Title: Common Selling Myths Part Two
By: Matt Manske

This is part two of a two part series on common selling myths. Selling myths covered in part one of this series included formal business valuations, exclusive listing agreements, and buyer paid broker fees.

This is part two of a two part series on common selling myths. Selling myths covered in part one of this series included formal business valuations, exclusive listing agreements, and buyer paid broker fees. Selling a business can be difficult and time consuming. Reading about these common selling myths may save you time, money, frustration and give you a better understanding of the selling process.

Myth: I need to sign an expert consulting agreement to <u>improve my operations</u> prior to selling. Expert consulting agreements are designed to lock in the seller, generate fee income, and allow the consultant to handle the sell when sold. The reality is that “improving operations” mostly involves maximizing cash flows, which is something your own CPA can do easily. An expert consultant with good industry experience may have suggestions to improve your pricing and personnel, but unless these changes are significant they won’t increase your selling price. The lesson here is that expert consultants (like your own CPA) usually suggest leaning-up operations to maximize cash flows (and selling price) for 12-24 months prior to selling.

Myth: I need to sign an expert consulting agreement to <u>operate my business</u> prior to selling. If you’ve been married to your business for thirty years you may want to relax for a few years prior to selling. The thought of relaxing and having someone else operate your business for a few years prior to selling is nice. But the reality of ownership is that while you still own your business, you’re still responsible for its performance. And, you’ll still go to sleep at night with the same level of stress and worry because of this responsibility. No consulting agreement to operate your business can change this stress level. Successful owners are heavily involved in day-to-day operations providing guidance and support to staff and customers. The lesson here is simple. As a successful owner, you’ve spent years developing relationships and trust with staff and customers. No outside consultant can duplicate these relationships and trust, or alleviate the stress and worry of ownership.

Myth: As a seller, I don’t need to be concerned with financing because it’s the buyer’s responsibility to get a loan. Since few buyers are able to write a check for the purchase price, financing is critical to most sale transactions in today’s market. As a seller, you want to make sure the buyer is getting competitive financing to ensure you get the best selling price. The following example will illustrate this point.

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Let's assume you are selling your business to a buyer for a total price of 1.5 million dollars and your building and real estate are worth approximately 1.0 million dollars. Due to the increase in real estate values over the past 10 years this example is pretty common in today's market. And, actual rates and terms will vary depending on a buyer's credit history, experience and overall transaction risk. A competitive loan would allow for a longer amortization period (25 years) and a lower interest rate (7.0%) on the real estate portion of the loan. While the business portion of the loan would result in a shorter amortization period (10 years) and a higher interest rate (9.0%). This competitive loan would result in annual payments on the real estate ($84,814) and business ($76,005) of roughly $160,819. Contrast this with a non-competitive loan for the business and real estate of 1.5m amortized over 15 years at 11.75%. This non-competitive loan would result in annual payments of roughly $213,144. The higher annual payments associated with the non-competitive loan would directly impact the buyer's cash flow available for debt service by $52,325. Depending on the cash flow multiple, the higher payments associated with the non-competitive loan ($52,325) could result in a decrease in purchase price of $175,000 to $275,000. This example clearly illustrates the importance of competitive buyer financing and how non-competitive financing can significantly reduce the selling price.

In summary, these selling myths are not meant to be all inclusive. Selling is difficult and the appropriate use of consultants, brokers or experts can help you get the results you need. These experts and consultants should be paid for their services, but their profits should not be excessive nor have an adverse affect on selling price. It's important to educate your self on the selling process and to know what's in the marketplace. Total transaction costs can and do affect selling prices. And, keeping these transaction costs at a normal level will allow you to maximize your sales price.

For your reference, this two part series covered the following common selling myths: formal business appraisals, exclusive listing agreements, buyer paid broker fees, expert consulting agreements to improve operations, expert consulting agreements to operate a business and the importance of buyer financing.

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