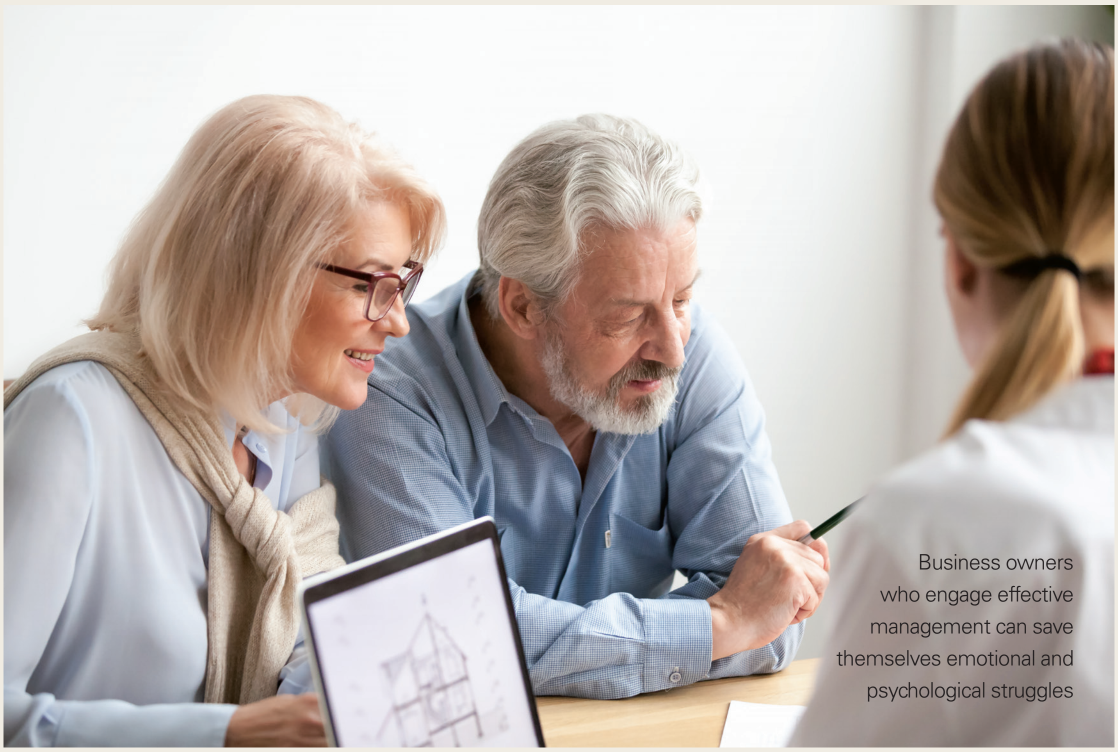

Business owners who engage effective management can save themselves emotional and psychological struggles

Why the Sale of a Business Fails

Deals can fall apart easily without the right advice

Developing any business takes years of effort, but a recent survey by the International Business Brokers Association, in co-operation with M&A Source and Pepperdine University, found that 88 percent of business owners in the $500,000 to $5,000,000 business value segment did no formal planning prior to deciding to sell, while in the lower middle market segment from $5 million to $50 million, 55 percent failed to plan.

The survey also found that among business owners who do plan, only a few work with a professional advisor to discuss exit strategies a year or more in advance.

The result of all this, according to the survey, is that nearly half (49 percent) of transactions terminated without closing, the reasons being: unrealistic seller expectations; the buyer and seller not being able to agree on terms; and poor quality of financial/operational reporting.

Arthur Klein, certified business intermediary and M&A Advisor at Pacific M&A and Business Brokers Ltd. (PMA), is not surprised by the findings. "The reality is that planning for the sale of your business with someone who has the knowledge and skills to guide you—like a professional at Pacific M&A and Business Brokers—gives you a much greater chance to maximize your price and terms," he says.

Pino Bacinello, president of M&A and Business Brokers Ltd., adds: "Our experience has been that business owners who do some planning—even if limited—and are realistic in their expectations, will typically receive 100 percent of their expected value at time of sale."

The key drivers that affect business value are historical profits, income risk, business growth and terms of sale. Klein and Bacinello point out that owners wanting to sell their business should strive to enhance operating margins, reduce client concentration, and balance financeable earnings and assets while maintaining growth.

At a personal level, owners should divest themselves of the business through delegation of duties or re-structuring by putting effective management in place. This will also improve the emotional and psychological struggle that business owners often face and which affects the ability to make sound decisions.

Other critical components of business sale planning include structure and taking advantage of capital gains exemptions. "Sellers who go to market without appropriate legal and/or accounting advice, as well as that of a professional broker, often discover that their tax bite is too large to accept—and the deal falls apart," says Bacinello.

While mitigating risk is crucial to a successful business sale, so too is a realistic approach to terms: sellers must be receptive to competent transaction advisors like PMA to facilitate terms that protect their interests but are still reasonable to the buyer.

Finally, it's not uncommon for sellers to become so emotionally attached to their companies that they overlook glaring problems that a business intermediary, a lender, or prospective buyer will immediately recognize. But even in this situation, planning can be undertaken to prepare for a successful sale.

"M&A advisors and other professionals need to be honest and direct in educating a business seller on the challenges in a potential sale, the range for a realistic transaction price, as well as creative terms and structuring options that might be utilized," says Klein. ■

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