

# BUSINESS CONSULTING SOLUTIONS, LLC

*Practical solutions to help you fix, grow, or sell your business.*

## Why Would I Sell Thee? Let Me Count the Reasons

Not sure whether or not to sell your business? The key to reaching that decision is understanding your reason(s) for wanting to sell. Each business owner has his or her own reasons. However, these reasons fall into one of eight distinct categories.

Read through the list carefully. See which one best describes your thoughts and situation. Then talk with your accountant, your attorney, your professional intermediary, your spouse, and your family. Their guidance, support, and understanding will be invaluable.

**Wanting “my price”** Usually heard together with “everything is for sale at the right price.” This reason quite often leads to an unreasonably high asking price.

The exception occurs when a new proprietary product or process has been developed. In this case, a strategic buyer may agree to terms and conditions that give the seller a much higher price.

Take a good look at your situation. If you have nothing unique to offer and if your price was not reached logically, get an independent valuation of your firm. If the value is acceptable, then begin the process of selling your business. Otherwise, consider the whimsical thought for what it was and get back to work.

**Retirement.** Many business owners envy others who legitimately can claim this as their sole motivation for selling. This reason carries with it a strong connotation that the financially and physically sound owner is running a successful business and intends to sell it as part of a well-thought-through transfer of ownership.

It also suggests that the terms can be obtained. The secured, seller-financing portion of the transaction then becomes an annuity that satisfies the seller’s retirement income needs.

Many buyers describe this scenario as the ideal situation into which they would like to buy. Given that, your chances of attracting a quality buyer will greatly improve.

**Ill health.** All too often, health problems sneak up on even the most successful and ambitious owners. Ignoring them could cause problems within the business – which, in turn, reduces its value.

If your doctor and your family are urging you to sell the business so that you can better manage your health condition, listen to them.

Doing so can benefit not only you, but your family, your employees and your clients, as well.

**Burnout.** When the “fun” of running your business cannot be rekindled for the umpteenth time, chances are you are burned out.

Be careful, though. Business owners who have thrown in the towel mentally start to lose customers, employees, good supplier relationships and profits – all of which lower the value of the business.

Knowing the end is only four to 12 months away may help you kick-start your enthusiasm one last, critical time.

Adding renewed energy to the final stage of ownership should reward you at the closing table.

**Undercapitalization.** Insufficient capital almost always creates an irreversible downward spiral until there is nothing of substantive value left of the firm. Three choices exist: Get a new cash source, get a new partner, or get out.

Part of the business can be sold to an investor or to a new partner (who hopefully supplies the needed capital and complementary ownership skills).

If securing an investor or a partner is unacceptable to you, get ready to accept some harsh realities. The avoidance of bankruptcy and the relief from part or all of your debt may be the best possible outcome. Walking away from the closing table with a “few bucks in your pocket” may be highly unlikely.

**Unmanaged growth.** The inability to manage extraordinary growth is the ironic curse of many small business owners. With others, pride prevents them from creating an appropriate infrastructure and handing over the reins of responsibility in certain functional areas.

In either of these cases, a wise owner will sell to a worthy strategic buyer who frequently can provide short- and long-term benefits that exceed the owner’s original expectations. Benefits of such a transaction could include a sizable cash down payment, unquestionably sound seller financing, an employment contract, and/or royalty payments.

If you feel overwhelmed by your company’s success, don’t panic. Assess your abilities and your options, then act accordingly.

**Boredom.** Impossible as it may seem, a well-run, profitable business can become boring for some entrepreneurs. Many prefer the exhilaration of buying a distressed business, turning it around, and then selling it for an acceptable profit.

If things are going well and the excitement of management challenges is gone, sell your current business and buy another one. There is an abundance of businesses that need proven turnaround proficiency.

**Estate matters.** There are two basic types: proactive and reactive. The first relates to the owner selling a business to free up some cash so that other investment opportunities can be pursued (i.e., cashing out).

The second includes a forced sale of the business to pay off estate taxes. An estate attorney and your accountant can help you work your way through this regrettable and almost entirely preventable situation. Should a forced sale be required, know that a ruthless buyer may try to take advantage of your circumstances.

Deciding to sell a business can be as much an emotional issue as it is a business issue. Separating the two can be difficult. But it must be done.

- This article, written by George Scott, first appeared in *Rochester Business Journal* on January 21, 1994 –

Revised January 19, 2023.

© 2022 Business Consulting Solutions, LLC All rights reserved