

Buy or Sell an Online Business in the Virtual Marketplace



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Announcer:

Welcome to Thrive, a Paychex Business Podcast, where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

Gene Marks:

Hey everybody. Welcome back to another episode of THRIVE. I'm your host, Gene Marks. Thank you so much for joining us today. I'm talking to Blake Hutchison. Blake is the CEO of Flippa, F-L-I-P-P-A, flippa.com. This is an online marketplace where online businesses can get purchased or sold.

Gene Marks:

So if you are running an online business, maybe you've got a division of your business, an online store. Maybe you're an Amazon merchant, maybe you're an eBay merchant — not if you're an Etsy merchant, you'll find out why — but if you're running an online business. Maybe you're using Shopify or Magento and, and you've been around for a few years and you've gotten revenues to a certain level. You want to sell it. Or perhaps if you're starting up a business, or you want to go online, why start up from scratch when you can buy an existing business and take your capital into something that's already got customers, and a platform, and a community, and then build it from there. You've got all those options.

Gene Marks:

Well, Flippa provides that, so I'm going to talk with Blake about those options with him and he's going to tell you a little bit about his background and then get into what Flippa does. He's going to give some advice and thoughts on buying and selling businesses online, and why you might want to consider it, rather than even starting up your own business from scratch.

Gene Marks:

So before we get started, though, again, another reminder. If you've got any type of topics, guests, questions that you would like us to maybe answer for you, or help you out in running your business, please submit them. Go to payx.me/thrivetopics. That's P-A-Y-X.me, that way you can fill out a form. Let me know of any topics that you would like me to discuss or any guests that you might want to have on. We can do

that as long as it's going to help you run your business. I want to make sure that we're taking care of that in this podcast.

Gene Marks:

Let's talk to Blake and we're going to find out about buying and selling online businesses on flippa.com. Here we go.

Gene Marks:

All right, Blake. Thank you very much for joining me. I'm thrilled to have you on.

Blake Hutchison:

Thanks, Gene. Pleasure to be here. Good to see you.

Gene Marks:

Good to see you as well and so let's talk, first of all, but before we get to Flippa, let's talk about you first. You are the CEO of Flippa. How did you get here?

Blake Hutchison:

Yeah, it's an interesting journey actually. I mean, no doubt, like many of your customers and your audience out there, it's, it's been a journey for multiple industries, learning lots of different things from great and smart people around the world. I started my career at a publishing company. It was called Lonely Planet. Lonely Planet was a travel guidebook publishing company, which many people will be familiar with. At one point there, the world's largest travel publisher, doing a great bunch of stuff early on in the digital space and my responsibility there was digital content licensing.

Blake Hutchison:

So we were geocoding all of the points of interest and licensing that to people like American Express and Yahoo Travel and Expedia, in the early exciting days of the online travel industry. So that's where I got my career start. Spent a bunch of time in San Francisco, and then shortly after, the BBC acquired Lonely Planet, I moved to New York and spent a short amount of time with the BBC, so already a diverse experience, and got the opportunity to kind of witness an acquisition play out in the early days of my career. So that's always interesting.

Blake Hutchison:

I then went to Startupland, so I was based in San Francisco and I worked for a trip planning startup that raised about 13 million dollars just prior to the GFC. And we raised that money through Austin Venture Partners and Tenaya Capital, which just before the GFC was called Lehman Brothers Capital. Everyone remembers them. So that was another interesting experience working as a founding team member for a trip-planning startup there in San Francisco.

Blake Hutchison:

I then moved back to Australia and as you can hear, I've got a very thick Australian accent, where I then started my own business, so I've been an entrepreneur. And interestingly enough, you asked how I got to Flippa. Well, that was how I found out about Flippa because I ended up selling my business on Flippa, and so I've got experience as a customer of the platform, which obviously gives me an interesting lens.

Blake Hutchison:

Now, of course, when you wave the white flag, and you can no longer run your own business for whatever reason, you need to go and paycheck somewhere. So I found my way to Xero, which is cloud accounting

software, so a completely different industry, really fast growth, super interesting SaaS business, connecting small business owners to bookkeepers and accountants all over the world — and obviously giving them the software to do that really well. I was on the Australian leadership team there, and then I was tapped to run a online travel business, a curated online travel agency called Luxury Escapes. I spent almost three years there before moving across to Flippa. Joined Flippa three years ago and as you said, I'm the CEO here, so I sit on the board with our team of co-founders, Mark and Matt. One's based here and one's based in the U.S. So, that's a bit about me.

Gene Marks:

So let's talk about Flippa. I mean, it is my understanding, just, I don't want to oversimplify things, but you know, if you look to buy or sell an online business, Flippa is the platform for doing that.

Blake Hutchison:

Yep.

Gene Marks:

As opposed to being in the brick-and-mortar world. So, explain further. Why were there be even a platform specifically for buying and selling an online business?

Blake Hutchison:

Yeah, firstly, think about the platform economy. So think about all of the sellers that are on Amazon, all of the business owners that use Shopify, BigCommerce, WooCommerce, WordPress, the list goes on. So you've got this massive network of small business owners all over the world.

Blake Hutchison:

Then think about the life cycle of a small business owner, no different to brick-and-mortar, of course. You start. You grow. You want to thrive, but then what do you do when you want to sell? There's no natural pathway to exit, with the exception, of course, of traditional business brokers. So Flippa is a marketplace to buy and sell. Think about it as eBay for buying a business.

Gene Marks:

It's funny, when I think about traditional as brokers, I have this demographic, and I'm sure I'll be blamed for being wrong, but it's usually like an older person that's selling an older family business. I'm picturing some middle-aged person, as they were valuing inventory. "Now we're going to value your PP&E, and then we're going to see where your customer list might or might not be worth."

Gene Marks:

It just seems like completely different model than buying and selling an online business. Why would that be so different? Why is selling the typical brick and mortar business, in your opinion, considered to be different than buying and selling an online business? Or maybe it's not.

Blake Hutchison:

Yeah and there's a lot that's the same. But as you say, there are some, clear, clear differences. I mean, first and foremost, you tend to not have a buyer have to analyze foot traffic to a bric- and-mortar business. You tend to have a buyer instead who is more interested in understanding digital-based data.

Blake Hutchison:

So, what is your refund rate through an online channel? What is your average order value through an online channel? How do you get your customers? Do they come through organically through searching keywords on Google? Or do they come through as a means of paying Facebook or Google to access their customer

base? So, it's a little bit different in the sense that the data and the analysis you do to understand the performance of the business, is nuanced, but it's also the same in the sense that it comes down to quality, it comes down to financial and operational performance. So what is your trailing 12-month revenue? How much are you spending to increase that revenue? So there's ... a lot's the same, but most of the nuances come down to the way you acquire the traffic and the way you pay to access your customer base.

Gene Marks:

Got it. What businesses interest you and what businesses don't interest you that would be good candidates for Flippa?

Blake Hutchison:

Yeah. So I mean, Flippa is digital-first, so that means the most popular business listed on Flippa right now, or at least I'll give you two: "Fulfilled by Amazon," right? Nine million sellers all over the world. Big, exciting industry. They're very interesting to buyers on our platform right now and the reason being is they get to access the Amazon network. They get to leverage their logistical capability and expertise, and therefore, they only have to control certain elements, i.e product quality, reputation management, and of course, the acquisition of customer through the Amazon channel. The second is a content website.

Blake Hutchison:

So, a blog. It could be a food blog. It could be a blog about dog breeds. It could be anything where you are writing quality content that is seen favorably by an audience and where you can monetize that audience with revenue from either Google AdSense or Ezoic, which is a platform to aggregate advertising or media-buying, or even affiliate channels, where you might refer people out to different pet stores and make an income when you refer those customers out. So they're the two most common right now, FBA websites — that's "Fulfilled By Amazon" — and the second one is content — the easiest way to think about that is blogs.

Gene Marks:

We'll talk to the seller side first. You mentioned about websites that are fulfilled by Amazon. Is a simple website of an Etsy reseller, somebody that might be selling products or services on Craigslist, somebody that might be on eBay, are they candidates to sell their businesses on Flippa?

Blake Hutchison:

It's a slightly complex answer, only because those platforms have different terms, and so eBay, yes. Etsy, no. The question as to why Etsy is no, is quite simply Etsy prohibits you from selling your Etsy business. Now, of course it's complicated, because you could be an Etsy seller who's also selling on the Walmart marketplace, the Amazon marketplace, and of course, you could have your own Shopify store selling directly to people as well. So it gets a little bit complex because of course, Etsy can't stop you from selling your business, but what you can't do is sell the Etsy store, and therefore, when someone comes to us who has an Etsy store as part of their overall business operation, you tend to have to disclose to the buying community that the Etsy account per se wouldn't come as part of the acquisition, but in short, yes. Any small business who is operating digitally first is a prospect for Flippa. What we don't do is let someone sell a laundromat or a bookstore or a fashion retailer in a high street context sell on Flippa.

Gene Marks:

Right. Which businesses, if you're selling tend to get the higher valuations? Would it be the businesses that have storefronts on established e-commerce websites like Amazon or not Etsy, but eBay or businesses that really are selling most of the stuff off their own, using their own platforms or Shopify or Magento? Which tend to be valued more?

Blake Hutchison:

So the businesses that tend to be valued more are those which are a bit omni in nature. So they're selling through multiple platforms, and therefore, the buyer has assurances that there is revenue distribution. So that's piece one, and then secondly, there are four major factors that a buyer considers and a seller should understand when buying a business. And the first one is the obvious one, the financial and operational performance, and that typically is based on a trailing 12-month basis. So what's happened the prior 12 month period?

Blake Hutchison:

The second thing is age, and I often talk about age as being a little analogous to location in traditional real estate. So when you go and look at a house in a particular neighborhood, obviously some neighborhoods are more sought after than others. It's a little bit similar thing with age in an online business context. Buyers will typically favor aged assets and that's because there's predictability of performance. They tend to know that if something's three or four years old and it's been performing of a certain way, that it tends to be that when they take it over, it will perform the same way, and that's very important to buyers.

Gene Marks:

When the seller's valuing their business, are they ... ? I mean, there's really no assets, I'm assuming that they have to sell. It's not like they've got tangible property or inventory. So I guess the value of the business is really based on past performance, and then some type of good will? Is there anything else I'm missing?

Blake Hutchison:

No, that's exactly right. I mean, of course, you can have some things like trademarks. You can have a database of customers. Some perhaps you've got 100,000 customers that come as part of the acquisition. Perhaps there's some inventory. So maybe you're an e-commerce business owner. Perhaps you sell swimwear, much like a brick- and-mortar business would. If you've got \$100,000 dollars worth of inventory available as part of the asset sale, then that inventory would come to the buyer as part of the acquisition, but typically, yeah, it's a little more ... It's simpler.

Blake Hutchison:

You wouldn't be acquiring a warehouse typically. You wouldn't be acquiring the lease as part of, as obviously, you tend to take over a lease as part of a brick-and-mortar acquisition. You don't do that in a digital context — although of course, as you know, Gene, most brick-and-mortar businesses today are having to move to online in some way, shape, or form as well. So it tends to be that you'll definitely get the online assets. So the website, the database, their Facebook and other social profiles where they may have built up a bit of a following.

Gene Marks:

So Blake, there are a lot of people that are listening to this, that are watching this, that are very small entrepreneurs. I mean, solopreneurs, they have small websites, they are just getting started or whatever and before they start to see dollar signs in their eyes, is there like a minimum level of qualifications, revenue that they should be considering before they even could be candidates to sell their business?

Blake Hutchison:

Yeah. So there's not a minimum revenue threshold to be ready for exit. Kind of depends on what you are trying to achieve when you get to that point. Think about it in the context of what a buyer wants. So a buyer wants consistency of performance. So that means you've got to be an aged asset. So have you been operating for at least a year? You're now a candidate. Have you been operating for ...? The average asset sold on Flippa is actually four years old. So have you been operating for a period of time to give the buyer

the confidence that the performance of the asset will continue long after you have exited yourself? Now, as it relates to revenue, you've then got a factor in expenses. So what buyers are doing is they're assessing your asset on its financial performance and then figuring out a multiple that they will pay you on its net profit, and so it really comes down to what you are trying to achieve.

Blake Hutchison:

So let's say you're doing \$100,000 net profit. Now, that can sound like a lot of money to a lot of people, but just to make it simple from a math standpoint, you might end up achieving between two and four times on that net profit as your exit price. So, doing 100, you could sell for between \$200,000 and \$400,000. Now, that can be life-changing, right? So, it depends on what you are trying to achieve. If you're doing \$50,000, a similar multiple will apply, depending on whether it's e-commerce or content, or even a small SaaS business or an app, it'll still be around two to four times.

Blake Hutchison:

Now, of course, excellent assets can move up to four and five and six times. Less good assets can trade between one and a half and two times, but that gives you some sense. And therefore, think about the number that's important to you and then work backwards from that, and you be able to figure out what you need to achieve from a net profit standpoint.

Gene Marks:

That's great. And boy, you took my next question away, and I'm glad you shared that because I was literally going to ask about, what is the average type of selling price? And that's very helpful. When we're talking about net profits, just to make sure that we're clear, buyers are going to be asking for documentation. You mentioned earlier in our conversation, but certainly, I'm assuming it's tax returns that are going to be asked for. What other types of documentation should we be prepared to provide to? I mean, for example, if I'm buying a business, I'm going to want to see, and they're an Amazon merchant or they're an eBay merchant, or again, maybe they're using Shopify, or something like that. I'm going to want to see all those contracts, right? As well as tax returns. Anything else that I'm missing if I'm a buyer?

Blake Hutchison:

Yeah. So the one thing to say is, I think you alluded to before the fact that many of your listeners will be sole traders or solopreneurs. So if you are a sole trader or a solopreneur, one thing to do very quickly, is try to separate your personal expenses from your business expenses. And I'm not suggesting you suddenly need to go and take out business bank accounts with Bank of America or Citi or whoever it might be that you bank with, but just try to separate them out and perhaps create two check or savings accounts. One for personal, and one for your business, just to try to separate that out, because that becomes very, very difficult for buyers, long-term.

Blake Hutchison:

As it relates to paperwork, yes, absolutely. If you're trading as a business — which by the way, a lot of bloggers or even first-time e-commerce operators won't do — then you will need to be able to show proof of earnings. And you can do that in a multitude of ways. Of course, if you're doing taxes, you'll need to show those tax returns. If it's a smaller asset, what you can tend to do, is provide, read-only access to your Shopify account or to your Amazon account or wherever it is that you are generating revenue. So buyers will need to see that proof, and they'll INSIST on seeing that proof before they give you any money for your asset. You cannot go and sell without providing that proof.

Blake Hutchison:

The second thing will really come down to: are there other assets that need to be verified? Are you saying that you have a database of 50,000 email subscribers? Well, if so, they're going to get access to your MailChimp account or whatever it is that you are using to run your email marketing with. So whatever assets operate your business, they will need to be verified, and buyers will always do due diligence. And if they don't want to do due diligence, don't sell to them because something will inevitably go wrong.

Gene Marks:

Is it common that buyers then take over the organization behind the seller's business? I mean, you mentioned there's a lot of solopreneurs, but then again, there's a lot of people that are selling online and they've got staffs of people that are doing their marketing and their social and their finance and whatever is it. Do you find that buyers are interested in buying organizations, or are they just more interested in just buying the online assets of a company? What have you seen?

Blake Hutchison:

They will typically buy the assets. And there's a few reasons for that. One, it's just easier and you don't have to take over the liabilities or even worry about what liabilities might be connected with that business or operation. So that's piece one. Secondly, there are tax considerations for both buyer and seller when you go to acquire or sell a business. So that's why buyers will tend to favor an asset sale. From a sale-side standpoint, make sure you get some advice from your accountant to understand any tax implications from a sale. But yes, in short, they will typically take over all of the assets and all of the operations intertwined in that asset.

Gene Marks:

Where is most of this business conducted? I mean, you guys are based in Australia, I'm assuming. Is that correct?

Blake Hutchison:

We're based in Australia, but most of our customers are with you, Gene. They're over in the U.S.

Gene Marks:

They're over in the U.S. Okay. That's fine. And what's Flippa's involvement in all of this, Blake? I mean, we have the traditional broker, at least the good ones that I know are very much involved in the transaction. They're a big part of the team. There's usually an attorney involved, an accountant, but they're in the middle of the paperwork and guiding things around. So, tell us what Flippa does, and how much do you cost?

Blake Hutchison:

So think about Flippa as like Zillow. Most of you will be familiar with Zillow out there. So think about Flippa or Zillow. We are a marketplace. We're the connective tissue between the buyer and seller. We're a platform to enable you to conduct the business you need to conduct. And so we have really three ways of selling. You can sell yourself and that typically is better for smaller assets. And the good news is there's lots of buyers. There's lots of educational material. Flippa provides access to legal templates. We provide access to escrow. The escrow is free. So we are there to protect you and ensure that that money is housed in an escrow account before the buyer gets control of those assets.

Blake Hutchison:

The second way to sell on Flippa is by tapping into an agent. The agent is a traditional business broker. They're experts in any one of these digital asset types. Be it eCommerce, be it content, be it an apple or other. So you've got a multitude of ways to sell. As it relates to price, Flippa makes its money by charging

our successful sellers a success fee. And so for any, the easiest way to think about this is any asset sold over \$100,000, we take 5% success fee.

Gene Marks:

Other than the honor system, how do you protect yourselves? I mean, say I find a potential seller on Flippa, and then we just connect offline and do our transaction, and we kind of flippa you off, you know? [Laughter.] How do you avoid not getting your fee?

Blake Hutchison:

Yeah, it's a great, it's a good question. I mean, in short it's by offering all of the services we do like the integrated Escrow and the legal templates and all these types of things, which are inextricably connected to the platform. So we have our eyes on the prize, if you want to put it that way. We also have a team of account managers who are sitting there with our sellers and buyers, operating as conduits between the two parties. They're not brokers per se, unless of course you use one, but they are parties in the middle, helping people do the deals, and therefore they have an understanding.

Gene Marks:

Got it. All right. Fair enough. All right, Blake. So, I guess my final question and this is wonderful information. It's a great platform. It fascinates me... Actually, I have another question before I get to my final one. Occurs to me the name of your company, of the platform, is Flippa. Do you have many people coming onto the platform, and kind of doing just that? Buying an online business and then flipping it after a short period of time after? Is there a market for doing that?

Blake Hutchison:

Yeah, there is. I mean, we invented the space. Flippa has been around for 12 years and it actually started as smaller entrepreneurs and developers creating assets that were a good fit for new and starter entrepreneurs. So, as a result, yeah, they were creating assets and essentially moving them through the platform pretty quickly. As digital has evolved and as online business ownership has evolved, we're now looking at more established businesses, higher value transactions, and therefore flipping, for want of a better description, is less common, but you do get serial entrepreneurs who use our platform. So, they'll create an asset, they'll build and run that asset for two to three years, they'll sell it, they'll take the monies from that sale, and then they'll reinvest it on the platform and buy a bigger asset.

Blake Hutchison:

So, for instance, a gentleman by the name of John Chen there in New York, just lives out near Columbia University, he bought his first asset on the platform for seven and a half thousand dollars. Two-and-a-half years later, he sold it for \$550,000. He's now redeployed that capital on the business into two or three other eCommerce businesses, using all that expertise and knowledge he picked up through the growth of his prior assets. He'll end up growing those assets, selling those on the platform, and then doubling down again. Because you get into the habit, you become good at something, and like any other industry, once you've got expertise, you can tend to rinse and repeat.

Gene Marks:

It's crazy. It's almost like a day trader for online businesses, on steroids.

Blake Hutchison:

Exactly.

Gene Marks:

Final question for you then. Just looking ahead, in the U.S., the past two years have been record years for startup applications.

Blake Hutchison:

Yeah.

Gene Marks:

I mean, just never really seen before. There are lots of reasons behind that, which we don't need to go into, but I just want to get your thoughts. The demographics are skewing such that so many people are retiring. A lot of the baby boomers in the U.S. want to get out of their businesses. Other, millennials, I mean the top edge of the millennial age is pushing 40 now, believe it or not, so they've been in the workplace and have gotten some experience managing companies, want to be their own entrepreneurs. What are your thoughts about starting an online business from scratch, versus coming to Flippa and buying an existing online business, and then making it your own? What are your thoughts on that?

Blake Hutchison:

Well, my thoughts are, I've done it.

Gene Marks:

Yeah, yeah.

Blake Hutchison:

And starting is difficult because finding your first 100 customers tends to be easy, but finding your first 1000 customers tends to be difficult. So think about the blood, sweat, tears, and effort — raw effort — that goes into creating a brand, that goes into finding those customers, goes into maintaining those customers and the product that you're trying to represent. It's really hard. So, what most people are finding is that with platforms like Flippa, and of course other places, you're now making available to buyers the same opportunities that have been available to private equity, or venture capital, or big institutional buyers. You are fast-tracking a pathway to growth.

Gene Marks:

Sure.

Blake Hutchison:

You're fast tracking a pathway to income generation by buying. So I tend to think about it this way. You can buy an asset for \$50,000 that makes \$25,000 per year. Can you invest from a standing start, \$50,000 and make \$25,000 per year? I'd argue the latter is hard.

Gene Marks:

Yeah. Great answer. Great answer.

Gene Marks:

Blake Hutchison is the CEO of Flippa. Flippa.com, where you can buy and sell your online business. Blake, thank you so much for joining us. Great information and a lot of food for thought. Now I'm starting to get my gears going as to whether or not I'm in the right business or not. But I appreciate all your thoughts. I think Flippa's doing great. I want to wish you best of success. Would love to come and see you in Australia once you guys open your borders, like in 2028, or whenever that happens. [Laughter.] But in the meantime, we'll be sure to speak-

Blake Hutchison:

You're being cheeky now. I'd love to visit you too, but ...

Gene Marks:

Yeah, if they'd let you out of there.

Blake Hutchison:

That's right.

Gene Marks:

Anyway, it'll be great to stay in touch, so thanks very much for coming on.

Blake Hutchison:

Thanks, Gene.

Gene Marks:

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Announcer:

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