FROM THE **EXPERTS' CORNER**

Why Deals Fall Apart (and what to do about it)

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The process of selling your business can be a very rewarding experience—both financially and for your lifestyle. Handled properly, executing a proper sale can meet all ownership goals and benefit the organization moving forward. However, an improperly handled attempt to sell can be a nightmare, fraught with potholes and problems that will cause the effort to fail. This can be extremely demoralizing to the owner and put the organization at risk.

The transfer of a privately owned business is a very complex transaction with many considerations. Most important is setting the planning into motion with as much lead time as possible and having the correct team in place to execute the process correctly.

Let's examine six of the most common reasons a deal to sell a business might fail:

1. Lack of True Motivation to Sell – A fully motivated seller is the most important ingredient. He or she must be mentally prepared and "at peace" with the decision to sell, and the owner's goals (both monetary and lifestyle) must be clearly defined and obtainable.

2. Unrealistic Expectations – A clearly defined deal structure must be laid out. That means enlisting a qualified mergers and acquistions (M&A) advisor to provide an accredited fair-market valuation. In addition, the seller needs to know what to expect from a proposed sale: process steps, confidentiality, timeline, tax implications, seller notes, real estate, transition period, and life post-closing.

3. Team Not on Same Page – A qualified team of professionals with defined roles must be in place to support the owner: CPA, financial advisor, business attorney, and an experienced M&A advisor. All stakeholders should share the motivation to sell, including spouses, family members, and key advisors.

4. The Financial Story Changes – If the "financial story" of the business changes while on the market, then the buyers and banks will lose trust and the deal will evaporate. Any negative deviation from projected performance will reduce valuation, leading to lower offers. The financials must be strong, consistent, and predictable.

5. Dependencies & Concentrations – If a buyer—or lender—perceives a threat to continued operations, the deal becomes harder to close. Threats may include: significant sales tied directly to the owner (or personal relationship); one primary supplier or manufacturer; retirement of a key employee; and (most glaring) a too-high a percentage of revenue coming from one client.

6. Poorly Qualified Buyer – Before making a deal with a potential buyer, it is critical to know that he or she has management qualifications, decisiveness, and financial capability, and that good chemistry, communication, and professionalism exist between buyer and seller.

Now that we've identified some of the most common barriers to completing a transaction, how can a business owner ensure a smooth sale? Here are a few tips:

- **Be Well-Prepared** – Will the sale bring happiness and provide the desired financial result?
- **Assemble the Right Team** – Professionals and family all need to serve a role and be dedicated to the success of the proposed transaction.
- **Proper Valuation** – An accredited fair-market valuation of the business is a critical first step in understanding the true value and marketability of the firm.
- **The Correct Process** – A sales process that is coordinated by an experienced M&A professional will ensure that confidentiality is maintained, buyers will be fully pre-qualified, and an efficient transaction completed.

The process of selling a privately held company is a unique experience and, if handled properly, can result in an extremely rewarding transaction that fully meets the goals of the owner and the firm.

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