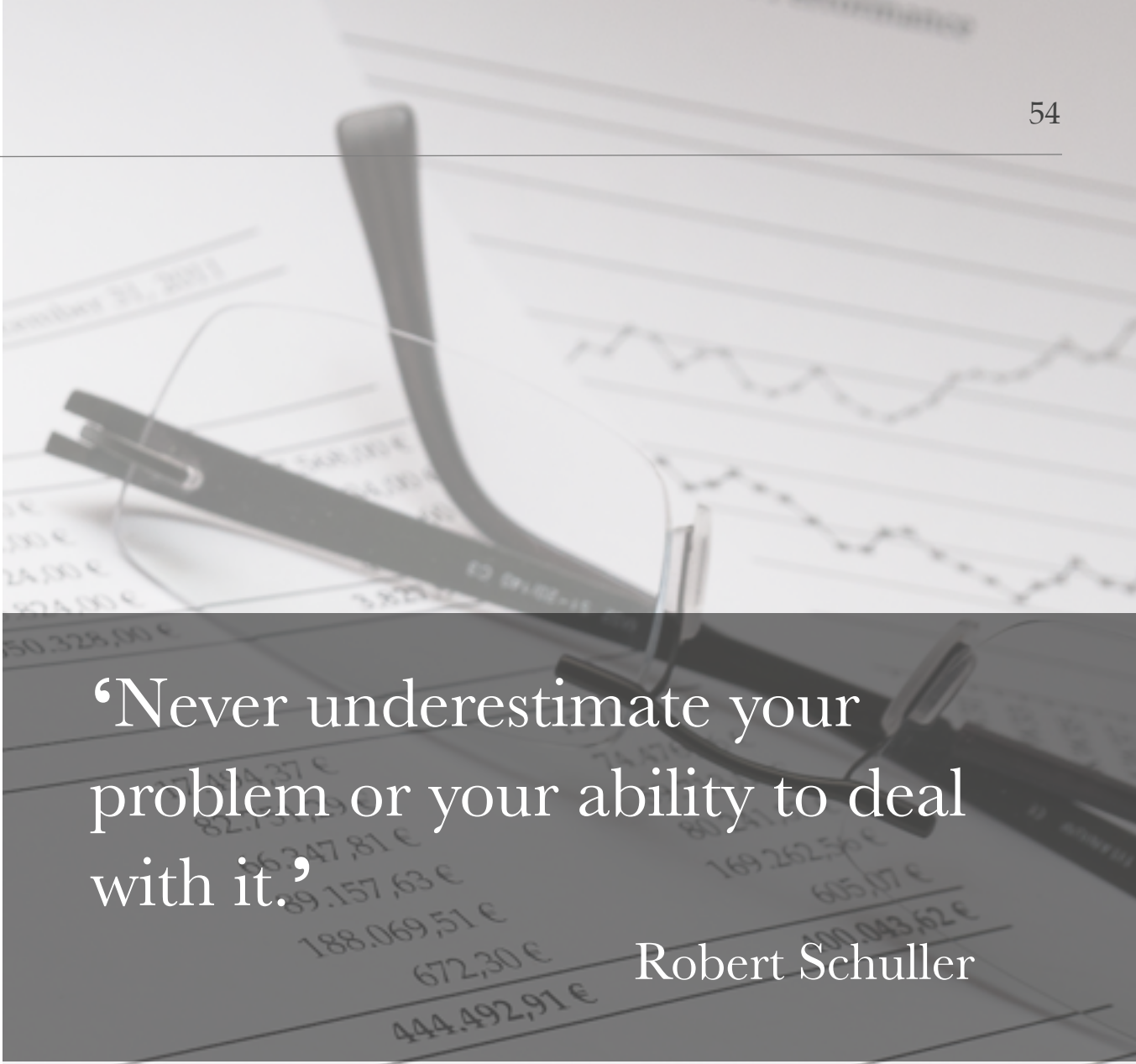
Naturally there are a wealth of factors involved in structuring the best offer for a business, not least the financial situation of the buyer in question. This article serves to highlight some of the deal-specific considerations that successful buyers have contemplated in the past and structured offers for success.

Many of these buyers have consulted with the broker on their viability and collaborated to secure a win-win, which is ultimately what a business transaction should aim to conclude with.

Advanced Due Diligence

With an offer accepted on an online business, attention in the buying process will move to the task of due diligence (DD). The previous guide covered how best to structure due diligence. This guide builds on that, digging deeper into each area, giving buyers a much stronger sense on what to look for and how to go about finding it.

This section explores in detail six key components for successfully conducting due diligence on an online business and gives buyers some practical advice on how to conduct a robust and thorough investigation for their own business purchases.



‘Never underestimate your problem or your ability to deal with it.’

Robert Schuller



21	32.853,70 €
22a-e	66.383,24 €
24	180.077,21 €
27	124.510,36 €
28	88.007,21 €
	1.831,73 €

DUE DILIGENCE

1. **Traffic** - Check the traffic to the website, observe any anomalies and ensure the link profile looks natural
2. **Financial** - Verify the P&L against documented evidence
3. **Owner** - Conduct a background check on the trustworthiness of the business owner
4. **Technical** - Look at the technology platform underlying the business' operations
5. **Operational** - Verify the time commitment and tasks required to run the business
6. **Legal** - Seek independent legal advice on the legality of the business' operations



Due diligence is a critical step to be taken by any business or individual prior to making the commitment to any legally binding contract.

1. Traffic

Analyzing the traffic profile of the business is one of the first things buyers should do. The three key elements to look for are traffic 1) trends 2) concentration and 3) quality.

1.1 Trends

Firstly, buyers should use Google Analytics (or whichever analytics tool has been used) to

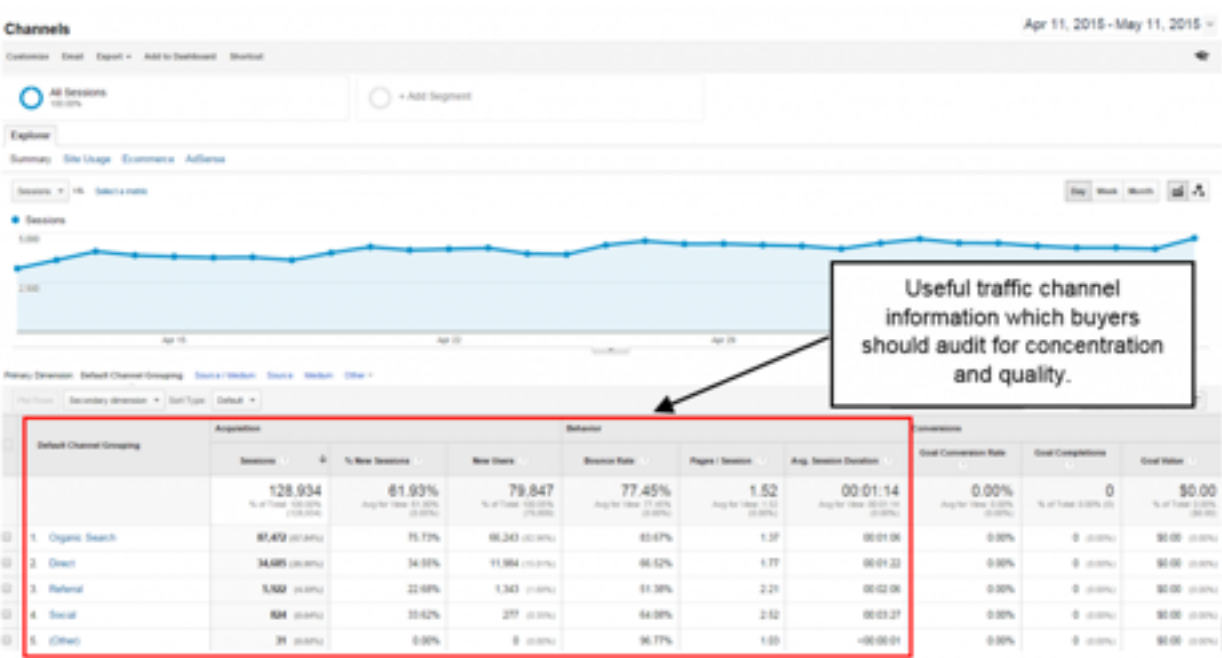
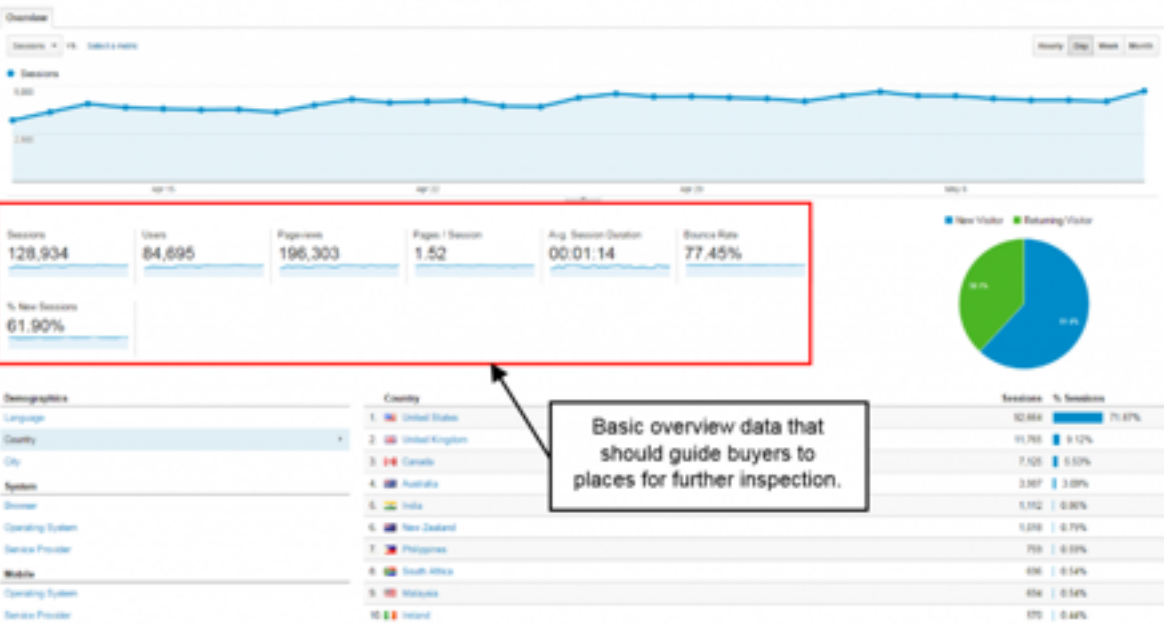
observe the trends in the overall traffic and for each channel, on a daily, monthly and annual basis. This should serve as 'stage one' of the traffic analysis before delving deeper on issues of interest.

Naturally the desired trend is for slow and steady growth across all sources, but it is perfectly acceptable to see some sources grow and diminish in importance over time. It is

important to observe spikes in the data set and carefully explore the reasons for these, asking direct questions of the seller if need be.

- Did the traffic spikes correspond to specific action by the owner?
- Did it correlate to increased revenue?
- Can it be repeated?

These are all important considerations to understand. Buyers should use the following screens in GA to probe the trends data:



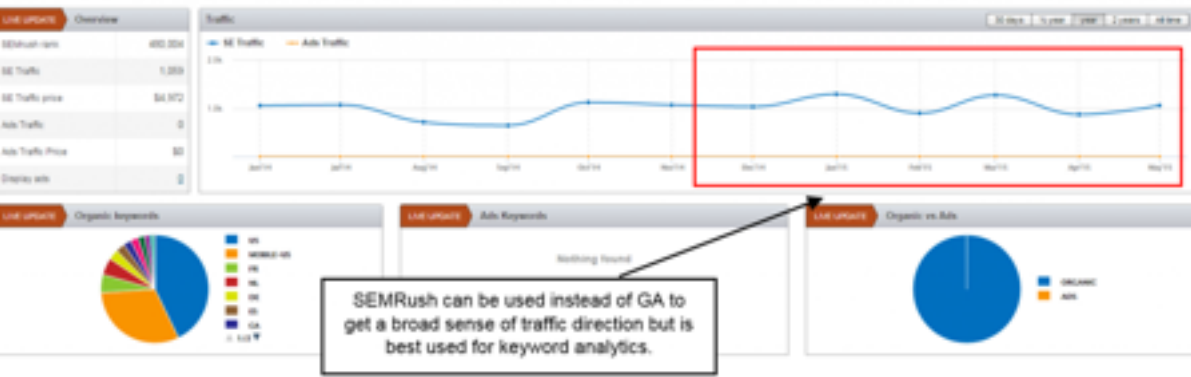
Penalties are an important consideration too. While not necessarily a deal killer, they are vital to explore for damage they may have caused and what the owner has done to rectify the solution. Google Webmaster Tools is the definitive tool for identifying a penalty but buyers should also be able to spot significant downward (or upward) changes using third-party tools such as [FEI's Website Penalty Indicator](#).

1.2 Concentration

With a better sense on the overall traffic trends it's time to turn focus to traffic composition. A diverse set of traffic sources is the desirable situation but not all websites have this and it is by no means a negative trait, depending on the fundamentals underpinning each traffic source.

Using the channel data and traffic sources screens, buyers can observe each of the major traffic channels, their historic profile and current characteristics (e.g. time on site, page views). Buyers should look to investigate at least the top 3 channels that cumulatively account for 80%+ of traffic. Within each, there are specific further checks to think about:

Organic Search – If the business is reliant on particularly high search traffic (and many websites can be) then it is important to examine the quality of this traffic. [SEMRush](#) is a great tool for digging deeper on keyword rankings and concentration.



The three characteristics buyers should be looking for are:

- A high number of ranking keywords (preferably on page 1 for the target term);
- Traffic split relatively evenly across the keyword spectrum; and
- Consistency in keyword rankings

Inevitably SEO is not every seller's forte and not all websites are perfect but if the site has ranking consistency and traffic concentrated on keywords where it maintains a strong and stable rank, it has a solid foundation.

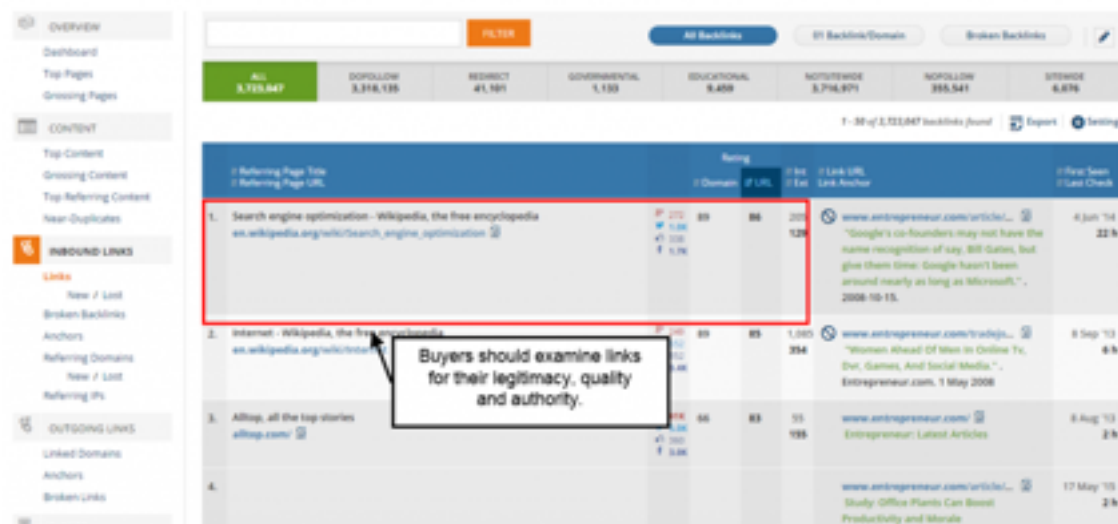


Naturally, the site should not just be assessed in isolation and buyers should be cognizant of movements in the niche historically (the rankings analysis should uncover this). SEMRush can also provide metrics on keyword competitiveness.

The next thing to examine is the website's backlink profile. [Ahrefs](#) is a good tool for analyzing a website's current profile and link growth over time. Buyers should look to evaluate at least the top 20 backlinks (sorted by page authority) and identify the quality of the content underpinning it, engagement on the page and on the rest of that site.

- Is the website linking in a relevant niche?
- Does the link look natural? Could it be paid (e.g. "site sponsors", "donors" or similar)? Has the cost been declared by the seller?
- Does the seller also own the site? Will that link(s) remain after the sale?
- Are all of the links the same (e.g. guest posts, blog comments, paid links)?

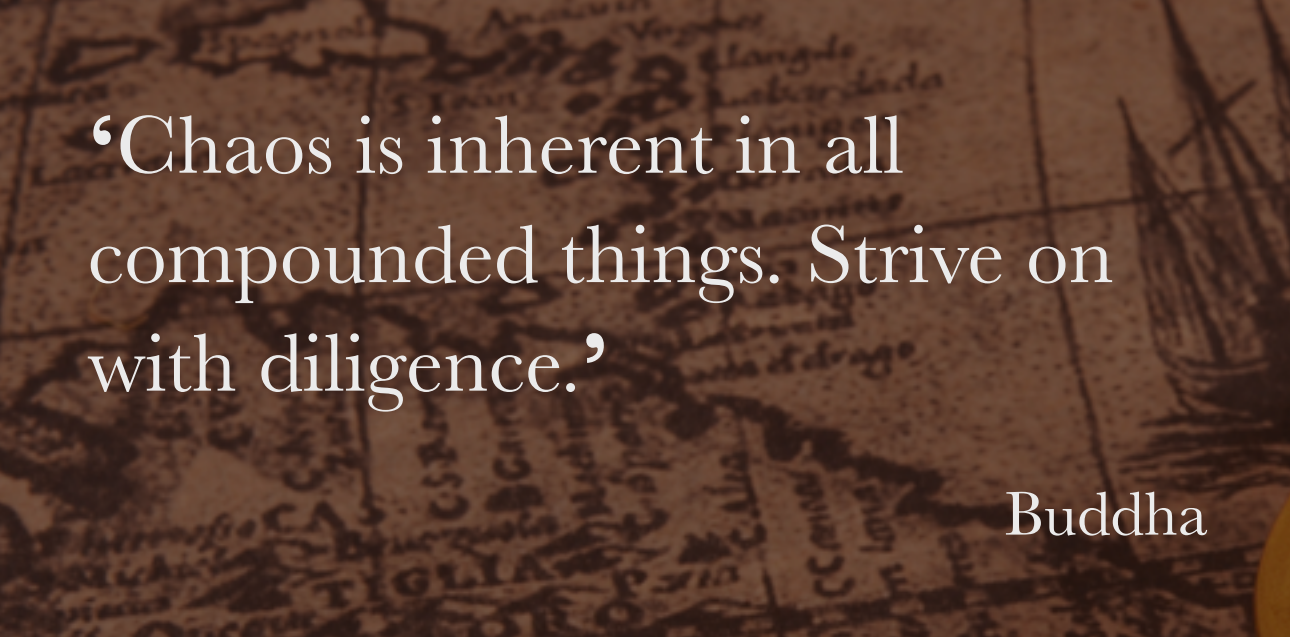
Buyers should also analyze the link growth over time and assess its sustainability. Generally, a natural link profile will gradually increase over time, there may be occasional spikes or losses in the number of referring domains (more relevant than number of pages), but the trend should be upwards.



While there is no fool proof way of assessing link quality, buyers should generally ask the following questions when looking at each linking site:

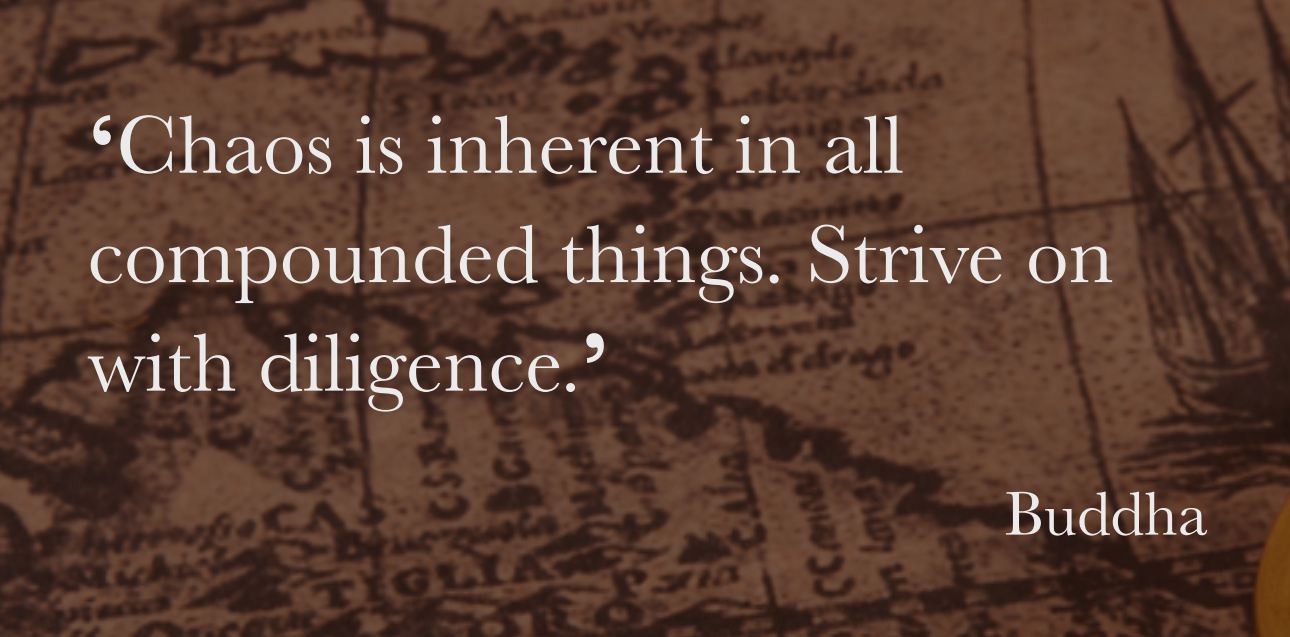
- Does the linking website look legitimate?





‘Chaos is inherent in all compounded things. Strive on with diligence.’

Buddha



‘Chaos is inherent in all compounded things. Strive on with diligence.’

Buddha



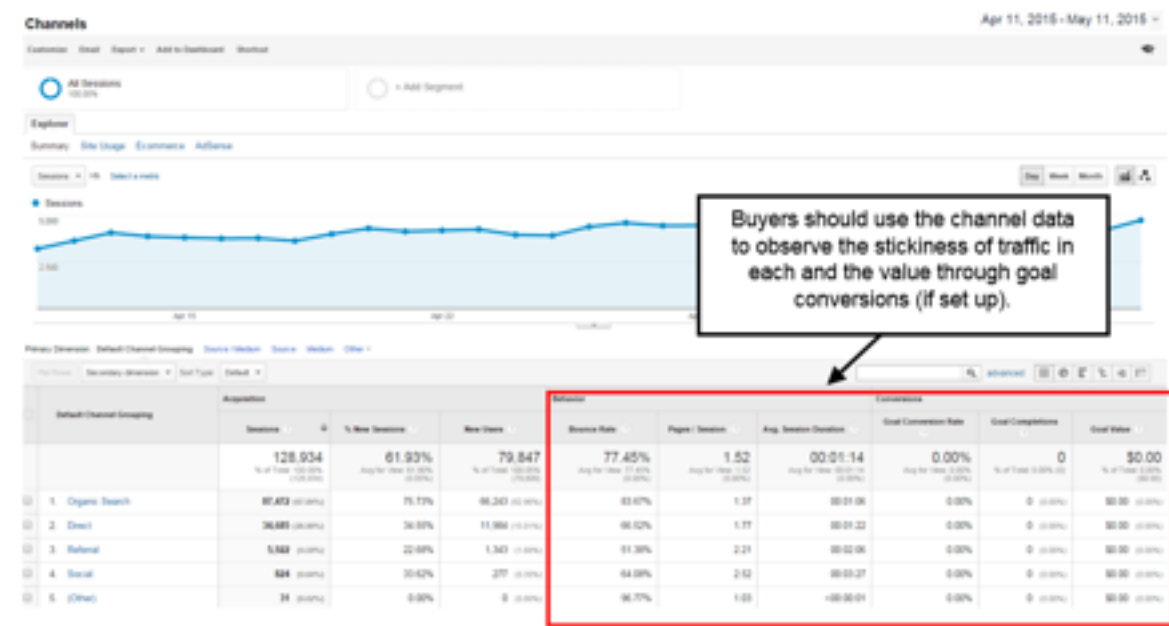
If the site goes from very few links to a large number within a few days then this could be the sign of buying links or the use of a private blog network (PBN) which would require further investigation.

Referral – If the business receives a high degree of traffic from referral sources then it is important to understand the quality and stability of those referral sources. Buyers should examine each major referring site carefully and establish the nature of the relationship between the linking sites.

Does the seller have any relationship to the linking referral source, either formally or informally? Buyers should identify the nature of the content being posted and linked, the linking history and whether this is likely to continue over time.

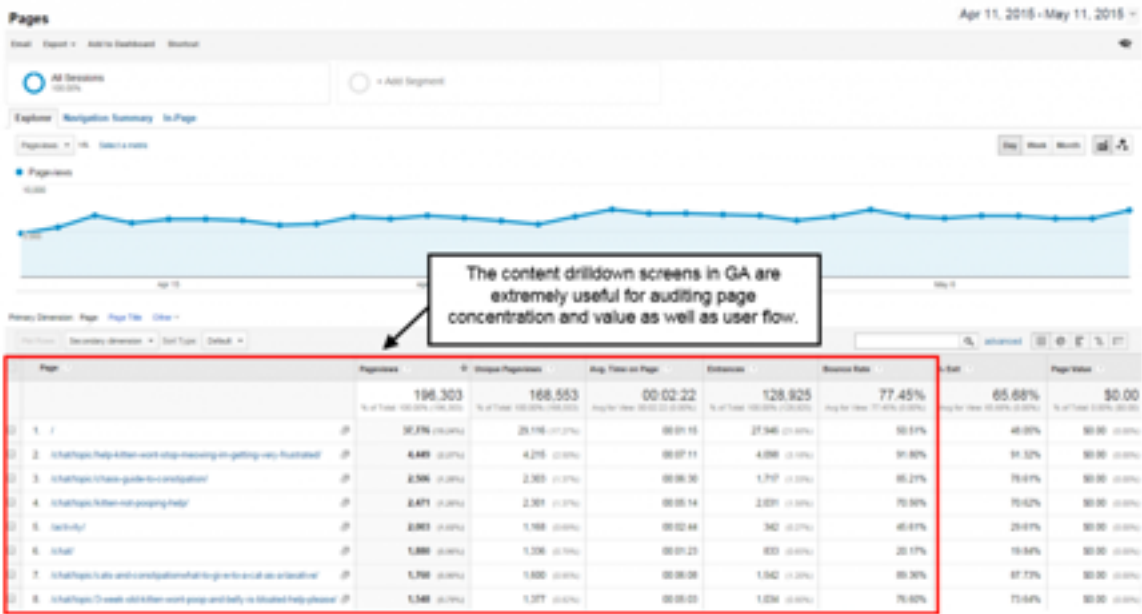
1.3 Nature

Having understood the major traffic channels in greater detail it’s time to focus on the nature of the traffic coming through to the site. The ‘nature’ of the traffic is somewhat subjective and its desirable qualities vary with the business model under review. For instance, for a CPM-network monetized site, traffic with a high time on site, a high number of pageviews per user and a low bounce rate is desirable. For a SaaS business where conversions to trials might be important, the traffic reaching a particular page (e.g. product demonstration and sign up) would be lucrative.



For the specific business under examination, the key is to understand the traffic profile of the desirable visitor and look for this in the traffic data. Key measures of value are pages per session, average session duration, bounce rate and of course the conversion rate.

If Google Analytics has been set up with conversion goals then a lot of useful data will exist already for review (note: not all sellers have this by default).



2. Financial

Graduating on from traffic, next to review should be the financials. These two areas complement each other and the findings from the traffic analysis should be overlaid to the financial analysis. In particular if there is clear traffic and conversion data available, this can be used as an additional sense check on the stated revenues. For advertising sites, buyers can [correlate CPM rates](#) to traffic to estimate earnings.

Note: Buyers should look to audit the financials on a [seller discretionary earnings](#) basis which is IBBA industry standard.

2.1 Revenue

To audit the revenue history of the business, buyers should at the very least requisition the affiliate/advertising reports (where

relevant), merchant processing statements and bank statements for the last 12 months or further back.

Many buyers are fixated on the use of tax returns for financial due diligence but in reality these are commonly misleading due to aggregation with other businesses. Instead, with monthly reports, there should be more than enough data to link the earnings through to the deposits.

The best exercise for revenue verification is to create a monthly income statement spreadsheet and analyse the flow of earnings through to deposits. Be cognizant of time delays in payments(e.g. some networks pay net-30) and also the seller’s own behavior (e.g. setting payout thresholds) which can confuse the month-by-month analysis. The important thing is to establish that over the entire time period the earnings match the bank deposits and any significant monthly deviations are explained.



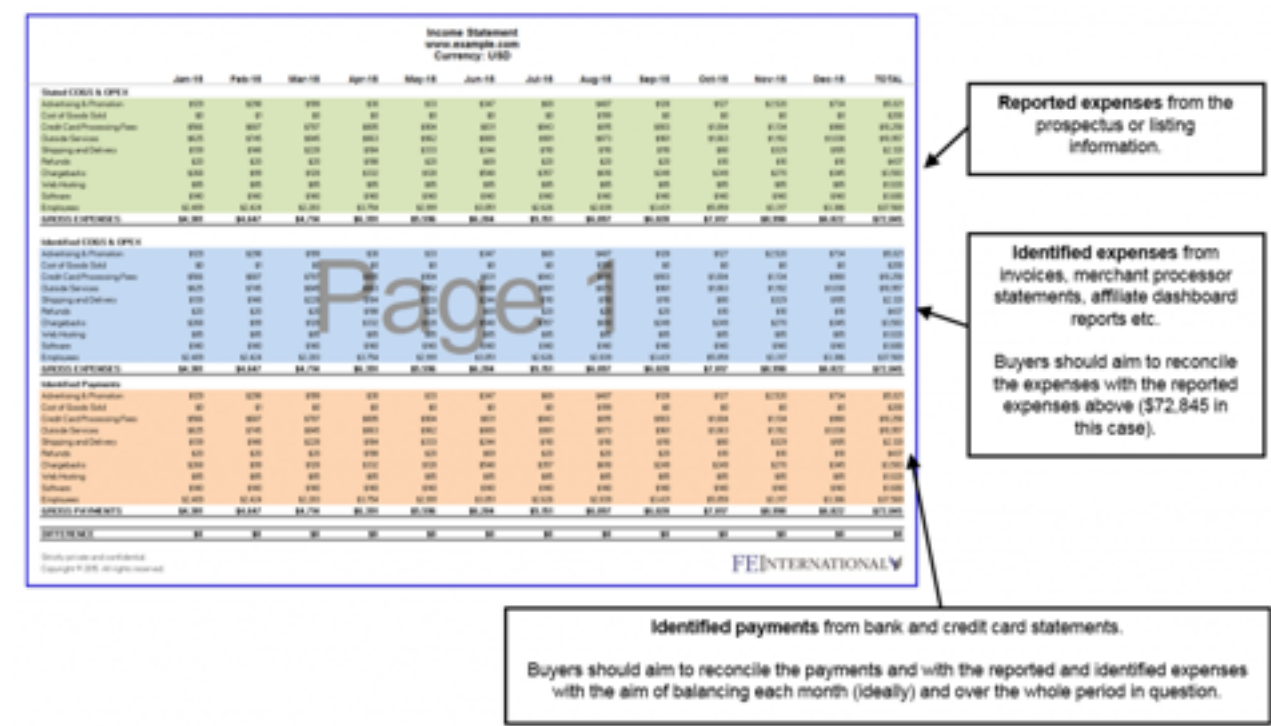
Many buyers are concerned about the source of revenue particularly in respect of affiliate networks. Make sure in the case of large networks (e.g. Commission Junction) to requisition the reports by referring domain. For websites transacting through PayPal, request the full line-by-line transaction history (sensitive customer information will be redacted) in order to see the exact transactions going to the PayPal email.

Buyers should look to overlay this with the traffic data above, preferably the goal conversion data if available, to be sure that the PayPal transactions correspond to traffic on the specific site and not from elsewhere.

2.2 Costs

COGS and expenses should be looked at thoroughly. Buyers should requisition the monthly bank statements, PayPal statements and credit card statements relevant to the business and go through line by line totaling up expenditure in each month. It's important during this exercise to match up the stated costs (in the marketing materials) versus what is found.

In general, the cost base is the easiest place for a seller to manipulate the numbers (either intentionally or accidentally) so it is important buyers spend adequate time auditing this.



Buyers should look to not only match the cost base up but also understand the terms attached to each. Is the owner getting a preferential rate on a particular subscription? If so, why? Will this transfer? It is worth researching the costs independently on the platform provided (e.g. Aweber costs for the relevant email subscriber count). It's also important to observe the cost base as a percentage of revenue each month and each year and see how this has changed over time.

2.3 Other Checks

Line item trends and matching aside, it's also important to look at the bigger picture when assessing revenue in particular. Buyers should use the exercise to look for any customer or affiliate concentration that wasn't clearly identified during the assessment and offer stage.

Buyers should look to requisition the affiliate report for any business heavily reliant on affiliate sales and examine it carefully. As with the traffic analysis, if there are signs of concentration, analyse the history and nature of the relationship between the affiliate and the owner, to ensure consistency and survivability in the event of the sale.

For SaaS or subscription-based businesses, there are a number of other metrics worth close attention, principally the customer lifetime value, duration and churn, and what have these been doing over time. Buyers should look to incorporate the revenue data from above into a SaaS metrics sheet such as this [one](#) to gain a better sense on the customer profile from a strictly financial standpoint.

As a final step, buyers should arrange a live screen share with the seller to both authenticate ownership of all the relevant accounts and verify the same financial information as presented in documented format.

SaaS Metrics Dashboard					
A simple KPI sheet for early-stage SaaS startups with a low-touch sales model.					
	Jan-13	Feb-13	Mar-13	Apr-13	May-13
VISITORS & SIGNUPS					
Visitors 1)	2,456	2,687	2,980	2,897	3,012
m/m growth visitors		9.41%	11.13%	-2.98%	3.97%
Signups beginning of the month 2)	245	388	566	752	919
New signups					
Organic	61	122	97	75	121
Paid	82	56	89	92	78
Total new signups	143	178	186	167	199
m/m growth new signups		24.48%	4.49%	-10.22%	19.16%
Visitor-to-Signup Conversion Rate	5.82%	6.62%	6.23%	5.76%	6.61%
Signups end of month	388	566	752	919	1,118
PAYING CUSTOMERS 3)					
Customers beginning of the month	35	54	74	95	119
New customers	20	22	24	26	23
Conversion rate 4)		15.38%	13.48%	13.98%	13.77%
Lost customers	-1	-2	-3	-2	-3
Churn rate	2.86%	3.70%	4.05%	2.11%	2.52%
Net new customers	19	20	21	24	20
Customers end of month	54	74	95	119	139
m/m growth customers		37.04%	28.38%	25.26%	16.81%
MRR					
MRR beginning of the month	\$3,000	\$5,127	\$7,499	\$9,905	\$13,067
New MRR					
New MRR from new customers	\$1,980	\$2,209	\$2,450	\$2,889	\$2,560
New MRR from account expansions 5)	\$245	\$343	\$230	\$459	\$389
Total new MRR	\$2,225	\$2,552	\$2,680	\$3,348	\$2,949
Lost MRR 6)	\$-98	\$-180	\$-274	\$-186	\$-256
MRR churn rate 7)	3.27%	3.51%	3.65%	1.88%	1.96%
Net new MRR	\$2,127	\$2,372	\$2,406	\$3,162	\$2,693
MRR end of month	\$5,127	\$7,499	\$9,905	\$13,067	\$15,760
m/m growth MRR		46.26%	32.08%	31.92%	20.61%
ARPA (p.m.)	\$95	\$101	\$104	\$110	\$113
ARPA new customers (p.m.)	\$99	\$100	\$102	\$111	\$111
CAC					
Marketing spendings	\$4,587	\$5,012	\$4,862	\$5,111	\$5,320
Marketing spendings per signup (blended)	\$32	\$28	\$26	\$31	\$27
Marketing spendings per paid signup 8)	\$56	\$90	\$55	\$56	\$68
Sales spendings	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Sales spendings per new paying customer 9)	\$150	\$136	\$125	\$115	\$130
Total CAC (blended)	\$379	\$364	\$328	\$312	\$362
Total CAC (paid signups) 10)	\$550	\$861	\$548	\$472	\$721
Time-to-recover CAC for paid signups (months)	5.6	8.6	5.4	4.2	6.5
CLTV (e) 11)	\$3,323	\$3,089	\$2,947	\$3,453	\$3,720
CLTV/CAC (paid signups)	6.04	3.59	5.37	7.31	5.16
CASH					
Cash beginning of month	\$453,012	\$410,624	\$359,452	\$323,480	\$276,794
Cash coming in	\$2,899	\$5,100	\$8,900	\$9,569	\$12,099
Cash going out	\$45,287	\$56,272	\$44,872	\$56,255	\$64,999
Net cash burn	\$42,388	\$51,172	\$35,972	\$46,686	\$52,900
Cash end of month	\$410,624	\$359,452	\$323,480	\$276,794	\$224,494
Runway at current burn (months)	9.7	7.0	9.0	5.9	4.3

SaaS Metrics Dashboard.

Source: The Angel VC (2015).

3. Owner

Owner risk is an essential part of the due diligence process and quite often overlooked by buyers either because it seems intangible compared to traffic and financial verification or because it's a relatively unknown area of due diligence.

Broadly speaking, buyers should look to assess 2 things: key man risk and character.

3.1 Key Man Risk

Key man risk is essentially how reliant the business is on the owner or its employees. Buyers should examine carefully the role that the owner plays in the business (see next area, operations) and discern what kind of proprietary knowledge is required to maintain those responsibilities. To what extent can that knowledge be taught and in what timeframe?

For example, if it is a SaaS product which the owner has written and no other developer has worked on, then the buyer needs to be careful to assess the code base if they do not have technical expertise. A screen share and discussion of the source code with a third-party developer and additional training/consulting hours post sale are some of the common solutions to this problem.

Equally important is what owner relationships or agreements are in place to enable the business to succeed and will they survive

change of control? If the owner relies heavily on one affiliate and has a personal relationship with them, then there needs to be strong assurances in place that the agreement will continue post sale.

To a large extent these risks can be offset through offer structuring (see previous section) whereby buyers can make effective use of hold backs or performance based financing to mitigate downside risk from negative events.

3.2 Character

A character assessment of the owner is vital and should be drawn from all aspects of dealings with them. Buyers can learn a lot from the seller's readiness to supply answers and information, honesty in response and attitude throughout the sale. Aside from that though there are a number of methods to see how the seller has behaved historically.

There are all sorts of past and current issues that can impact how one views the deal. For example, has the owner been convicted for felony fraud before? Sued in a civil action by an agency like the FTC?

A yes to either of those would be a red flag, even if everything else checked out. Perhaps the owner has a tax or corporate lien against him – how will that affect the business?



‘Diligence is the mother of
good luck.’

Benjamin Franklin

There are various levels of owner due diligence buyers can do, from a spot check to a full private investigation. Much depends on the size of the deal, the parties involved, budget and if the business owner is staying on in some capacity.

The things that will most concern a buyer involve the business owner and the business itself. Buyers want to look for:

- Civil Actions
- Bankruptcies
- Felonies
- Business Legitimacy

3.3 Civil Actions, Bankruptcies and Felonies

In the US, civil lawsuits are filed either in County Court (the state level) or Federal District Court. Searching the Federal Civil System is easy. Go to [Pacer](#), create an account and search away. Just note that Pacer charges 10 cents a page viewed. PACER offers some good [video training](#) on how to use the system.

Searching state and county courts can be more complicated. About 50% of all county courts are online. As an example, in [Wisconsin](#), buyers can search all cases at a click of a button for free. In other states and counties, the buyer will have to either hire a court runner or physically go to the court to search. Since

time is valuable, it's better to hire a court runner and there are many local services across the country that offer this.

In the US, bankruptcies take place in Federal court, as required by the [constitution](#). Again, PACER can be used to search for bankruptcies, both personal and business.

Most felonies occur at the local level but for federal crimes, check PACER. For local searches, buyers should look to hire a background check company.

3.4 Business Legitimacy

Is the business being bought or the entity owning the asset, legitimate? In the US, companies are registered on a state level. Buyers can search online at the local level to find the registered LLC, S-Corp or Inc. There is also the option to retrieve a certified copy of the company's existence directly from the relevant Secretary of State.

3.5 Digging Deeper

There are a number of other things buyers can do to start a deep dive:

- Get a copy of the owner's tax returns either through the DD process or via an [IRS FORM 4506-T](#), but there are plenty of companies that do this digitally, as well.

- Check out the seller’s Driver’s License Report: many DUIs signal a potential issue.
- Hire a Private Investigator. Have the PI interview employees, business partners, vendors, family and friends of the owner.

3.6 Other Resources

Social media can be a useful tool to check the consistency of a seller’s story. Use LinkedIn to browse a seller’s professional and business history and also their connections to see if they have any undeclared affiliations. Twitter is useful for seeing what conversations the seller has been having and with whom.

Finally there are also websites such as [Scam](#) where victims post about previous scams and scam artists. A consistent number of reports found on site such as these should be taken as a major red flag. One or two negative reports could be from unscrupulous competitors so it’s worth being practical and not jumping to conclusions. If there have been negative reviews, look how they have been dealt with. A direct and non-dismissive approach is usually a good sign.

4. Operational

Due diligence on the operations of the business is an absolutely vital component of small business due diligence and a key area overlooked by some buyers. The hourly time requirement and

owner/employee responsibilities are important elements for the buyer to assess in order to both understand the obligations for taking over the business and validating the pricing of that work in to the valuation.

The most efficient way to audit the business’ time requirements and responsibilities is to conduct a ‘task audit’ for the owner and the employees of the business. This involves getting a detailed schedule of daily and weekly tasks and identifying next to each the time and expertise required for each.

Task Analysis www.example.com						
Task	Description	Frequency	Time Required	Responsibility	Cost	
Writing Blog Posts	Write new articles for the blog in 500-2000 word range	3 x per week	6 hours	Outsourced Writer	\$60	
Send Newsletter	Summarize new articles and send email to the list	1 x per week	2 hours	Owner	\$0	
Customer Service Tickets	Respond to customer service tickets, issue refunds	5 x per week	2.5 hours	Outsourced VA	\$20	
SEO	Post in forums and outreach to industry blogs	1 x per week	3 hours	Owner	\$0	

It is worth sense checking these against external observations of the site, e.g. number of articles being posted per week, timing of social media updates and number of email newsletters etc.

Clearly not all businesses have the same tasks week on week but a task audit should give a good idea over 80%+ of the business’ requirements. Buyers can then stress test the workload with base/mid/high scenarios for the weeks where things might change positively or negatively. Next to each task, buyers should

take care to note the frequency of each task and the expertise required.

This is a useful exercise for analyzing when some tasks might increase (e.g. maintenance) and what could cause that (e.g. more customers, more traffic) which helps improve thinking around growth planning/strategy. From a diligence perspective, it also helps identify where there might have been previously unstated responsibilities or undiscovered shared resources.

From a practical perspective, there are ways that buyers can dig deeper to get the information to validate the tasks. For example, two significant work streams in many online businesses are customer support and maintenance. If the business being evaluated falls into this camp, then buyers should look to requisition the customer support logs (e.g. Zendesk) and analyze the frequency of tickets, nature of enquiries and associated response times. This will give a lot of clarity over the stated time requirements and the expertise required.

For maintenance (e.g. software coding), buyers should look to requisition the developer wage slips and maintenance logs (if they exist) to diligence these requirements too.

Fundamentally, a task audit should verify the statements made about time spent on the business. It should also help a buyer plot

the pieces of the business out for the transition of ownership and growth strategy ahead.

5. Technical

Technical DD relates to establishing that the technology platform that the business is based on has a solid foundation. Typically this involves assessing technical elements including the CMS, plugins, hosting/server data and any email solutions being used. For SaaS or software businesses, an audit of the source code is highly recommended before for the sale.

5.1 CMS / Plugins / Hosting / Email

Buyers should look to audit the content management system and plugins being used by the website. A screen share is sufficient to establish the CMS version and the plugins in use. Buyers should be wary of websites that have not been updated in a significant period of time as these may experience issues when upgraded at a later point. Server side data can also be an indication of a legacy install.

On the plugin side, buyers should look to ensure all the plugins being used are paid for (where relevant) and updated to the latest install. The former is important to avoid any unexpected bills post sale and the latter important for stability issues down the line.

For businesses heavily reliant on robust hosting (e.g. SaaS or

‘Everything yields to diligence.’

Antiphanes

high traffic sites), buyers should look to requisition hosting data pertaining to bandwidth usage and downtime. This is an important and often overlooked component. Analyzing the hosting configuration and downtime data is vital and may uncover explanations for potential revenue fluctuations or customer service issues.

For businesses where the email list is of focus either as a current or future customer capture and monetization channel, buyers should take care to verify the key email metrics advertised with the business. The majority of business owners use third-party tools such as Aweber, MailChimp and GetResponse, all of which provide sufficiently detailed analytics to help in this regard. Buyers should look to requisition information on:

- Subscriber growth (recently and over time)
- Open and click-through rates
- Bounce rates
- Broadcast frequency
- Email sequence configuration

Consistency in open and click-through rates is important across broadcasts as is the frequency. Be wary of businesses with

declining readership and a high frequency of emails, both of which signal reader fatigue.

5.2 Source Code

For business acquisitions including intellectual property such as software source code, it is advisable to audit the code in either GitHub or requesting a sample. Buyers who are not well versed in the programming language should look to hire a programmer for a few hours to analyse the code with a particular focus on the quality of the code base, the originality and the annotation/documentation that accompanies it.

This final point is of particular note for software that is regularly updated or is intended for major development in the future.

6. Legal

Legal due diligence completes the set of key tenets for the due diligence process. In general the depth of legal DD is proportionate to the size of the business being acquired, but there's certainly no reason not to follow through on some basic checks for any sized business under offer. There are a number of relatively straightforward checks that buyers should look to take.

6.1 Corporate Entity

Check to find the seller's corporate entity in the state corporate registrar. Check for good-standing and request a certificate from the state registrar.

6.2 Liens

Checking for tax liens against the business or person is a wise course of action for larger size acquisitions. There are various third-party services that handle this at the local and national level which are relatively cheap to contract for the peace of mind they give. [Corporation Service Company](#) is typically well recommended.

6.3 Trademark Search

If the business being acquired comes with a trademark, ensure the trademark is properly registered and active still. Buyers can do this through [USPTO](#) which provide a user friendly service for search for protected intellectual property. It is also worth searching the trade name of the business regardless of whether there is a trademark, in case it is currently infringing on a third-party trademark.

6.4 Content Uniqueness

Ensuring the content on the site is original and unique is vital from both a litigation and SEO perspective. Buyers should look to screen a sample of the content through content-checking tools such as [CopyScape](#). Naturally the importance of unique content varies with the type of online business (i.e. it will be of greater focus on high content websites), but a high degree of plagiarized content says more about the owner than it does about the quality of the site, which is something all buyers should be wary of.

6.5 Image Source Accreditation

Similar to content uniqueness, buyers should look to audit a sample of images used on site to make sure they are correctly attributed. [TinEye](#) provides a good service to do this quickly. It's also important to ensure licenses have been properly acquired and can be proven, especially when using stock photos.

6.6 Privacy Policy and Terms of Use

An up-to-date and properly written privacy policy is very important in the current era of information security. It is also an essential requirement for sites running AdSense (with specific criteria) so buyers should take note to audit the privacy policy for [compliance](#) and general quality. There are various free privacy

generators online which provide a good reference point.

Terms of Use is of particular importance for e-commerce, software or SaaS businesses where there is any extended guarantee or refund policy made to users which could extend to the purchaser upon completion. Generally speaking the APA indemnifies the purchaser from legacy issues but it is important that buyers are aware of what obligations there are taking on and if they need to change these going forward.

6.7 Major Contracts

Any major advertising, affiliate or third-party contract that the business relies up for significant revenue generation or cost should be very closely examined by buyers. Before the business is acquired, buyers should seek reasonable assurances from the seller (and warrant in the APA) that the contracts will survive a change of control on the same terms. There are measures that can be taken in offer structuring, such as hold backs, that provide added assurances around these specific situations.

Putting It All Together

With a comprehensive due diligence process completed, it makes sense to step back and assess the findings in the context of the wider business sale. In truth, no business is perfect and there are likely to be minor infractions here and there so it is

important that buyers approach it with a mindset of materiality and assess any issues in light of the overall purchase and size.

The other important factor to think about is the seller’s responsiveness to issues as they have arisen. Did they act with surprise? Did they respond quickly with a detailed and credible explanation? These are important considerations for taking a wider view on the seller’s character which is fundamental to deciding to proceed forward with trust.

DD Checklist www.example.com					
Area	Description	Data / Source	Notes	Follow Ups	Signed off?
Traffic	Historical trends	Google Analytics	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Traffic sources (concentration)	Google Analytics	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Page content	Google Analytics	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Seasonality?	Google Analytics	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Traffic spikes	Google Analytics	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Bounce rate, pageviews per user and time on site	Google Analytics	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Penalties (historic or current)	Google Search Console	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Keyword rankings (traffic concentration)	SEMrush	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Keyword rankings (consistency)	SEMrush	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Traffic	Backlink profile analysis	Ahrefs	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Financials	Revenue verification	Revenue reconciliation	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Financials	Expense verification	Expense reconciliation	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Financials	Concentration check	N/A	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Financials	Subscription/SaaS customer metrics	SaaS metrics	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Owner	Key man risk assessment	Questionnaire / Task audit	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Owner	Civil actions	Expense reconciliation	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Owner	Bankruptcies	PACER	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Owner	Felonyes	PACER	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Owner	Business legitimacy	State registrar	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Owner	Scam checks	Scam.com	<input type="checkbox"/>	<input type="checkbox"/>	Yes
Owner	Social media	Social media	<input type="checkbox"/>	<input type="checkbox"/>	Yes

Brokers in Due Diligence

Working with a broker can be very advantageous when it comes to due diligence. They typically facilitate high-quality exchange of information and can resolve issues as they arise in real time. They will have experience of other DD processes and be able to opine on issues of materiality.



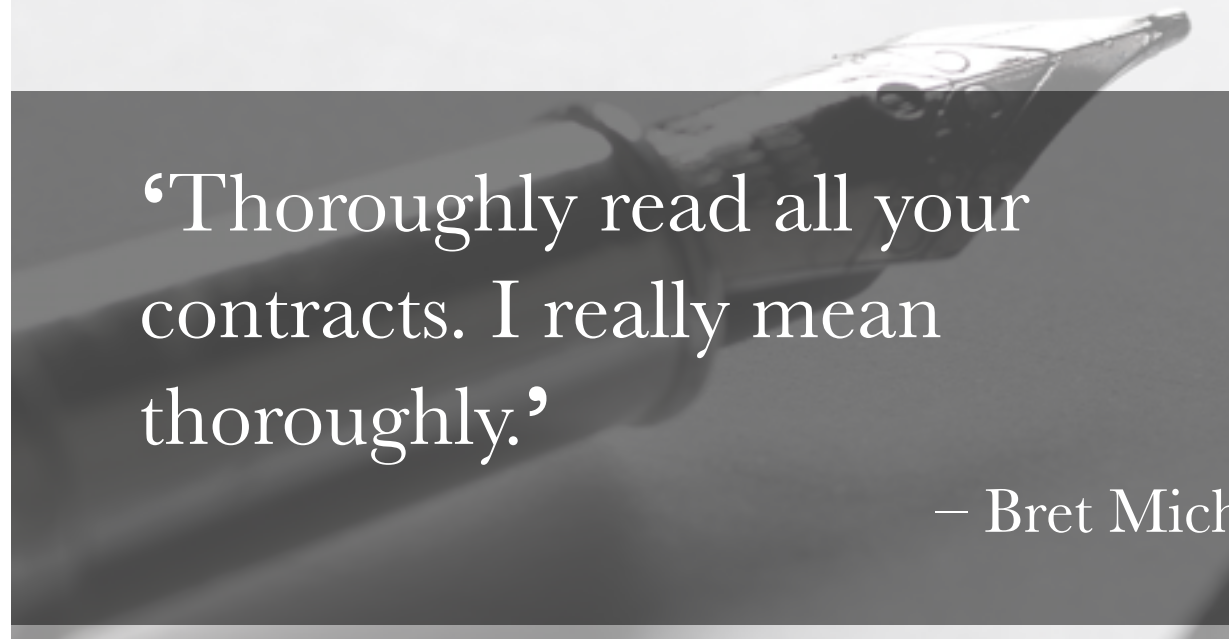
Advanced Legal



Getting the legal side of a business purchase right can mean the difference between peace of mind or potentially a lot of worry post sale, especially if things run into difficulty.

The first guide covered the basics of the asset purchase agreement (APA). This guide develops on that with some of the more advanced thinking on hiring the right counsel and deciding the best terms for the deal.

This section comes with support from [Cliff Ennico](#) who has been practicing law for 25 years in New York and Connecticut and specializes in small business acquisitions. He also has significant first-hand experience in advising on online business M&A.



‘Thoroughly read all your contracts. I really mean thoroughly.’

– Bret Michaels

Hiring The Right Counsel

Hiring good counsel for a business transaction is essential and no more so than in the internet space where the intricacies of acquiring digital assets often requires web experience and creative thinking.

When hiring an attorney, be sure to carefully vet their knowledge of online. Have they ever worked in the space? What precedent transactions?

It's important they understand the components of the internet business being purchased and the considerations (for example intellectual property rights, contract assignability, domains).

It's important to note that the contract writing and agreement phase typically comes toward the end of the [deal process](#) and by then a significant amount of time and effort has been invested on both sides.

Unrealistic expectations in contract review and negotiation can be fatal to a deal and over the years we have seen a number of deals derailed by unreasonable attorney demands.

Some important red flags to look out for:

- Drafting an APA from scratch – If the attorney wishes to write an APA from the ground up this is usually a bad sign, one that they want to rack up billable hours. Most established attorneys

will have template contracts which are modified to the specific terms of the deal. This is more than sufficient.

- Represent everything – There are typically a standard set of representations that a purchaser requests of a seller in any given APA. These are, for example, warrants that the seller owns the assets, they are free of any lawsuits or liens and there are no outstanding claims for taxes on the assets. These are customary terms and buyers should be wary if they are removed by the seller's counsel. That said, if the buyer's counsel is suggesting the seller guarantees the business' performance post sale, this should be a red flag which no seller should agree to.
- Refusing to collaborate – Inevitably there are terms which will harbor some disagreement between parties. If the seller's counsel is willing to find a solution collaboratively but the buyer's attorney is a binary yes/no, then that's going to create a friction that will turn most sellers to consider going back to find another buyer. Finding a pragmatic lawyer is absolutely essential to getting a deal done.

With the right legal counsel on board, it's time to get the APA together. One final point, many issues that arise in legals are often of a commercial nature and so it helps to work closely with the broker to iron these out in a common sense fashion, rather than relying solely on often impractical legal opinion.

‘I guess I've learned that
there's really no such thing as
a bad label, there is only a bad
contract.’

Peter Steele



The Asset Purchase Agreement

Drafting the best possible APA for a transaction comes down to two broad themes, 1) ascertaining all the assets to be included and 2) seeking the right assurances from the seller.

Mapping Out The Assets

One of the primary goals of the buyer is to ensure they receive all the assets required to run the business in the same fashion as the seller, from day one. Therefore, mapping out all the elements of the business (assets, accounts, contracts, etc.) and scheduling them into the APA is key.

The strategy for each asset should be threefold, 1) identify 2) ensure ownership and 3) ensure transferability. This should permeate all aspects of the business (from the domain right through to the employee agreements). Some examples of what to consider for the major areas:

Domains – Buyers should look to ensure all the domains are registered in the name of the seller. Any and all relevant extensions (e.g. .net, .org) that the seller might own must be included in the sale. Secondly, buyers should ensure there is adequate time for renewal on any of the domains for transfer. Finally and essentially, conduct a trademark search on the domain names. Any live trademark that another party has that conflicts with the domains for purchase will mean they are liable for dispute at any moment.

Hosting – Buyers should examine the hosting agreement that the seller is signed up to. This includes reviewing the terms of use and checking for the assignability of the hosting contract post sale. This is essential to ensure there is no breach in contract terms and plan for continuity in the transition period.

Content – Buyers should look to examine the top performing content on the website and ensure the owner has the rights to the copy. If it was ghost written by other writers, make sure there are assignments or agreements in place that grant the intellectual property solely to the seller and by extension the purchaser once the assets are sold.

Licenses / Plugins / Subscriptions – Most online businesses run on at least 4-5 open source platforms or paid-for subscriptions, some as many as 30+. It's vital that buyers are aware of the most important of these and ascertain their assignability / transferability in the event of a sale as well as any specific obligations they might be inheriting from the terms of service. For example, taking on a particular discounted subscription might mean inadvertently accepting a major cost increase in 12 months from now.

Third-Party Associations – This is one of the most important aspects to the legal side of acquiring an online business. It is essential that buyers map out every third-party relationship and examine the agreement (written or otherwise) underlying it.

Usually if the relationship accounts for >5% of revenue or expenses, this is a good barometer for whether to review it. Ensure that there are no debts outstanding against the agreement, the seller has not breached it in any way (and the buyer by extension when taking over) and that the terms will survive a transfer of ownership.

With all the assets and agreements mapped out, buyers should make sure to include as much of the detail in the form of schedules or exhibits in the APA. A good attorney will request they are all documented and form part of the agreement.

Now it's time to consider the assurances from the seller.

Seeking Assurances From The Seller

As mentioned above, there are a standard set of representations and warranties that buyers should expect from the seller. These typically include the reps seen in the table overleaf.

In addition to securing these representations, the buyer should seek indemnification from the seller for any issues arising from the operation of the business prior to closing. Typically the seller agrees to indemnify, defend and hold the purchaser harmless from all liability prior to closing.

SELLER REPRESENTATIONS

- The seller having full power, authority, and ownership to enter into the agreement;
- The seller has obtained all necessary approvals and permits required to the sell the assets;
- The assets are in good condition and repair and are fit for purpose;
- The assets **do not**:
 - Contain material that infringes any third-party intellectual property rights and in particular copyright, patent and trademark rights;
 - Violate any applicable laws or regulations; or
 - Have threats of any lawsuits, litigation, claims, arbitration, investigation or other proceedings at law or in equity, before any court, arbitration tribunal, licensing authority or governmental agency;
- The APA contains no untrue statement of a material fact or omits to state a material fact;
- There are no liens, mortgages, pledges, assessments, security interests, leases, adverse claims, levies, or encumbrances of any kind on the assets; and
- There is no basis for the assertion of any claim for taxes prior to signing which, if adversely determined, would, or is reasonably likely to, result in the imposition of any lien on the assets.

‘I shall fulfill my contract, no
more nor less.’

Lillie Langtry



Non-Compete

The non-compete forms a very important component of the APA and buyers should be careful to find a 'restricted business' definition that both accurately reflects the nature of the business and encapsulates any growth plans they have for the future.

It is important to note that many internet business owners are serial online entrepreneurs and will be very wary of signing any non-compete that is too broad and prohibits them from moving on to new and unrelated ventures.

The restricted business definition can sometimes be the cause of disagreement so it's important both buyer and seller approach this collaboratively. One thing to keep in mind is always practicality.

In the event of a future breach, it typically costs \$10-20K to get a ruling in court so if the breach is not causing material damage to the business, it may not be economically sensible to pursue legal action in any case.

Training

Finally, training and support should be clearly documented in the APA. Leave no room for ambiguity on the expectations the buyer has of the seller. Include language that stipulates the number of hours per week, the time to respond and the nature of services to be provided.

Transition support is one of the largest post sale obligations the seller is likely to have, so having a clearly documented agreement on this is vital.

It can be a good idea to structure a training holdback into deals of higher value (\$250K+) to ensure transition assistance is provided in full. Oftentimes, buyers have implemented a \$10K holdback releasable after 30 days.

Summary

With all of these in place one should have a solid legal foundation for a successful business purchase and be well protected against any unforeseen events ahead.

Remember that a good APA is a result of collaboration and good legal advice so be sure to approach the legal phase with a flexible mind and good counsel.

Disclaimer: The information contained in this chapter is not intended to be and does not constitute financial advice, investment advice, tax advice, legal advice or any other advice. You should not make any decision, financial, investments, trading or otherwise, based on any of the information presented in this article without undertaking independent due diligence and consultation with a competent financial advisor. You understand that you are using any and all information available in this article at your own risk.

Hiring a BuySide Broker

Buyside brokerage is not a new phenomenon but is not entirely established in the online business buying world as of yet. For buyers thinking about whether it makes sense for them, this section covers what a buyside broker does, what value they add, how much they cost and what a buyer should be think about when deciding which one to hire.



WHY HIRE A BUYSIDE BROKER?

- ❖ *Access to a large network of buyers, sellers and intermediaries*
 - ❖ *Save time in searching and evaluating businesses for sale*
 - ❖ *Knowledge of the marketplace*
 - ❖ *Access to market transaction valuation data*
 - ❖ *Due diligence experience*
 - ❖ *An independent, unemotional third party*
-

Background

The industry of buying and selling online businesses is undoubtedly growing as awareness of the asset class increases and more and more people seek the benefits of owning a website or online business. As a result, there are waves of new buyers entering the marketplace each month, each with a diverse array of experience and skills, not always 'online', but one thing linking them – a universal motivation to find and acquire quality internet businesses for sale.

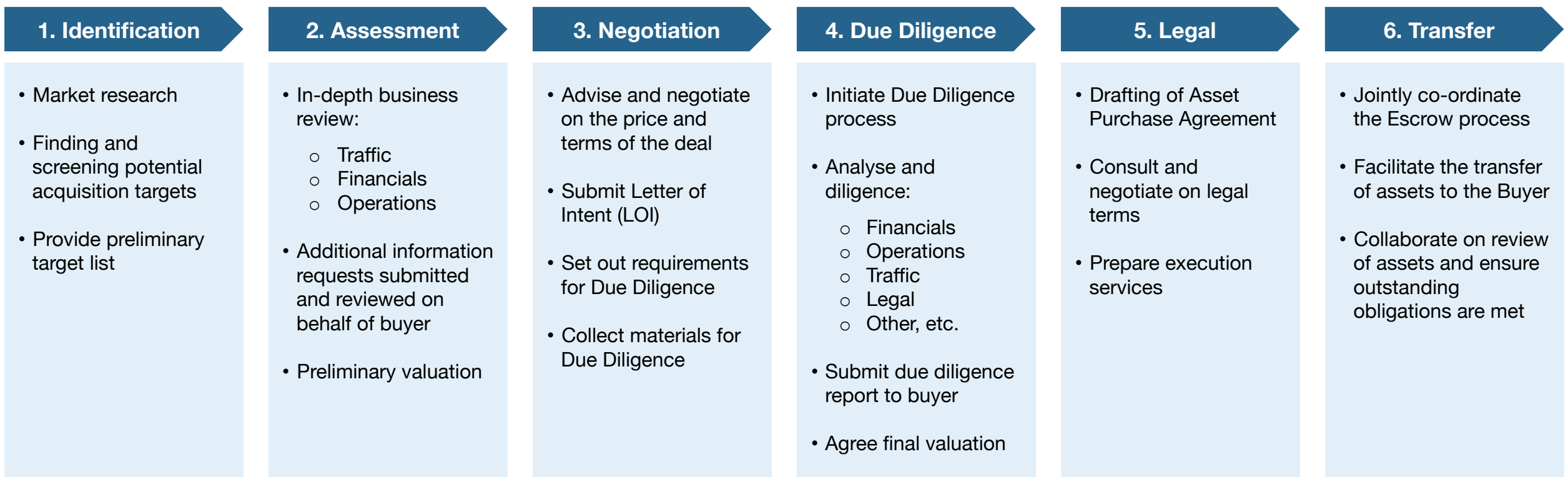
That being said, opportunities to acquire good websites are increasingly more difficult to come by and win due in part to the more competitive climate but also as the supply of online businesses for sale is limited. New buyers can sometimes feel disadvantaged in uncovering and accessing acquisition opportunities compared to buyers that have established connections with sellers directly or through intermediaries.

Equally, when a buyer gains access to attractive targets, they might be disadvantaged in successfully bidding due to limited insight into the niche, being overly cautious as well as possible situational, legal and financial factors that provide an experienced buyer with leverage.

As a result, a prospective acquirer may not be able to move quickly enough in a transaction process compared to other

bidders to successfully compete. Risk also exists for a buyer to overpay for a target or to lose the opportunity altogether due to under-bidding or adverse deal terms. It's not only new buyers that are affected, seasoned investors who run many other businesses can also miss deals by having limited time on their hands to consummate a deal effectively.

Due to these factors, some buyers are choosing to engage a qualified buy-side broker to execute a buy-side process of identifying, accessing and facilitating the successful closing of a deal on their behalf.



What Does a Buy-side Broker Do?

A buyside business broker is there to work the buyer through the steps of a traditional business acquisition process. A good broker will lead the buyer through the stages, carrying out the hard work as well as educating and advising along the way. Each broker has their own process but broadly speaking it should fall within the scope of services outlined above.

1. Identification

The first phase of the buyside process is to identify and engage acquisition targets. The main objective of this phase is to uncover and pre-qualify an acquisition target. A broker will

typically identify and engage an acquisition target in one of two ways: (1) by direct outreach or (2) through sellside intermediaries.

Most brokers tend to opt for the second option as they usually have experience with the listing agents (brokers), there is a more robust sale process and they have greater success in execution. Most buy-side brokers are paid on success (more on that below) so they are prudent with how they spend their time and don't want to spend significant amounts of time in fruitless search with unmotivated sellers.

A good broker will take time to understand the buyer's interests and objectives from the outset to ensure they filter for the right type of businesses before presenting with a list of preliminary

acquisition candidates. Oftentimes buyers will benefit from using a broker in “Identification” because of their pre-existing network and knowledge of business buyers, sellers and brokers. Many of the most attractive target opportunities are uncovered through such an established network.

2. Assessment

With a list of targets prepared and preferences made, the broker will proceed to engage the handful of candidates (or their representing brokers) and solicit information for review. The assessment stage is where a buy-side broker should first start to provide their value add to the buyer, by leveraging their knowledge and expertise to evaluate the strengths and weaknesses of each target and arrive at a fair valuation for each.

One of the chief concerns of new buyers in the industry is “not knowing what they don’t know”, namely they don’t know what they should be looking out for when it comes to analyzing online businesses for sale. It’s important to note that this extends just as much to business’ weaknesses as it does to its strengths and potential opportunities for growth. Working with a seasoned buy-side broker should mitigate this concern.

Initially the advisor will conduct preliminary due diligence before exhausting more effort on a valuation. The goal of this step is to better understand the target and its investment merits, as well as

to identify any deal-breaking issues prior to committing substantial time, resources and expenses in exploring an acquisition.

Issues that can immediately cause the abandonment of a potential acquisition at this early stage include any materially negative trends in the target’s earnings and growth, pending legal litigation or potential lawsuits, lack of a sustainable and defensive competitive position, personnel turnover, customer concentration or retention concerns and other factors. The broker should also gain a reasonable level of comfort that the potential acquisition target is a strong strategic and person fit for the buyer.

Once the broker has completed their preliminary due diligence, it is necessary to arrive at a preliminary valuation. Most brokers will adopt a multiple-based methodology and a good buy-side broker will have access to a host of market data as well as precedent transactions they have been involved in to help anchor their valuation. This is a very important reason for using a buy-side broker as many inexperienced buyers are concerned about overpaying for an asset. Ensuring the broker has sufficient valuation expertise is vital to getting sound advice on fair valuation.

‘Help others achieve their dreams and you will achieve yours.’

Les Brown



3. Negotiation

With agreement on an acquisition candidate and a valuation, the broker will take the lead in drafting a letter of intent (LOI). Based on their experience, they should advise the buyer on the optimal structure of the consideration as well as the terms to attach, be they specific post-deal obligations, due diligence requirements or other checks relevant to the transaction.

An experienced buyside broker will start to come to the fore in helping a buyer at this point. Getting the valuation right is half of the art in acquiring an online business, the other half is getting the best execution and deal terms while still making it a win-win for the seller. This latter point cannot be underestimated and can make the difference between getting the deal done or not as well as getting a valuable deal done or not.

In formulating the LOI and in any subsequent negotiation and/or revision of the offer, the buyside broker should advise on:

- Consideration – what makes sense to pay upfront vs. deferred (e.g. seller financing) vs. performance-based (e.g. earn out). Each transaction is different with different dynamics that impact the advice given e.g. number of competing bids, size of deal and the motivation level of seller.
- Deal terms – what are the requirements for post-sale training and potential consulting obligations, any specific seller

representations required (e.g. keep certain links or content in place) and non-compete requirements.

- Execution – what is the timetable for execution, how much time is required for due diligence and what are the specific checks and information required to get to closing.

A good buyside broker will know that all three are as important as each other and advise on how to construct a package that provides overall value to both parties.

4. Due Diligence

With an LOI accepted, the deal will progress to due diligence (DD). The broker will have established their DD checklist for the business (specific to its operations) and will start reviewing the information provided by the seller against the prospectus or marketing materials initially presented and throughout the negotiating process to date.

For a buyer concerned about unknown unknowns, a buy-side broker can be a significant relief in this part of the process. Here the experience of the broker should really shine through and it is imperative they have a good deal of experience in order to know what to look for. That being said, the broker may also recommend the use of a third-party due diligence firm to support to verification which is certainly not a bad idea if the buyer doesn't mind the extra cost for a second opinion.

Due diligence is an extensive task and one not to be taken lightly. Here is often where otherwise experienced but time-strapped buyers think about employing an advisor to save them the time and effort of diligence. A broker or due diligence firm conducting this task on behalf of a buyer will be auditing all aspects of the business including (but not limited to) traffic, financials, the owner, operations, technical features and legal considerations.

With the work complete, the broker will report back with their findings, usually presented along a spectrum of materiality (i.e. things that matter and things that don't). Invariably if an advisor looks hard enough, things come up in most deals but typically they are immaterial in the context of the purchase. If they are not (e.g. financials misrepresented), then the broker should use their experience to advise on whether they constitute grounds for revision of offer terms or termination all together.

5. Legal

Assuming the business has moved through due diligence successfully, attention will now focus on drafting the Asset Purchase Agreement (APA) for the transaction. Depending on the size of the transaction, the buyer may wish to combine the expertise of their buy-side broker and legal counsel. For smaller deals, many buyers are comfortable without legal counsel though

it is important to realize that no broker can provide legal advice unless legally qualified to do so.

As discussed in section 3, the deal terms attached to the business are just as important as the consideration itself. A buy-side broker will likely take the lead on drafting the APA or reviewing the contract provided by the seller and they should be at the least advising upon:

- Consideration – The size, structure, timing and form of the consideration for the assets. If there is an earn-out or seller financing the terms and timing of each payment should be made explicit. Likewise, holdback consideration should have very clear conditions attached to it that are ideally objective and verifiable in the case of conflict.
- Non-compete – Most online business sales involve a non-compete agreement. A good broker will craft a definition that strikes a balance between protecting the buyer from competition and the seller from being able to pursue other non-competing business in the future.
- Assets for transfer – A fully exhaustive list of the assets for transfer is essential.
- Transition assistance – Agreeing the level of post-sale support given by the seller is something that should be done upfront and made explicit within the contract.

‘When a person really desires something, all the universe conspires to help that person to realize his dream.’

Paulo Coelho

A man in a white shirt and tie is pushing a shopping cart. The background is a textured wall. Overlaid on the wall is a hand-drawn diagram in black ink. The diagram consists of a large circle with various symbols inside: a house, a shopping bag, a briefcase, a stack of money, a house, a shopping bag, a briefcase, a stack of money, a house, a shopping bag, a briefcase, a stack of money. Arrows point from these symbols towards the shopping cart, suggesting that the universe is conspiring to help the person realize their dream.

‘When a person really desires something, all the universe conspires to help that person to realize his dream.’

Paulo Coelho

A man in a white shirt and tie is pushing a shopping cart. Above the cart, a hand-drawn diagram shows various items (house, car, money, etc.) leading into the cart, symbolizing the pursuit of dreams. The diagram includes a house, a car, a stack of money, a briefcase, and a shopping bag, all connected by arrows pointing towards the shopping cart. The background is a plain, light-colored wall.

- Seller representations – What representations does the seller need to make to agree the deal? These can be representations over no debt/liens/pledges against the business, no previous or outstanding lawsuits, no knowledge of anything that would adversely impact the business, authority to sell all the assets advertised.

Naturally there will be more factors for consideration in the APA depending on the size and complexity of the business as well as the specific terms agreed. These are a starting point for reference and buyers should expect their counsel to cover these as well as any other ones pertinent to the deal.

6. Transfer

With the APA signed, the final step involves escrow and transfer. This is where some buy-side brokers differ in their offering. A full service advisor will support the buyer through the transferring of assets, review in inspection period and enforcement of any training or post sale obligations agreed in the contract.

Others prefer to stand back from the asset transfer and allow the buyer to coordinate the transfer and conduct the asset review independently. Some may provide some post sale strategic advice or give guidance on what to do after buying an online business.

WORTH USING A BUYSIDE BROKER?

- A buy-side broker will spend time with the buyer to fully understand their needs, interests and objectives for the acquisition of an online business
- Buy-side brokers should have a large network of buyers, sellers and intermediaries with knowledge on who has the highest quality business for sale and who is best to work with
- They will save the buyer time in searching and evaluating businesses for sale and provide a list of targets to pursue
- They will understand the marketplace intimately and be best placed to opine on the strengths of the particular business models and niches they assess
- They will have access to market transaction data as well as their own precedent deal information in order to ground their valuation in empirical data, ensuring the buyer doesn't overpay
- If they are experienced deal makers, they will know what to advise on consideration and deal terms as well as how to get leverage through the deal and post-sale
- An independent party is usually helpful in keeping the emotion out of things, particularly in negotiation where that can have a costly impact on terms agreed or execution
- They will have been involved in numerous due diligence exercises and know what to look for that may have gone wrong in the past (the unknown unknowns)

How Much Do They Cost?

In general a buy-side broker would be expected to charge between 5-15% of the total consideration of the sale. Their fee is typically success-based (contingent on completion of the deal) and they usually charge a small retainer up front to cover the initial costs of identification, assessment and submitting an LOI (negotiation). Some advisors will also charge a flat hourly rate similar to an attorney.

Is it worth it? That largely depends on two things: 1) how much a buyer knows already and 2) how much they think their time is worth. On point 2, if the opportunity cost of buying a business independently is significantly higher than the cost of hiring an advisor, it makes sense to do the latter.

On point 1, there is one important comparison above all that puts the cost of hiring a buy-side broker in perspective. It costs much less than the expensive mistakes that a poorly executed acquisition can cause.

How Do I Pick the Right Broker?

It's very important pick the right buy-side broker. Knowledge, trust and a true alignment of interests are absolutely fundamental to the selection of a good advisor and to establish those, buyers should not be afraid to quiz their prospective counsel heavily. See some of the major considerations overleaf.

HOW TO PICK THE RIGHT BROKER?

Reputation – Buyers should have the advisor provide them with references of other buyers they have worked with in the past and contact them independently to ensure they had a good experience.

Process – Look to deeply understand the process and services of the advisor. A good buyer's broker will outline the exact services they will and will not provide at every stage. Work out which aspects of the process they are responsible for and crucially which they are not. Many brokers for example only transact on businesses the buyer locates first.

Experience – A good broker should prove their experience and quality right away. The initial consultation will be the centre point of this assessment and should delve deep into the buyer's profile, financial situation, expectations, timeline, the process, market conditions and deal case studies (to name a few). Quiz them on their industry connections, precedent deals and specific expertise.

Personal fit – Work with someone likeable and trustworthy. If there is a bad sense from initial consultations then it's probably best to avoid. That being said, it's worth getting an advisor that gives isn't afraid to give controversial advice. A 'yes' man seems positive at the start but can cost a buyer dearly post sale.

Final Thoughts

As the industry grows and formalizes it is likely that buy-side brokers will grow in prominence in the online business buying world as they have done offline. Buyers who fit the profile of someone who can benefit from buy-side counsel should not shy away from taking a serious look at hiring one.

Experience is vital. An experienced buy-side advisor will shine through all of the aspects of the process and offer bits of advice that save thousands of dollars more than they are being paid.

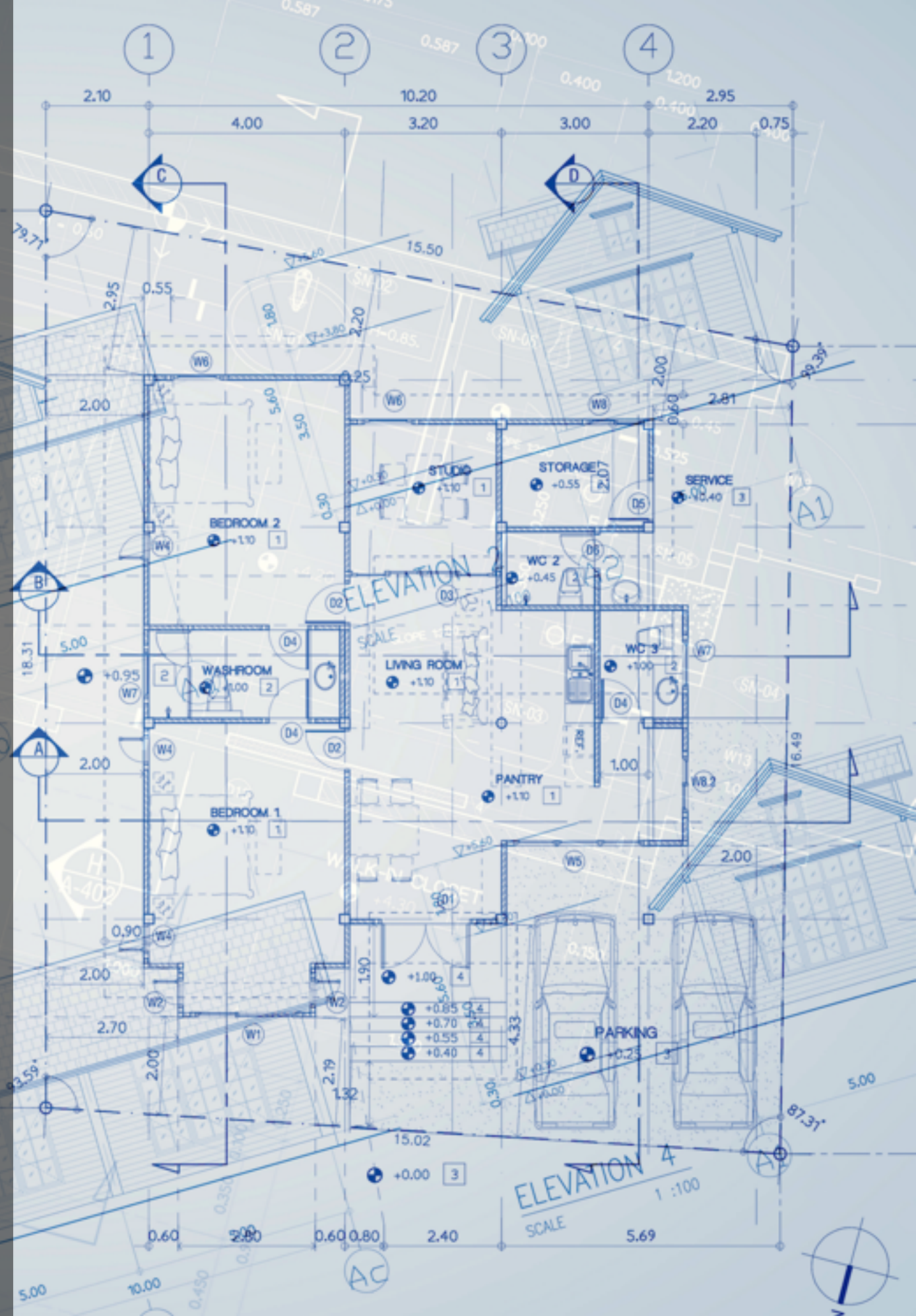
A good quality broker can become a trusted ally and the key to success when looking to purchase internet businesses.

Chapter 5

What To Do After Buying An Online Business

‘The future belongs to those who prepare for it today.’

Malcolm X



This section sets out a robust step by step approach to surveying any online business, auditing its strengths and weaknesses and planning for action right away.



1. First Steps

Buyers are often eager to rush straight into growth planning. Before doing so however, it is advisable to spend some time reflecting on any key findings noted over the course of due diligence, Q&A sessions and transfer/inspection. Some examples include, installing Google Analytics correctly, optimizing ad placements etc. Typically buyers should have time set aside with the previous owner during the training period and it is important this is used in the most effective way.

For the first 5-10 days buyers should be working closely with the seller to pinpoint and implement any pre-existing or newly discovered quick-wins. The seller is well-positioned to help execute these and often it is a good way to learn more about the business. Buyers should aim to be proactive and prepare a draft list of quick-wins for discussion, in advance of the first training call. Common quick-wins are usually concerned with general site management, rather than SEO or conversion rate optimization (CRO) specifics which can be time consuming.

Overleaf are some some examples of good first steps to take:

1.1 Installing Webmaster and Google Analytics Tools Correctly.

Google Analytics is an industry standard tool that helps analyze site traffic as well as provide a detailed picture of the audience and their behavior. For numerous reasons, Google Analytics is often not installed as it should be. Buyers should take time to [setup the web tracking code](#) correctly to have full confidence in the data that is being presented.

1.2 Fix Any Site Redirects (e.g. 302s, 307s and 404s).

If a related domain name was part of the acquisition, there may be cause to implement a site redirect. Equally, a site redirect may have been setup during transfer. Either way, buyers should make sure that there are no redirect issues on-site, which may hinder traffic.

1.3 Ensure AdSense and Google Analytics Accounts are Correctly Linked.

If the business generates revenue from Google AdSense, the AdSense codes should have been changed during transfer. Now is a good time to ensure that these are correctly linked to Google Analytics (see [how to add Google AdSense](#)). It is also worth checking that the site is still operating within Google's [TOCs](#).

1.4 Check for Technical Issues in Google's Webmaster Tools.

One of the first items to check is whether or not the site has any live technical issues that may be reducing site performance or traffic acquisition. Over the transfer period, it is not uncommon for minor issues to crop up. Buyers should use Google Webmaster Tools to diagnose site errors.

1.5 Optimize Ad Placements.

Buyers should look to spend some time reviewing current ad slots and placements. The previous owner may have been less accustomed to CRO – so review ad sizes, placements and overall coverage. There are plenty of [optimization tips](#) that are straightforward to implement.

1.6 Reduce/Eliminate any Penalty Risk.

All sites should be analyzed and cleared of any potential, impending Google penalty risk, to avoid any negative impact on traffic. If there is reason to suspect that the site may have been recently penalized, consider following the steps below:

- Remove thin content that is unrelated to the site's main purpose ("linkbait")
- Reduce keyword cannibalization ("keyword stuffing") on page content

- Correct all on-site grammatical errors/spelling mistakes
- Merge any duplicate content, product descriptions etc
- Review and test the content for plagiarism (use [CopyScape](#))

The above are some examples of quick-wins, the list is by no means exhaustive. Before moving on, buyers should ensure that all quick-wins have been successfully implemented.

It is unadvisable for buyers to make any fundamental changes to the business until they have a firm grip on how the site fits together, from a technical and commercial perspective.

Once first steps are completed, it's time to dig deeper into the business and conduct analysis for high value add work. It is recommended to conduct a full website audit to provide critical insight into the online businesses' current and historic performance.

A website audit can serve multiple purposes, depending on context and application. It is a key step in understanding the current state of the business and it will help in pinpointing opportunities for improvement, through answering some of the following key questions overleaf.

SITE AUDIT INSIGHT

1. Is the site's audience actively engaged?
2. Is the site's conversion funnel optimized in the best possible way?
3. How are visitors interacting with the site and content, what are their main challenges?
4. What needs to be done to increase the site's visibility in search?
5. In what ways can user experience be improved?
6. Is site content keyword optimized?
7. What new content should be added to the site's content plan?
8. Does the site need to be mobile optimized?
9. Does the site's backlink profile contain spammy links?
10. Would the site be better served on a Content Delivery Network (CDN)?

To ensure that nothing is overlooked, it is recommended to split the site audit down into the website's constituent parts. While each website will differ, the fundamental premise of an audit remains the same, regardless of the underlying business model / niche.

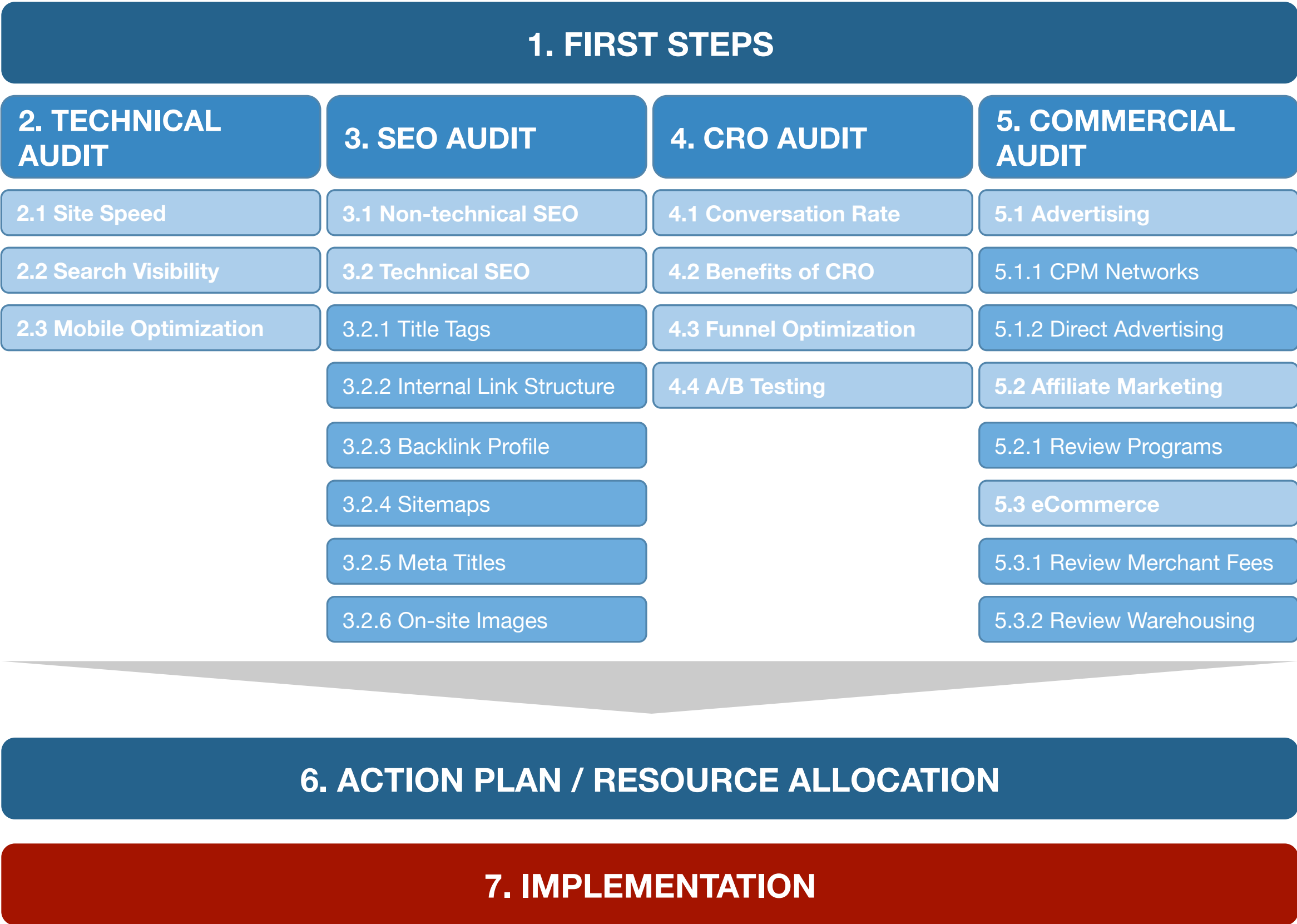
Conducting a Site Audit

A site audit is about analyzing data to determine improvements. Once the areas requiring attention have been uncovered, it is much easier to prioritize and put together an actionable plan that can be implemented.

A full audit structure can be found overleaf. The rest of this section will go into detail in each area, describing how buyers can conduct each one in turn.

Where to Begin

All successful internet businesses are technically sound, rarely affected by down-time or any indexing issues. The technical audit to confirm this is therefore a natural place to start.



2. Technical Audit

By their very nature, technical audits are prone to rapid change. A few years ago, there was barely a requirement for mobile optimization. Fast forward and it is more important than ever, with research indicating that [57% of mobile users abandon a purchase](#), if a site takes more than 3 seconds to load.

To begin with, it is important to understand the website's underlying technology, [Built With](#) provides a useful framework for this and indicates any issues being caused by software/platforms in place.

2.1 Site Speed

Visitors tend to have fairly limited patience when it comes to waiting for a site to load. Aberdeen Group found that a 1-second delay can yield a [7% loss in conversions](#). With a growing number of internet resources at their fingertips, users don't need to be loyal.

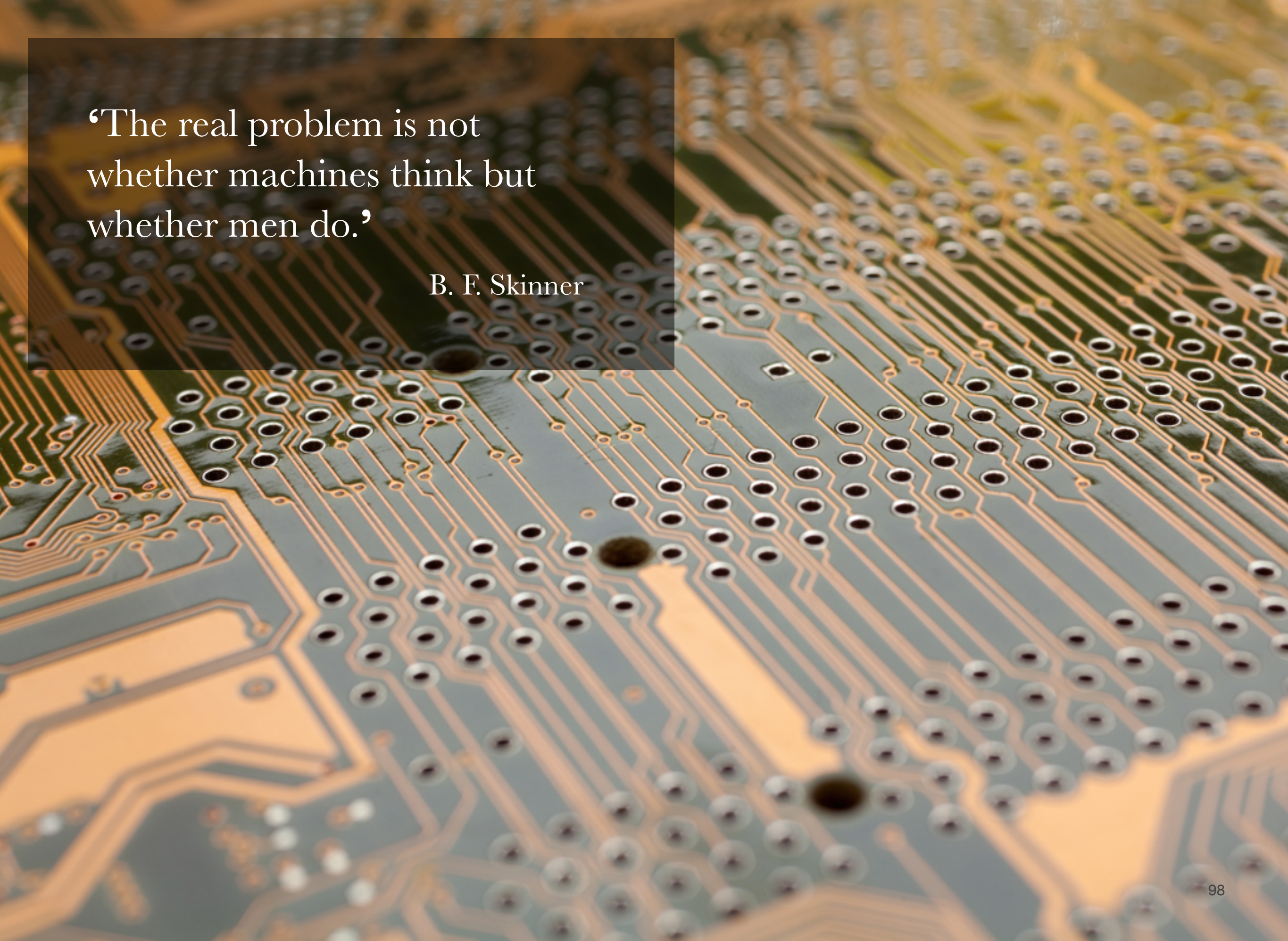
But it's not just users that require optimal site speed, spiders or web crawlers also have limited time to evaluate a site. Google have started to include site speed as a highly-weighted signal in their search ranking algorithms. As a consequence, sites that are quicker tend to be [viewed more thoroughly](#) and more consistently.

To get a sense of the site's speed, buyers should conduct a [website performance test](#) to see whether load times require improvement. It is also worth checking the competitors' website's speed, using [Web Page Test](#). If the pages are taking more time to load relative to competition, there are numerous things a buyer can do to [increase slow load time](#). For example, using a caching plug-in or switching to a reputable Content Delivery Network (CDN) to reduce any rendering/latency. Reducing the number of files that need to be loaded will reduce the number of HTTP requests, speeding the site up.

2.2 Search Visibility

If search engines cannot crawl the site, even the most engaging content is likely to sit idle and remain unranked. Fundamentally, the more pages that the site has indexed the higher potential the site has in terms of traffic and page ranking. It is widely accepted that [companies with more indexed pages](#) have higher lead generation potential.

Many accessibility issues experienced by 'spiders' are derived from a site's ability to index. Buyers can quickly test the ratio of the site's indexed/non-indexed pages by doing a search. Note the number of pages that are returned. If 80% of all site pages are unindexed, there could be a [numerous factors at play](#). This is a preferred technique for getting to the root-cause, quickly:



‘The real problem is not
whether machines think but
whether men do.’

B. F. Skinner

1. Log into Google Webmaster tools and navigate to 'Health – Crawl Errors Report'.
2. Load [Robots Checker](#) – this will indicate whether pages are unintentionally blocked from being crawled. It is important that each page on a site uses a robots meta tag, this tells search engine spiders to index a particular page.
3. Ensure that the internal linking structure of the site enables each page to be found. [Xenu's Link Sleuth](#) will uncover any issues in the internal link structure that may be prohibiting indexation.

When comfortable with the right solution, compare the number of page results to the number of pages tracking within Google Webmaster Tools and follow up with an 'Index Status Report'.

2.3 Mobile Optimization

With [one-quarter of global web searches](#) conducted on a mobile device, mobile optimization has become increasingly important in recent years. [Over 45% of Fortune 100](#) businesses now have a dedicated mobile site. Not only do consumers expect an engaging, mobile-centric user experience, they expect content to be readily digestible.

There are also benefits to be had for website owners; mobile users are reportedly more impulsive and often [spend more](#)

money and mobile optimization has become a growing priority for SEO. With Google launching their [mobile-friendly algorithm](#) in 2015, mobile-friendly sites will begin to rank [more highly](#). It is important therefore that buyers consider how best to capitalize on mobile and shift toward becoming 'mobile-friendly.' Google provides [some guidelines](#) on this.

To begin with, understand the extent to which the site is already mobile-optimized/mobile friendly. Tools such as Google's [mobile-friendly test](#) are helpful as are mobile usability reports available in Google Webmaster Tools. These will indicate any major mobile usability issues prevalent across the site.

Mobile optimization can take time depending on the readiness of the current business but is an important factor particularly when [90% of mobile searches](#) reportedly result in action.

3. SEO Audit

Conducting an SEO audit is pivotal, [content is king](#) in today's marketing world. There are numerous approaches for completing an SEO audit, all serving different [purposes](#). As they can be quite time consuming, it's useful to split the audit into themes such as 'technical' and 'non-technical' to keep on top of all the tasks. Both overlap and are just as important as each other, requiring the same level of attention throughout.

It is advisable to carry out the non-technical audit first as much of this task is concerned with prioritizing and reducing underperforming on-site content. Doing so, will reduce the scope of the technical audit, making it more manageable.

3.1 Non-technical SEO Audit

The fundamental aim here is to replace underperforming, unengaging content with content that is pertinent, relevant and of high performance potential.

Before diving into the analysis, it is useful to have done some basic keyword research. Start by creating a basic keyword matrix (list of target keywords vs. page titles), this will become a good reference point for subsequent optimization. Now attention can turn to the raw content and performance metrics, looking specifically at the value currently being driven to the audience.

In order to access content in a digestible manner, one can either use Google's cached copy of the page (text-only) or trial a simple tool called [Browseo](#). The level to which one assesses content will very much depend on the number of indexed pages on the site.

It is advisable to try and apply the 80/20 rule where possible, to make the task more manageable and ultimately more effective. For example, if the site has over 10,000 indexed pages and there is limited time/resources available, buyers should focus on the

top 20% of pages (in terms of performance), spending less time analyzing pages that provide less value to the audience.

As a general rule of thumb, when analyzing each page one should aim to review and evaluate the following performance indicators

- Page views – rising, steady or declining?
- Unique visitors – rising, steady or declining?
- Word count – is the piece of content too thin or too long?
- Bounce rate – how many visitors instantly click-off?
- Links – how authoritative is the piece?
- Social shares – does the content have good social signals?

Carrying out the above should give a good indication of how well a particular page is performing from a quantitative perspective, relative to other pages. Once complete, then look to assess the content from a more subjective standpoint:

- Is the page valuable to the specific site audience?
- Is the piece well-written?
- Does the content target industry keywords well?

Once the page analysis is complete, buyers should be well-positioned to evaluate the best course of action for the page / content:

1. 'Remove': Generally speaking, look to remove content if it hasn't performed well to date (no links, no social signals etc.), a re-write is unlikely to yield any performance improvement and the title is not a strategic priority, from an SEO perspective.
2. 'Improve': Page content should be improved if it is popular (number of page views, low bounce rate) but there is opportunity to improve CRO and/or it is a strategic keyword priority.
3. 'Leave': If the page is extremely popular, well-optimized and converts, then leave it. Use it as best-practice for any subsequent posts.

Once the pages for improvement are identified, buyers should aim to map their target keywords to each. If high-performing keywords have not been mapped to a specific page on-site, then prioritize topics/ideas around these to be fed into the content strategy/plan going forward.

3.2 Technical SEO Audit

Once the non-technical SEO has been conducted, buyers should ensure that each page is robust from a technical SEO perspective. Not doing this can mean losing traffic and potential business. With so much effort going into content development, it is critical that just as much time is spent ensuring that people see it. There are numerous [on-page optimization checks](#) buyers should do:

3.2.1 Ensure Title Tags are Optimized

- Title tags are used on search engine result pages (seen as "snippets"). It is important that they are concise, relevant and easy to digest, so that users make the [decision to click on a search result](#).
- Google usually displays the first 50-60 characters of the title tag – ensure that the primary keyword is included within the snippet.
- It is useful for buyers to learn more about [optimizing titles](#) and stick with a specific method, when optimizing the site. There are plenty of tips around using [pipe symbols](#) for example, which help with snippet aesthetics.

3.2.2 Ensure Internal Link Structure Provides Optimal Navigation

- The [internal link structure](#) of the website is important for on-site navigation and usability, it also has a direct impact on page rank
- A [good rule of thumb](#) is that the site's 'click depth' or number of times a user has to click on a link to get to the desired page, should be no more than three
- [Internal Link Analyzer](#) will help determine the number of internal links on the site, as well as identifying duplicate links and so on
- Ensure that anchor text used on-site is named correctly, includes target keywords and that the links function. This is particularly important if planning on removing content from elsewhere on the site
- There are plenty of resources available, which explain [how to use anchor text in backlinks](#)

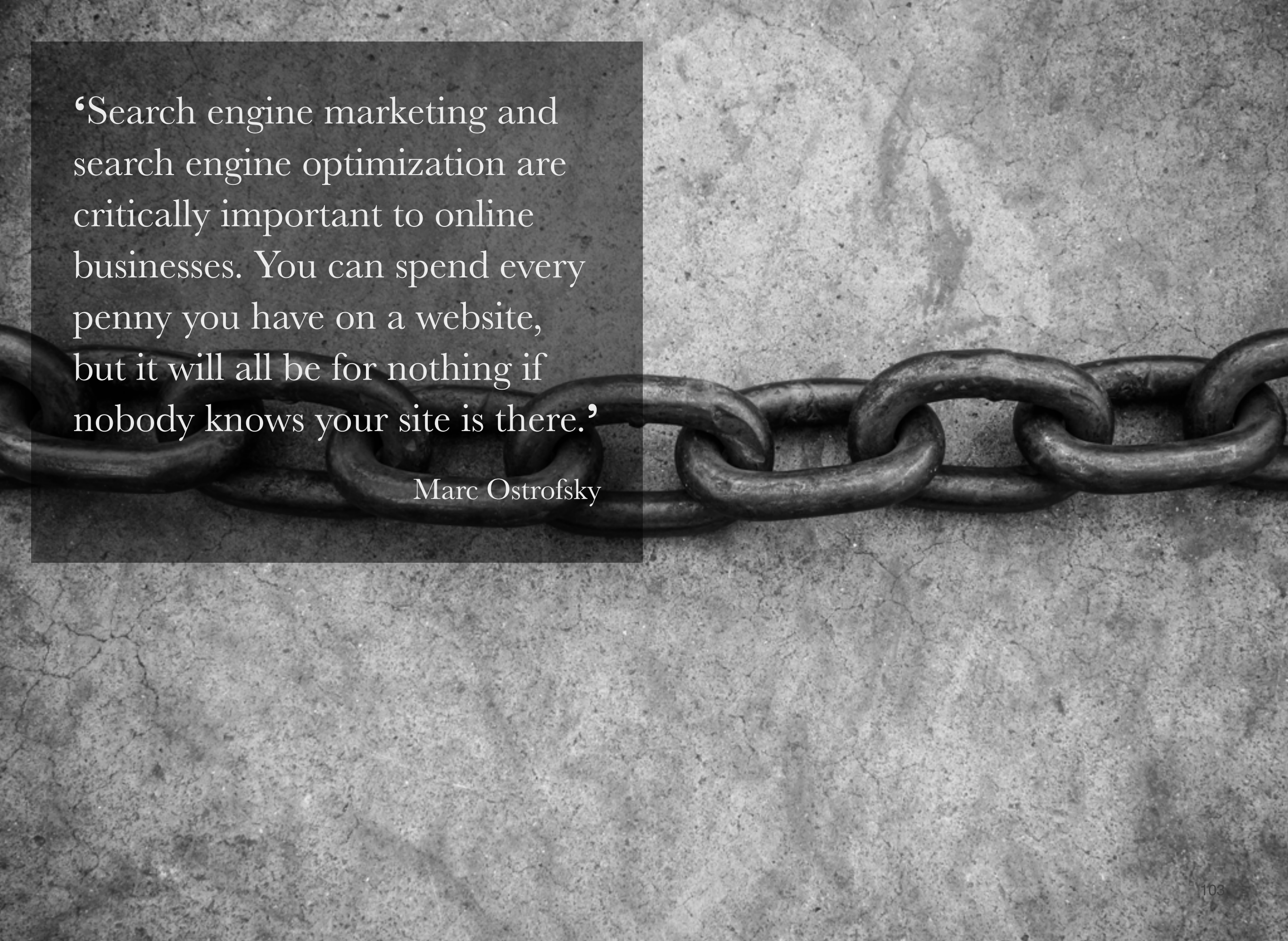
3.2.3 Improve Backlink Profile

- Clearly external links are the [most important source of ranking power](#), therefore, buyers should learn how [external links help SEO](#) and get to grips with reviewing their backlink profile using tools such as [Ahrefs](#)

- It is equally just as important to [identify bad links](#) and disavow them/request their removal. [Google's Webmaster Guidelines](#) has some useful knowledge on this.
- At the audit stage it is important to establish that high-quality external links are working correctly. There are plenty of resources available, which explain how to [turn broken links into powerful links](#).

3.2.4 Submit Quality Sitemaps

- XML Sitemaps are a very easy way to help ensure that search engines are able to find pages and content.
- [Research conducted](#) indicates that submitting a thorough [XML Sitemap](#) can push indexation levels from 24% to 68%, directly increasing traffic to the website.
- Nowadays, webmasters can enable/submit an XML Sitemap using the dedicated CMS platform or via an available sitemap plugin (if using WordPress, for example).
- Make sure that sitemaps include all new links and don't include any broken links, [XML Sitemap Validator](#) is a useful tool for this.
- Ensure that the sitemap dynamic, so it can be updated routinely and automatically.

A heavy metal chain with large, dark links lies horizontally across the middle of the frame. The chain is resting on a light-colored, heavily cracked concrete surface. The background is a dark, textured rectangular area on the left side of the image, which serves as a backdrop for the text.

‘Search engine marketing and search engine optimization are critically important to online businesses. You can spend every penny you have on a website, but it will all be for nothing if nobody knows your site is there.’

Marc Ostrofsky

3.2.5 Ensure Meta Titles/Descriptions are Optimized

- The meta tag is one of the most important elements for on-site SEO, so buyers should take some time to [learn how to craft better meta descriptions](#)
- The precise wording and structure used in meta titles and descriptions will impact clicks and visits to the site
- Use keywords intelligently, use a title that will engage the audience, keep it short and relevant (meta descriptions should be <90 characters).

3.2.6 Make the Most of On-site Images

- The production of great visual content is increasingly important and search engines factor the [optimization of images when determining page rankings](#).
- Buyers should ensure that they optimize image file names with primary keywords and that the image has a caption and surrounding text.

4. Conversion Rate Optimization (CRO) Audit

In essence, CRO is about maximizing the percentage of users that complete a desired action. Research has found that a [20% increase in decision simplicity](#) often results in an 86% increase in the likelihood of purchase. To do so, CRO experts look to improve a website or landing page with the aim of creating a more effective experience for the end user.

Having already conducted some analysis around the performance of site content, mobile optimization, click depth and the site's overall architecture, one should have a good idea as to the state of CRO. Nevertheless, it is important to conduct a full CRO review to lay the foundation for ongoing optimization.

4.1 Calculating Conversion Rate

Every website owner should have a specific goal in mind for their site, which will differ depending on the business model in question. For example, an e-commerce site exists to sell products, a lead generation site exists to collate data for resale and an advertising site exists to generate revenue through click-throughs. Before starting, it is important to determine the website's current success rate against its primary goal. In order to do so, webmasters look to their conversion rate, a key metric.

There are different ways of defining and [calculating the conversion rate](#), it is important to stick to one method. Buyers should look to determine a site benchmark that can be tracked during split-testing (covered later) to measure any improvement (or decline) over time. Determining the conversion rate for the key category, product, landing page as well as high-volume traffic pages. The formula is outlined below:

$$\text{Conversion Rate} = \frac{\text{No. Unique Visitors}}{\text{No. Conversions}} \times 100$$

Once the conversion rate, is calculated, it needs to be put into context. There has been plenty written on the subject and it very much depends on the specific niche and business model. For example, research by [Marketing Sherpa](#) found that retail/e-commerce sites achieved a 3% conversion rate, while media sites routinely aim for and achieve 10%. It is generally accepted that conversion rates should fall somewhere between 2-15%. It is important buyers try not to compare their conversion rate to other sites or industries, the key is to focus on the current site and lift the conversion rate from what it is today.

4.2 Benefits of Conversion Rate Optimization

- Reduced cost-per-acquisition (CPA) = more money for re-investment
- More value driven to affiliates = higher bargaining power on commission rate
- More sales = higher revenue and more bargaining power with suppliers
- More engaged customers = positive ranking signals picked up by search engines
- Stronger brand = able to push ahead of competition
- Happier customers = increase in lifetime customer value (LCV)

‘Good website practice and optimizing for conversion usually makes for good search engine optimization. These work together to ensure you drive quality traffic and can persuade that traffic to help you meet your business goals.’

Marc Ostrofsky



4.3 Conversion Funnel Optimization

If there is cause to suspect that the conversion rate is lower than it should be, it is important to define a goal or target for improvement. In order to do so, one should start by understanding the current process or 'conversion funnel' for the website.

To physically map the process, [Cacoo](#) is a user-friendly tool, allowing the ability to create flowcharts and mindmaps. Buyers should try imitating the customer themselves, running through the process from landing on the site to buying a product / clicking through to a specific advert:

- How easy was it to perform the end goal?
- What obstacles got in the way?
- Was the experience enjoyable?
- How could it be improved?

In order to understand the customer journey in-depth, there are a number of tools that can help. [Crazy Egg](#) is highly regarded, showing exactly where people click on a website. Similarly, [Click Tale](#) is useful for creating videos of user interactions as well as heat maps.

Having mapped out the various customer journeys, ideas for improvement should begin to flow. As optimizing the website's conversion funnel is so critical, there are plenty of resources and [tips available](#) to help with the brainstorming process.

4.4 A/B Testing

Once any weaknesses in the conversion funnel have been identified it is time to find solutions for each. One of the most effective ways of doing so, is to follow a hypothesis-based testing method, A/B testing. A healthy hypothesis will have three key characteristics:

1. It can be tested
2. It is goal orientated
3. It gives insights, no matter how the test ends

It is wise for buyers to learn [how to create effective A/B testing](#) plans before starting as split-testing is critical to improving conversion rates. It can be tempting to test everything at once, but this is invariably counter-productive. Buyers should aim to prioritize tests and ensure that they remain mutually exclusive. Its wise not to expect every test to result in a significant conversion rate uplift, only [one out of eight A/B tests](#) drive a significant increase.

It's also important to keep in mind that CRO isn't a fast or cheap task – just because a particular CRO strategy worked for another website, doesn't necessarily mean that it will work for this one. Make sure to stick to what the key performance indicators (KPIs) are saying, instead of becoming too attached to any theoretical ideas that are not supported by quantitative data.

5. Commercial Audit

While taking time to conduct the more site specific audits outlined above, it would be easy to forget some of the most important external factors that play a part in achieving optimal business performance.

It is rare that an internet business exists in complete isolation. In fact, many internet businesses rely on key partnerships, whether the website is advertising, affiliate or e-commerce focused. The likelihood is that the previous owner forged relationships early on in the development of the business and made decisions that continue to have an impact today. Consequently, the commercial audit is about understanding key decisions (often in the form of agreements), pinpointing opportunities to improve upon them in order to strengthen the bottom-line of the business.

5.1 Advertising

If a significant portion of the business' revenue is generated through advertising, it is worth reviewing the proportion of direct and targeted ads on-site. It may well be that the previous owner did not maximize the site in terms of revenue yield. By switching ad networks or moving to direct advertising, buyers can potentially see a considerable uplift in income.

5.1.1 CPM Networks

CPM networks pay webmasters for displaying an advert (impression) 1,000 times. The CPM rates that networks offer are usually fixed but tend to vary across the market. If the site is yielding high traffic, then a CPM network may be the right option for the website. There are a host of different CPM networks out there, [Tribal Fusion](#) have historically paid the highest rates, but it is important to review each in turn. If the current rates are sub-optimal, consider negotiating or switching to another provider.

5.1.2 Direct Advertising

If the site has a niche specific audience and reasonable traffic, there may be benefit from shifting to [selling advertising directly](#). It is worth determining the relative upside of forging direct advertising relationships. Take into account the value of the time required to conduct contract negotiation and build advertising



‘Many a small thing has been
made large by the right kind
of advertising.’

Mark Twain

relationships etc. If the site is relatively small, the upside might not be worth it. Nevertheless, the opportunity should still be explored.

5.2 Affiliate Marketing

While affiliate marketing is generally quite a passive monetization model, buyers should carry out some research to ensure that they are getting the most out of it.

5.2.1 Review Affiliate Program

As part of the handover, the buyer should have been given the direct contact details of the site's affiliate manager, it is worth contacting them to find out more about the affiliate program and determine compensation structures based on performance. There are numerous ways of [assessing an affiliate program](#) and buyers shouldn't assume that the current program is the best or right one for the business without checking others. Webmasters should use an affiliate program that is fundamentally linked to their audience category to yield a strong CTR with the aim of increasing affiliate sales.

When reviewing the affiliate network, look at merchant specific conversion rates, threshold for payment and payment frequency, this will help determine whether or not it is worth negotiating commission percentages or moving networks/programs entirely. If choosing to move networks, consider each in turn –

[Commission Junction](#) is particularly reputable. If the site is focused on digital products, [ClickBank](#) and [e-Junkie](#) are the biggest networks in the market.

5.3 E-commerce / Drop-ship

If it is a newly acquired e-commerce website or drop-ship business, it is worth spending some time reviewing current setups and agreements. Buyers can often realize significant cost-savings and generate a stronger bottom-line in a relatively short period of time through doing so.

5.3.1 Review Merchant Account Fees

To begin with, review the cost of the current merchant processor. Generally speaking, fees of 2-3% are relatively typical. There are a [few different ways to lower fees](#). If the business is consistently generating high sales volumes or has experienced high growth, negotiating directly with the merchant processor is not out of the question. Using a PayPal Merchant account can [lower fees](#) by as much as 0.7% if processing enough volume or have lots of micropayments.

5.3.2 Review Warehousing Costs

Often, warehousing represents a significant expense for e-commerce businesses. Warehousing directly reduces the bottom line of the business so it's important to take some time to review

review the current warehousing setup and any agreements that are currently in place, to ensure that it is the best possible deal.

There are a number of different ways to [reduce warehousing costs](#). To begin with buyers should ensure that they are using space as efficiently as possible. If there are a low number of SKUs with a relatively fast turnaround, they may be making inefficient use of space which will translate into increased costs that are not required.

When reviewing warehousing and vendor costs, don't forget to consider the option of moving to a drop-ship model in the medium term. Running an e-commerce business is often more profitable and easier to manage without the movement of physical products and distribution. In fact, drop-shipping businesses have been known to [earn 5.18% more profit](#) than their warehousing counterparts.

Conclusion

By the end of the exercise outlined above, a buyer should have got to grips with the inner workings of their online business, embedded some quick-wins and have documented an extensive list of ideas for how to take the business forward.

The next step is concerned with bringing it all together, prioritizing the output and shaping a coherent, robust and actionable plan for implementation.

Chapter 6

How To Manage An Online Business

‘The Internet is ultimately about innovation and integration, but you don't get the innovation unless you integrate Web technology into the processes by which you run your business.’

Louis V. Gerstner, Jr.



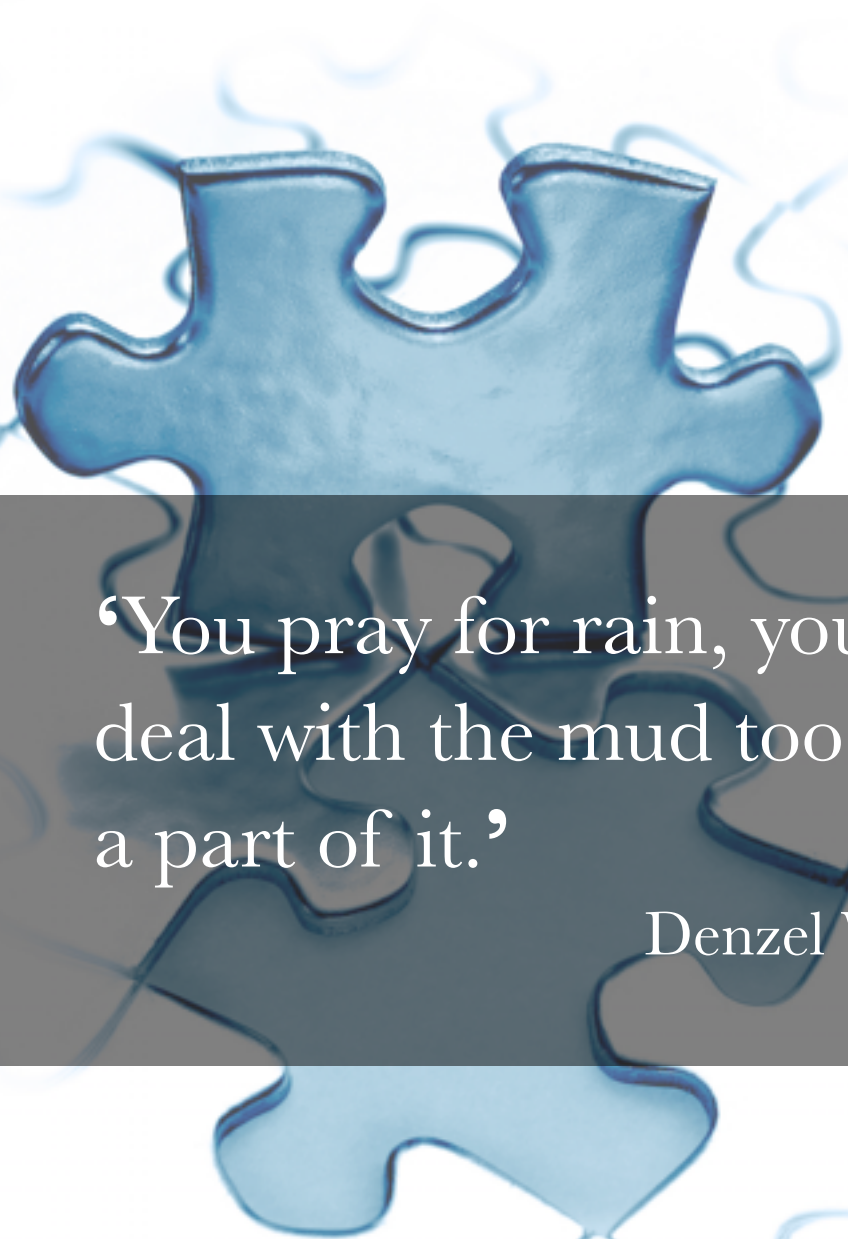


How To Manage An Online Business



Having acquired an online business, run through a full site audit and mapped out all of the tasks that need to be completed both in the short, medium and long-term, it is time to give more detailed thought into how the business is going to be managed on a day to day basis. This will invariably depend on individual circumstances, preferences as well as time commitments.

This section explores in detail the ways in which buyers can outsource aspects of their business. It gives practical advice on outsourcing success as well as information on semi-automation or complete managed solutions.



‘You pray for rain, you gotta deal with the mud too. That's a part of it.’

Denzel Washington

6 AREAS FOR AUTOMATION

1. **Email Marketing**
Drip, GetResponse, MailChimp
2. **Social Media**
Buffer, SproutSocial
3. **Third-Party Payment**
PayPal, Stripe, 2CO
4. **Content**
WordPress
5. **Customer Support**
ZenDesk, HelpScout and virtual assistants
6. **Accounting**
QuickBooks and other accounting tools



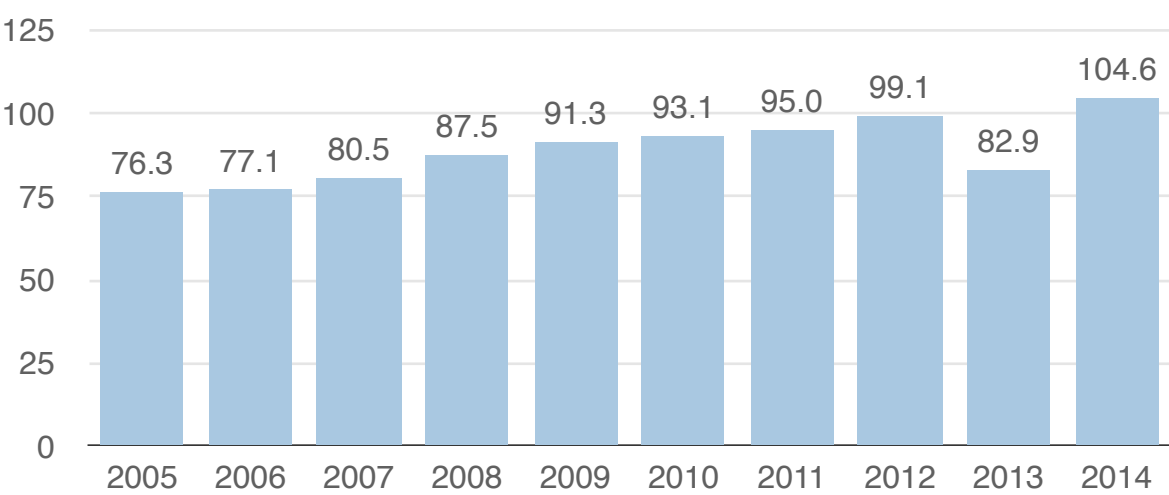
Some buyers invest with the sole aim of learning more about online business, taking on a more active management role. These buyers should be clear on how to run a successful online business. Portfolio buyers, on the other hand, may have an internal team to take care of website management or may wish to operate a more outsourced, passive model.

Whichever route is taken, buyers still need to plan and manage resources effectively, to ensure success. While self-management is the most popular route, we have outlined two alternative routes that investors should consider – outsourcing and managed service. With automation high on investor's priorities, we also share some top tips for realizing the benefits of semi-automation.

Outsourcing

Over the years, FEI has dealt with thousands of buyers from different backgrounds looking to invest at different levels of the online business market. We have seen online entrepreneurs with skills that vary dramatically both in terms of breadth and depth. As noted by Sparks, “Most entrepreneurs have great talents but (often) think they can do it all.” This is particularly true of first-time to intermediate investors. When managing an online business, however, owners often lack expertise or interest in a specific area. This is not necessarily a bad thing, and more often than not, investors can build a better business with outsourcing.

Over the years, people’s perception toward outsourcing has changed dramatically. In the past, outsourcing was seen as something only attainable to ‘big businesses’ that required certain skills but wanted to avoid adding overall headcount. With the internet, came global connectivity which has fundamentally changed the way and extent to which both large and small businesses outsource. A recent statistic shows that the global market size of outsourced services has grown YoY, reaching \$105bn in 2014.



Value of outsourced services in US, 2005 - 2014, billions.
Source: Huawei (2015).

Benefits of Outsourcing

There is no doubt that outsourcing is an attractive proposition with plenty of benefits to be had for small businesses and website owners alike. Embedding a well-defined, sustainable outsourced model helps free up management/owner time, which is often better spent working on more strategic elements of the business. In essence, outsourcing helps internet businesses remain agile, while contractors benefit from freedom and mobility.

Not only this, but rates for contractors (often residing non-domestically) are often much lower than web owner are able to pay in their home country. To hire a programmer in California it is likely to cost around \$80-\$120 per hour. In Vietnam, which is now

‘If you deprive yourself of outsourcing and your competitors do not, you're putting yourself out of business.’

Lee Kuan Yew



the top global outsourcing location, rates could be as little as one quarter of the cost. In short, well-structured virtual teams can help cut overhead costs.

That being said, whilst putting together well-structured virtual teams of contractors, creates a level of flexibility and efficiency that is unlikely to be achieved any other way, pulling together the right team with the right skills at the right time requires detailed planning. Finding the right balance takes time, trust and patience. In some cases, outsourcing can lead to hidden expense and risk, so it is important to get it right.

Roles That Can Be Outsourced

To many online investors, outsourcing is the only tenable way of successfully building a portfolio of online businesses. With a rapidly growing portfolio or with an internet business that is realizing rapid month-on-month growth, the decision is quite simple. Nevertheless, selecting the tasks to be outsourced vs. kept in-house is not always obvious. To provide some clarity, we have broken down some of the key roles that are most commonly outsourced:

- Virtual Assistance (VA)
- Graphic Design
- Website Design / Development

- SEO
- Online Tech Support
- Data Entry / Processing
- Content Creation and Management
- Social Media Management
- Customer Service
- Fulfillment

Outsourcing the Right Way

Having made the decision to outsource one or more tasks it is key to follow some basic principles when looking for contractors to work with.

1. Know What Is Required.

This may sound obvious, but it is a mistake that we see buyers making time and time again. Business owners should be absolutely clear when they look to define and communicate the task that requires completion. Outlining the objectives of the task, milestones and a clear vision is likely to reduce the risk of misinterpretation. Using available tips for writing specifications, is a good starting point.

It is always worth giving more information than you think is required when putting together the brief. Most websites/

marketplaces where jobs are posted require an advert for the piece of work, try and be as detailed as possible and invite questions along the way.

2. Road Test The Individual.

Before committing to any contract (short or long-term) or agreeing to escrow funds, it is important to ensure that the individual is good fit. As the contractors/virtual teams are often geographically disparate, it is important that each contractor produces work of high quality, is able to communicate well and is reliable.

Many of the websites that web owners use to find contractors provide reviews and testimonials, providing some reassurance. However, be proactive and ask them to complete a small task prior to committing them to a project and look for trust signals throughout. For more information, review this first-timer's guide to hiring a VA.

3. Track, Monitor And Improve.

When the contractor is on boarded, the process doesn't end. It is important to manage a virtual team effectively, to ensure that pre-agreed milestones are hit and work is to sufficient quality. Whilst being hands-off may be empowering for the individual, it could result in scope creep from the original brief. We

recommend organizing regular briefings, status reviews as well as screenshares to review work. Keeping in regular contract will not only provide reassurance but will help to strengthen the relationship, paying dividends down the line.

Where To Start?

With a whole host of outsourcing websites to choose from, with more emerging, finding the right one can be a little tricky. Whilst each site has broadly the same focus, in terms of the type of work offered and core functionality (users post jobs, people bid on the work, price is negotiated, there are some nuances to be aware of.

From our experience, buyers and sellers frequently cite the following websites as being the most useful within the industry, reviews are also available.



‘Outsourcing is inevitable.’

Stephen Covey

OUTSOURCING PLATFORMS

Upwork (www.upwork.com)

- Users only pay for ‘verified’ time spent working
- Offers ‘team room’ features that clearly show the contractor’s activity level overtime (keyboard and mouse activity)
- Contractor’s publish a work diary, investors can track individuals using camera functionality
- Notably, a better option for tasks paid by the hour.

Elance (www.elance.com)

- Users can ‘hire by hour’ or hire contractors for specific project
- Users are able to setup and manage progress within a secure ‘workroom’
- Users are able to invite co-workers into the ‘workroom’
- Cited as being more expensive, reserved for higher quality – more technical jobs.

Freelancer (www.freelancer.com)

- Users are able to create payment milestones
- Only when milestones are completed, does the user have to initiate payment
- Better for project based work.

Semi-Automation

Aside from outsourcing and website management, the burden of managing an online business asset can be significantly reduced by investing in business and process semi-automation. We often hear online entrepreneurs referring to their business as ‘passive’. What they really mean is they have taken the necessary steps to achieve semi-automation. Whilst there is obvious upfront time and cost involved, the medium to long-term gain of automating 79.7% of an internet business can be tremendous.

As an automated business grows, it naturally becomes more efficient overtime, reducing costs and owner time requirements. Whilst automation is an attractive strategy for investors, it can be complex and warrants demystification. Below are some of the most effective first steps to take when looking to semi-automate an online business:

1. Email Marketing

Auto-responders/drip campaigns can feed a sequence of content to subscribers, without the need to manually email people whenever they sign up to a mailing list. They are key for nurturing potential leads, at all times in the day. There are plenty of resources available that teach individuals how to use auto-responders to drive traffic and increase income. Drip is a particularly good tool for email automation – allowing individuals

to send automated welcome emails, product recommendations and more.

2. Social Media

Managing social media can be arduous. Having a social media presence is extremely important for online business and customers have come to expect it as a method of engagement. A well-thought out social media automation strategy can be achieved through using tools such as Buffer, which allow marketers to connect all social media accounts and create content queues. SproutSocial is another tool, which helps by creating support tickets for comments made by followers or fans.

3. Third-party Payment Gateways

Popular online payment gateways such as PayPal help webmasters make regular payments for subscriptions, services and affiliate partners. PayPal is great for small businesses, as there are no monthly costs involved. Likewise, other provides such as Stripe and Authorize.net have a set of APIs and are built with integration in mind.

4. Content

CMS' such as WordPress allow webmasters to schedule posts for days or even weeks ahead to ensure that posts go out on-time, at different points in the day. Publish to Schedule is a

popular plugin that we regularly see used in the blogging community.

5. Customer Support

As an online business grows, it is likely that a growing number of people are involved in the overall management of the business. Customer support automation can be used to proactively manage and engage customers to ensure that their support queries are handled as efficiently as possible. ZenDesk for example, is able to manage support issues cross-platform as well as providing chat functionality and customer real-time customer support analytics.

6. Accounting

Tools such as QuickBooks automatically import transactions from banks and/or payment gateway providers, which has a number of benefits including the reduction of manual data entry and reconciliation. Investors should look to use such tools from the outset, as maintaining a robust set of accounts is crucial for any subsequent sale.

Semi-automation can be achieved in all areas of online business operations, from customer support through to social media management and order fulfillment. Whilst automation is attractive, it is important to remember that customer experience still needs to be upheld to the highest standards, to realize any incremental benefit.

Managed Service

If self-management and outsourcing still seems too hands-on, there is always the option of working with a company to outsource website management entirely. Companies offer services that include on-going maintenance, brand strategy as well as content management, otherwise known as Website Management Outsourcing. With expert resources in place as well as vast experience, this option can be attractive to online investors. A website management company will offer the full spectrum of services required to successfully management an online business:

- Inbound marketing
- Website design and development
- Search marketing
- Social media management

- Content marketing
- Email marketing
- Customer support

Website management companies usually charge a flat monthly fee, which covers everything required to manage the business. Instead therefore, of having to make irregular payments, cash flow forecasting becomes even easier. Clearly, the amount charged will depend on the services required, size and complexity of the business in question.

FEI offers [management services](#) and has a large portfolio of businesses under management on behalf of clients.

Summary

As an investor, the time required to manage an online business can often build up quickly. It is important to take a step back and figure out the best way of managing the asset in advance of acquisition. Looking to outsource aspects of management, semi-automate or pay for a managed service altogether are all viable options that can help augment the management strategy for the business, setting it up for success from the outset.

Chapter 7

About Us

‘A leader is one who knows the way, goes the way, and shows the way.’

John C. Maxwell



About FEI

HIGHLIGHTS

- We have the largest team dedicated to brokering online businesses
- We have a 95% sale success rate and sell most businesses in less than 3 months
- We have clients spanning 100+ countries
- On average we send over 100,000 deal-related emails per year
- We sell more online businesses (<\$5m) per year than any other dedicated online broker
- Find out more at: www.feinternational.com

Overview

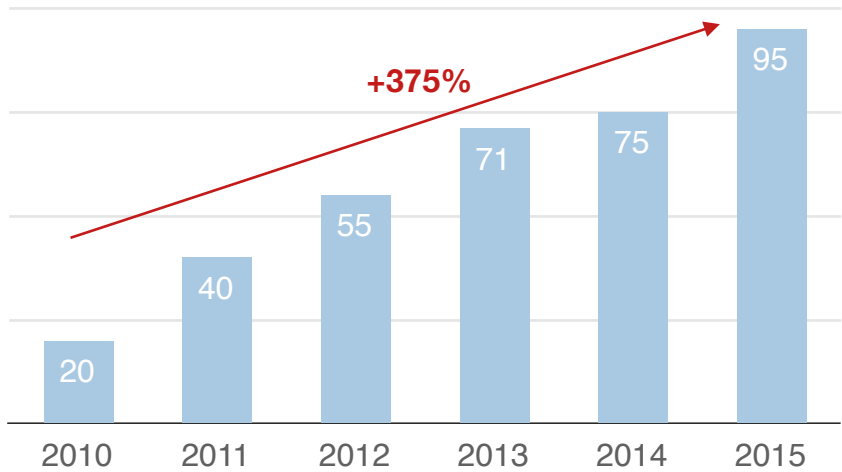
FE International was founded in 2010 to provide brokerage services for mid-market online businesses. The company has become the **pre-eminent advisor** within the industry and enjoys a well-earned reputation for integrity, creativity and delivering results. To date, the firm has successfully executed an **industry-leading 400 transactions**.

The team is comprised of professionals from investment banking, strategy consulting as well as online entrepreneurs, all of which have extensive transaction execution expertise. FEI’s brokers complement this formal experience with unique and innovative approaches to deal marketing and structuring.

The company is headquartered in **Boston, USA** with a secondary office in **London, England**.

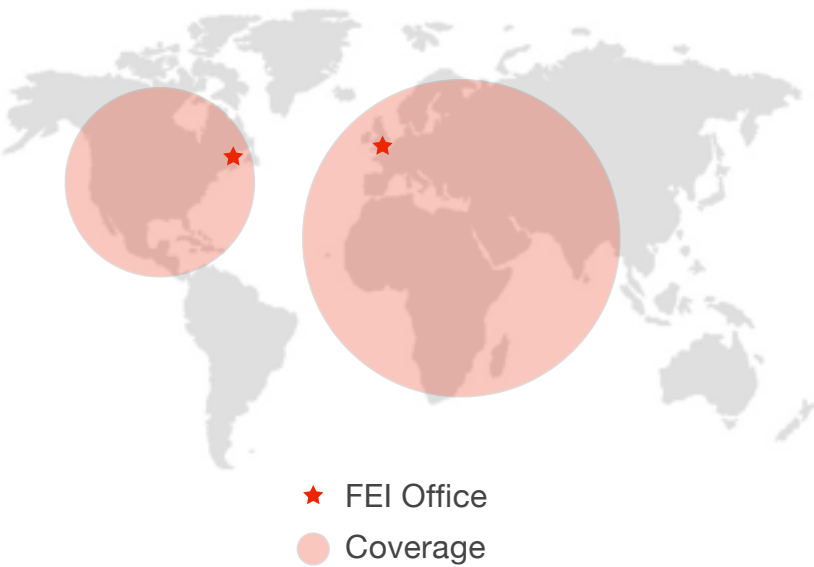
To contact us, please email info@feinternational.com.

Transaction History



FEI completed transactions.
Source: FEI (2016).

Locations



Thank You For Reading

For more information visit:

www.feinternational.com

