

Beware These Deal Killers When Selling A Business

by Paul Reamer

Selling a business is hard work. Even with a similarly motivated seller and buyer, a deal has at best a coin's flip chance of occurring. Many deals never have any chance of occurring. There are a variety of situations or circumstances that will prevent a deal from being consummated. Below are 10 of them.

Selling terms. Most businesses sell for a combination of cash and terms. One recent study indicated that 72 percent of the sellers received consulting agreements, and 89 percent agreed to noncompetition restrictions. A sure deal killer is the owner who must have 100 percent cash.

The walk-about. The average stay during a transition is about a year. Any owner who expects to leave within a month after the sale probably won't have to worry about a transfer.

Real Estate. Most small businesses transfer without the real estate. Normally there is a three- to-five year lease with an option to buy. There is a strong temptation for owners with real estate in the company to demand that it also transfer with the business at the close. The business rarely can carry the property.

The major customer. At the least, there is a major pricing discount to businesses with one customer representing more than 25 percent of sales, or the top five having more than 60 percent. This can quickly turn into a deal killer, since the owner probably has the sales contacts at these major accounts.

Anything environmental. Even a whiff of environmental problems will kill a deal. Buyers aren't betting that indemnifications and warranties will protect them.

Taxes due on the sale. Many owners do not appreciate the tax ramifications of a business transfer. Part of the problem is the typical structure of a small deal. About 90 percent of the transactions involving less than \$3 million are done as asset sales (rather than the sale of stock). This is mainly done for the legal and tax benefit of the buyer. But selling assets often leads to double taxation for the seller--once at the corporate level and once for the shareholders. The solution can be complicated, but certainly starts with proper tax planning.

An attitude. Some owners have a "no one is worthy" attitude about their business. Even sons and daughters fall victim to this belief.

Clock on the wall. One deal collapsed when the owner wanted to keep a nondescript clock on the wall after the sale. Of course, the buyer claimed the clock was part of the deal. All personal items should be made known to the buyer before the offer stage.

Buyers in general. Seller idiosyncrasies are no match for buyer eccentricities. From "buyers are liars" to the great Houdini disappearing act, there are plenty of deal-killing actions from the buy-side.

There are dozens of reasons why a deal doesn't come or stay together. There's really one reason why deals end positively, however. The principles use the force of will to overcome all obstacles. Little wonder that it's so hard to sell a business.

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