

Crimson Cardinal *Healthcare Intermediary*

a division of Crimson Cardinal Realty LLC

GOOD AND NOT-SO-GOOD REASONS TO SELL

There are many reasons sellers decide to part ways from their businesses. Some are good reasons and make sense. Some, well, are not so good. Sellers with good, sound reasons are committed to taking the transaction through closing. They are willing to spend the time, hire the proper resources, listen to sound advice, and work diligently to close the transaction and support the new owner after the close. These sellers have a vision of what they want to do after the close. On the other hand, sellers with not-so-good reasons for selling lack a vision for what comes next. They may abort the transaction mid-process causing an unnecessary waste of time and money, angering the other party, and even inviting a lawsuit. There is a presumption in all business transactions that both parties are working in good faith to consummate a deal. Sellers who are not sure of their reason or reasons for selling or do not have one are not negotiating in good faith. They can wreak havoc on those buyers who are ready to move forward. It is crucial that buyers first understand the true reason or reasons why a seller is selling her business.

Discussed below is a list of good, sound reasons to sell one's business.

Retirement

This is probably the most common reason to sell. After decades of dedicated service, many owners are ready to start another chapter in their story. Selling, or cashing out, provides them financial and emotional freedom from the business. Visions of what comes next become clearer for these owners as the day to move on comes near. There is anxiety and nervousness about retiring. A good Exit Plan helps those sellers reach their vision of what comes after the sale.

Burn-out

Some owners can give only so much for so long. Running an operation is hard work. It takes its toll on many owners and their families. When an owner truly realized that she has had it, it may be best to plan her exit from the business. Cashing out via a sale may be the relief an owner needs.

Health

Deteriorating health of an owner or a family member may force an owner to sell her business. Personal health situations may cause an owner to take more time away from the business than she can afford to. Absentee management or poor oversight of employee activities can hurt customer service and business success.

Boredom

If your heart is not in it, it might be time to move on. Most owners are driven by internal factors such as the need for success, community standing, or wealth. If one achieves these goals or thinks she will never reach them, it might be time to find something more interesting and rewarding.

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Divorce

Most small businesses are “Mom and Pop” operations. If Mom and Pop get divorced, the business most likely will be part of the divorce settlement. Divorced couples rarely can amicably run a successful small business. Selling the operation to one spouse or an independent party might salvage any value remaining in the business.

Partner Dissolution

A partnership is like a marriage. When it breaks up, it is like going through a divorce. Sometime there is a surviving partner or partners; other times it may be best to sell what is left of the operation.

Lack of Investment Capital

Most owners of start-up operations used much of their resources to get the business up and running. It takes additional cash to keep the operation running smoothly. It takes more cash to stay competitive, grow the business, and keep up with changes in technology (e.g., purchase new equipment or upgrades). Some situations require more equity capital that the original owner may not have. Getting a minority equity partner is not realistic for most owners. Borrowing more business loans might be risky given the current state of the business.

Something Better to Do with Your Time and Money

Your greatest asset may be your time. If you are not using it to achieve the goals you want, it might be time for change.

Some Not-So-Good reasons to sell include these items:

Test the Market

A false signal that one is selling her business could be disastrous. It may spook customers, unsettle employees, and perhaps unintentionally alert your banker and landlord. Your business intermediary is the best source for testing the market. A broker’s opinion of value provides a most probable selling price for your business given your business’s current performance, market conditions, and other competitive offerings.

See What Your Business is Worth

Communicating that your business is for sale will not get you bona fide offers. It will invite the curious, probably non-qualified buyers, and maybe your competitor. Your competitor may also approach your existing customers to warn them about your market exit. Not good. The better way to find what your business is to get a certified business appraisal (best) or a broker’s opinion of value (good). These analyses and their results are confidential and for you only. The selling process involves much work and commitment by all parties. It is a waste of your and others’ time to start the selling process with the intent of not finishing it.

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Need Immediate Cash

A personal loan, business loan, or equity injection are more effective ways of getting immediate cash than selling your business. Selling a business takes time, usually 6 to 12 months. If buyers perceive that the seller is desperate for cash, buyers will likely demand heavy discounts on the selling price.

Very Poor Performance

No one wants to buy problems. If the business is performing poorly and there is no turnaround in sight, it might be better to close the doors, liquidate the assets, and move on.