

LEARN THE SECRETS OF SUCCESS IN THE NEW ECONOMY
FROM TODAY'S LEADING ENTREPRENEURS & PROFESSIONALS

SUCCESSONOMICS



Featuring

Ismael Wrixen, Steve Forbes

& Leading Experts from Around the World

CHAPTER 38

WHY BUY AN ONLINE BUSINESS VERSUS AN OFFLINE BUSINESS?

BY ISMAEL WRIXEN

“If everyone is thinking alike, then no one is thinking.”

~ Benjamin Franklin

THE DECISION

The decision to buy a business is a major one, usually with significant personal and financial commitments attached. There are a vast array of business models to invest in and it is estimated that with so much choice, the average buyer ends up searching for 18 months before giving up entirely. The advent and rise of the Internet has only complicated matters further by introducing a host of unique e-businesses (e.g. SaaS, lead generation) as well as a range of hybrid models (click-and-mortar, e-tailers). If you’re in the market to purchase a business, even from an offline or non-technical background, it’s worth considering the many benefits of acquiring an online business versus an offline business.

TAPPING INTO GROWTH

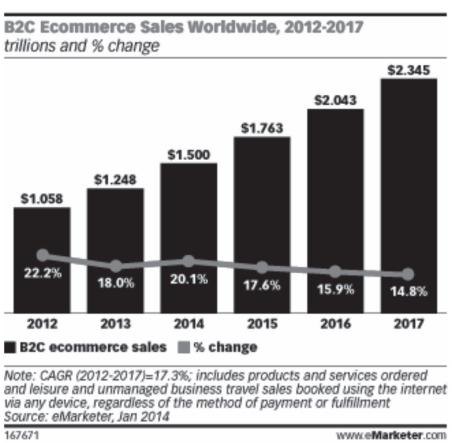
The explosion in growth of Internet users and usage in the last decade is remarkable. It is estimated there were 2.7bn Internet users globally in 2013 (39% of global population), up more than 6x from 10 years ago. The demographic has switched significantly as well. In 1996, 66%

of Internet users were from the US and now that figure is just 13% -- with Asia and Europe accounting for nearly 70% of all Internet users (Source: ComScore).

The introduction and proliferation of smartphones and tablets has been a major driver of both Internet adoption and average usage time. Multi-device ownership is increasingly becoming commonplace in developed markets with 1 in 4 smartphone owners in the US and EU5 also owning a tablet (Source: ComScore). Early signs from these markets indicate that multi-device ownership has not served to cannibalise desktop browsing but instead complement it with overall usage time rising.

But what does all of this really mean for online businesses, and for you, if you're looking to acquire one? Well, it points to a number of things. Firstly, the number of consumers online is growing significantly each year and as the Internet becomes an increasingly popular purchasing channel, eCommerce businesses will continue to experience explosive growth. In fact, according to eMarketer's latest forecasts, worldwide business-to-consumer (B2C) eCommerce sales will increase by 20.1% this year (2014) to reach \$1.5 trillion, up a staggering \$400bn from 2012. That growth is coming primarily from the rapidly expanding online and mobile user bases in emerging markets, increases in mCommerce (mobile commerce) as well as advancing shipping and payment options for online customers.

Interestingly, the latest research indicates online consumers are more valuable than offline ones. McKinsey research suggests online consumers are, on average, older and more affluent than their offline counterparts. In a recent comprehensive study of European consumers, the consultancy firm found that 38% of online buyers had household income greater than c.\$54,000 versus just 25% for offline channel buyers.



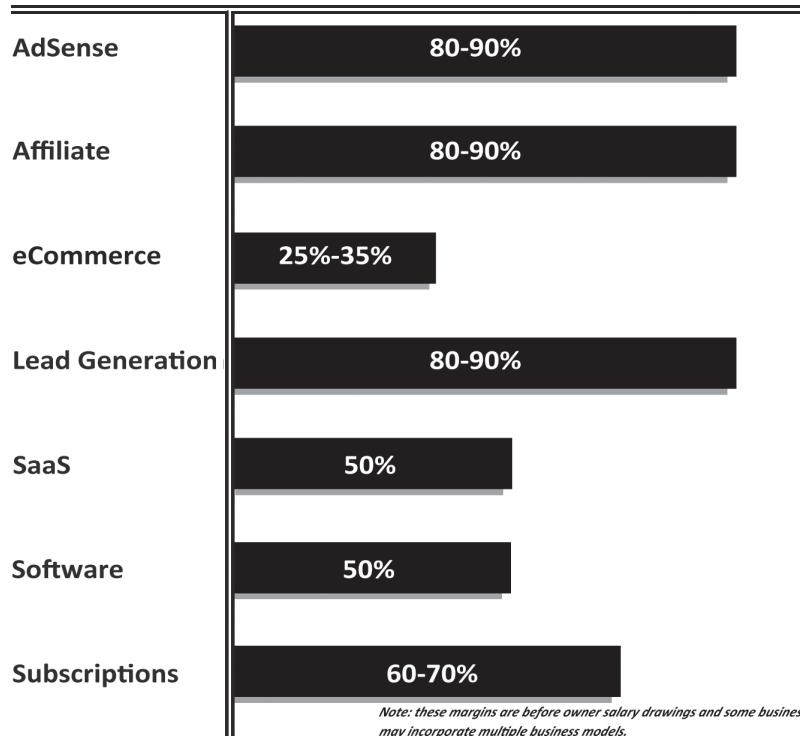
Secondly, the attractiveness of the Internet as an advertising medium for major brands continues to increase with the rise in Internet adoption and value of the eCommerce market. Digital advertising revenue is now worth \$37bn in the US alone, second only to TV, and rising at 15% per annum (5x faster than any other medium). Don't think that it is just search engines benefiting from increases in advertising spend: \$7.7bn was spent on banner advertisements alone in the US in 2012 (Source: ComScore). Website owners with authoritative content in the right niches, and of course the right traffic, can command a good price for onscreen real estate.

YOU CAN MAKE MUCH BETTER MARGINS

An often cited benefit of the online business model are the potential cost savings. There are typically much lower start-up costs to creating and running a website. Without physical assets there is often no large outlay, and instead the focus is on creating relevant content and outreach. With so many e-business models and unique monetisation methods, accurate studies on the differences in cost structures between online and offline businesses are somewhat sparse. One good comparison is an analysis of profit margins between retailers, e-tailers (click-and-brick operations) and pure eCommerce stores. Matt Carroll at FailHarder has written extensively on the economics of each. His analysis of the average profit margin achieved in the apparel niche (he models the sale of shoes) shows retailers on average achieve 51% gross margins whilst eCommerce achieve 65% through charging for shipping. Note, gross margin does not then take into account the savings in operating expenditure for the online model (rent, utilities, employees) which can take the **typical net margins of eCommerce stores to c.30% versus c.10% for offline equivalents.**

Aside from eCommerce, there are a number of e-business models that offer extremely attractive profit margins to business owners. Using data from the sale of over 150 online businesses in the last four years at FE

International, we have compiled the following net margin comparison table for the most common online business models:



ONLINE PROVIDES MORE MARKETING INSIGHTS

“The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.”

~ Peter Drucker

Good marketing is at the heart of many successful businesses and the online space is no different. What is interesting about Internet marketing is that whilst it requires a slightly different skillset to traditional businesses (Search Engine Optimisation, Conversion Rate Optimisation) it offers a number of major benefits versus marketing in the offline world. The tools and strategies for marketing to consumers online provide much more data to the marketer in terms of customer engagement, relationship

building and fine-tuning the conversion funnel. There are at least four major benefits to marketing online:

#1 – You can make changes on the fly – marketing online allows you to instantly split test new landing pages, site layouts, order forms, email sequences and newsletters, all within the click of a button.

#2 – You can track real-time results – with Internet traffic you often have enough of a customer sample to observe the impacts of your changes in just a few days or a week, allowing you to tweak, analyse and decide on what works best within a comparatively short time period and with low operational impact on the business. Using Google Analytics you can create goals to observe changes in precise detail.

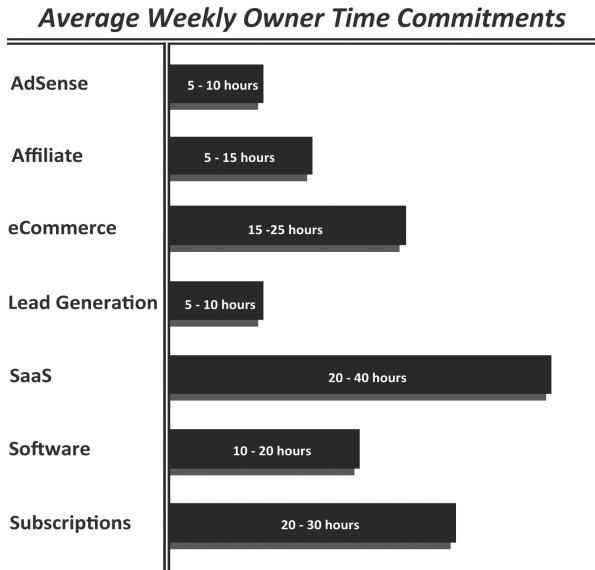
#3 – You can target specific demographics in your advertising – the rise in social media as a platform for marketing has enabled Internet business owners to target specific demographics and customer profiles (e.g. age, gender, ethnicity and location). Paid-traffic campaigns can be run on specific locations to expand awareness in particular areas (local and national) as well as drive the right traffic to your business.

#4 – You can use a wide variety of methods for marketing online – including email, audio, video, blog, social media and newsletters – marketing strategies online are increasingly adopting a multimedia approach to initiate and develop relationships with consumers. E-mail marketing continues to be a powerful tool to help raise brand awareness, build relationships and bring in sales.

ONLINE GIVES YOU MORE FREEDOM

One of the major draws of the online business model is of course, the ability to operate it from home, and in fact, from just about anywhere in the world. With more people looking to supplement income from their main jobs, the attraction of an online business as a means of passive income is only increasing. Latest figures show 1 in 6 people in the UK alone are operating an online business from home as a way to do this. Without employees and infrastructure to manage, the owner time commitment on a well-established online business can be very low.

Using the same transaction data from FE International, we have compiled an estimate of the average weekly owner time commitments for the most common online business models:



MORE LIQUID AND LOWER RISK THAN YOU MIGHT THINK

Any prudent investor should be mindful about the liquidity profile of their investments and buying an online business is no exception. The good news is that a website is typically a much more liquid asset than an offline business. Given online businesses are geography-independent and are quite often easier to operate, there is both a lot of buyer demand for them and shorter due diligence periods during the transaction itself. At FE International, depending on the size and complexity of the asset, we typically see websites sell from 24 hours of listing to 3 months with the average being somewhere in the middle. Many offline businesses can take 12 or more months to sell with 3 of those months set aside for due diligence alone.

BUSINESSES THAT HELP THE ENVIRONMENT

Whilst probably not a deciding factor in your decision to make an online versus offline business acquisition, being environmentally conscious is becoming increasingly important in this day and age. An online business offers significant carbon footprint savings with fewer employees, remote working (thereby no transportation costs) and no requirement for

utilities like water and heating. Information is processed electronically and stored online too which helps to save on materials. eCommerce provides significant benefits to traditional retailers. Approximately 65% of total emissions generated by the traditional retail model stemmed from customer transport, according to research by Carnegie Mellon University. Consequently, online retailers use 30% less energy than traditional retail operations. Equally, unnecessary uses of manufactured materials can be avoided entirely with online retail. Granted, the Internet presents another source of power consumption, but research conducted by the ACI found that eCommerce will still achieve a net reduction of 1bn tons of greenhouse gas emissions per annum, constituting 11% of U.S. annual oil imports.

EASE OF SCALABILITY

Taking all of the points raised so far into consideration, there is one other very compelling reason to get into online businesses: scalability. Operating an online business can require little in the way of upfront costs and the low time requirement can often mean it is very easy to own and run several businesses simultaneously. If we look again at the traditional offline retail example, how easy would it be to acquire or open another store? It may take years to raise the funds and find the right location with enough footfall and you might end up signing a lengthy lease to secure the premises. Operating online is somewhat simpler in this respect; you can take a model in one niche and apply it to another with relative ease if you have the relevant experience and knowledge. There is no physical presence involved and you do not necessarily need to duplicate yourself, or other members of your staff, to run more than one online business. You can synergise your skills and resources, significantly increase your ROI and get you one step closer to financial independence.

HOW TO GET STARTED

Choosing and vetting a suitable investment opportunity is certainly the first step and one of the most difficult when acquiring any business. Data from FE International suggests that at any given time, in the sub-\$5 million range, there are less than 200 online businesses that are revenue-generating, professionally vetted and being offered by an established broker that specifically deals in the sale of online businesses.

Regardless of whether you're relatively new to online business acquisitions or a seasoned investor, you should use a broker for

information, guidance or advice where needed. Whilst they are vested in the sale of the business, a good broker will provide invaluable advice to the buyer on all areas of the business transaction process.

Once you have partnered with a broker and found a suitable acquisition target, here are just a few things to look for when assessing an online business:



A reputable broker will be on hand to educate and support a buyer through these expansive topics, highlight due diligence areas of interest, provide relevant business referrals and nurture a good relationship with the seller.

Following the successful completion of due diligence, always involve your attorney, but be mindful that their knowledge may be limited only to the contractual elements of acquiring an online business.

THE KEY IS FINDING SOMETHING RIGHT FOR YOU

“This is a fantastic time to be entering the business world, because business is going to change more in the next 10 years than it has in the last 50.”

~ Bill Gates

It is important when approaching any business acquisition to find something that fits your background, skill set and acquisition goals. With major growth potential, improved margins and often a reduced time commitment, an online business can be a very attractive alternative to a traditional offline venture. That's not to say there aren't other considerations, but it could well be the case that with a little bit of research and sound professional advice, an online business will help you reach your financial goals much faster than a traditional offline investment



About Ismael

Ismael is co-owner of FE International (FEI), along with his long-standing business partner, Thomas Smale. Ismael's background is in M&A investment banking, and he has executed high profile deals across several sectors, namely Technology. Ismael is fluent in several languages and graduated from the University of Bath, England, with first class honours in Business, gaining the Accenture prize for excellence in the process.

FE International (formerly Flipping Enterprises) 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. In 2013 alone, the firm successfully executed an industry-leading 71 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.

Originally established in London, the company expanded internationally to San Diego in mid-2013 to bring its dedicated brokers closer to the US client base.

Offering direct access to an established network of pre-qualified international investors, FEI is perfectly placed to drive demand to your business and maximize value for your company.

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