Selling the Business: Keep Your Wits About You – Part 1

Sooner or later, almost every privately-held business in existence will be sold – either to a family member or to someone currently unknown to the business owner. The process of selling a business can be as easy or as difficult as the seller wishes to make it; it all depends on the seller's attitude.

The proper attitude is one that includes an acceptance of the sometimes-harsh realities of the process and a desire to engage in win-win negotiations at the necessary points along the way.

These points include:

Business Value: Better than 85% of business owners expect to get paid a price that is considerably more than the business is worth. Almost 40% of all owners expect, and in some cases, demand, a price that is excessively higher than what the market will bear.

It is the rare business owner who does not eventually accept the fact that the price to be received will be no higher than what a buyer is willing to pay.

Distressed Situations. Business buyers refuse to bail out a seller who is floundering in a sea of management errors. A seller in this situation hoping to "take home a few bucks" after the closing is in for a major disappointment.

In most distressed situations, avoidance of bankruptcy is the best a seller can hope for and is all that is going to be gotten.

All too often, pride gets in the way of logic. "If I don't get my price, I'll close down," is on of saddest mindsets a seller can have. The liquidation value of any business is always worth a fraction of the value of the same business sold as on ongoing operation.

Review the list of bankruptcies in your local *financial publication of record.* Friends and associates of the owners of bankrupt businesses would probably acknowledge that the owner had made "my price" comment more than once.

Time frame. All too often, business sellers hold the unrealistic expectation that the business can be sold within one or two months after the commitment to sell is made.

Anyone connected with the process of buying and selling a business can confirm that the process takes 7 – 9 months (or longer). A time period of only four months is exceptional; a twelve-month time frame is not that uncommon.

A number of years ago, an area printing business was represented for sale for a period of 43 weeks, with not one buyer coming forth with a purchase offer. After conferring with the seller and analyzing the efforts put forth by every-one, the decision was made to "stay the course." Remarkably, within the following four business days, three purchase offers were received – and the offered purchase prices were only $20,000 apart!

A rushed process can, and usually will, create a transaction fraught with inappropriate shortcuts. In other words, it is a lawsuit just waiting to happen.

Seller financing. The usual initial reaction of sellers is to seek an all-cash deal. Personal and corporate tax consequences of such a transaction may yield a considerably lower amount of cash to the sell than originally hoped for.

Also, the turmoil of the current commercial banking environment requires seller financing to be the larger source, if not the sole source, of transaction funding.

When negotiating the seller financing, it is better for a seller to achieve "true victory" rather than a "moral victory". For example, one business seller was holding tough on the percent of interest to be charged, even though all other terms and conditions had been agreed upon.

For the record, the interest demanded was slightly above the then-existent market. The buyer adamantly refused to pay the above-market rate. At a climatic make-or-break meeting, the actual dollar amount of the difference between percentage rates was calculated to be ONLY $12.57 PER MONTH!

With obvious pennies-per-day difference, the buyer immediately agreed to pay the higher interest rate. Not to be outdone, the seller withdrew his demand for the higher rate and settled for the lower one. The haggling over this issue added almost three weeks to the negotiations process.

Mindful of these realities, a business owner can begin to formulate the decision about selling the business.

- This article, written by George Scott, first appeared in *Rochester Business Magazine* in1991. –
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