LION BUSINESS BROKERS

LionBusinessBrokers.com
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TODAY'S BUSINESS SCENE

the newsletter for privately held businesses

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In This Issue:

Lion Business Brokers is here to strategically and confidentially sell your business.

2022 Business Broker of the year by Acquisitions International. Top 10 M&A Consulting Firm 2022 by Financial Services Review. 5 Best Business Brokerages US 2022 by Silicon Review.

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The Top 3 Reasons Why Deals Fall Through

No one likes to think about the deals that didn't succeed. However, the fact of the matter is that sometimes things go wrong during the process and a sale doesn't successfully close. We have pinpointed the most common reasons why this happens into three main categories. By understanding the issues that can prevent a deal from finalizing, we are able to dramatically maximize the odds of success for clients.

1. Issues with the Seller

If a seller lacks a strong reason for wanting to sell his or her business, that seller is often unable to be flexible on the terms of a deal. As a result, when complexities arise during the sales process, the seller doesn't have the patience, commitment and/or stamina to work to overcome those issues. In many cases, a seller has presented an unrealistic price for the business and simply cannot be realistic about the true value the business will sell for on the market. Another common issue that arises with sellers is that they are not fully transparent with the potential buyer. For example, they might be neglecting to mention serious problems with the business, such as new competition on the horizon.

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The Top 3 Reasons Why Deals Fall Through (continued)

2. Issues with the Buyer

Just like circumstances surrounding the seller may interfere with the sale of a business, the same is true for buyers. In some cases, the buyer is just mildly interested in being a business owner. As a result, he or she doesn't have the wherewithal to continue on and navigate the complexities that can arise during the stages leading up to a successful deal. There are other issues that often pop up with buyers as well. For example, they also may have unrealistic expectations regarding price. Some buyers are not willing to pay the fair market value for a given business. In other cases, once they find out the amount of work that will be required to make the business successful, they are unmotivated to continue.

3. Third Party Interference

In some instances, there is no issue regarding the buyer or seller. Instead, it is a third party that interferes. An example of this would be a landlord being unwilling to transfer a lease or grant a new one. Or unexpected issues with the federal or local government could cause problems. Another problem that involves a third party occurs when outside advisors, such as attorneys, overlook the fact that the goal is to put together a deal that will work. Instead, they get so caught up in protecting the best interests of their clients that they erect too many roadblocks for a deal to succeed. These types of problems are often completely unexpected by either the buyer or seller.

It is hard to argue with the fact that if a buyer isn't really committed to selling, perhaps it is not the best choice for them in the long run. The good news is that if potential problems are handled at the appropriate stage of the deal, most business deals do come to a successful conclusion. Business brokers and M&A advisors are specialists when it comes to resolving and circumventing potential issues.

How Can You Identify a Serious Buyer?

No one wants to waste their time and energy trying to sell their business to someone who isn't actually planning to buy. That's why it's so important for you and your business broker or M&A advisor to focus on the most qualified and serious buyers. But how can you really make these kinds of assessments about a buyer's viability until they sign on the dotted line? Let's take a look at some signs that will help you figure out your buyer well in advance.

Do they have a history of ownership?

When someone has owned a business in the past, they have a firm understanding of what is involved. As a result, they are more likely to be a serious buyer. It also means they are more likely to move forward. You will also find that they have the ability to make a substantial down payment and financing options. While they might want you to help them with financing, you should still be looking to ensure they will put their own capital at risk as well.

How Can You Identify a Serious Buyer? (continued)

Are they seeking information about your cash flow?

If a buyer is serious, it goes without saying that they will want to make sure the business is profitable. They should be asking a lot of questions about not only your cash flow, but also your inventory. If you have unusable inventory this could be of concern to a buyer. Be sure to disclose this information upfront, as it will likely be discovered in the due diligence process regardless.

Are they asking about the health of your staff?

Any real buyer would want a dedicated and reliable staff. If your buyer is asking about salaries, it is a good sign that they are serious. After all, if you're only paying minimum wage, chances are that your staff will not have a lot of staying power. These days, many companies are suffering due to staffing issues, and it's something that should be front and center in any serious buyer's mind.

Do they have an interest in the industry?

If your prospective buyer is asking questions about the industry, that is another good sign. After all, who would really want to buy a business without detailed knowledge about the industry they are about to enter? Along the same lines, if you know your buyer has experience in a given industry, it means they are more likely to go through with a purchase. If they lack experience in your industry, do they at least seem passionate about the industry? If they seem like they are not asking probing questions, this might mean they are wasting your time.

Are they asking about capital expenditures?

Your prospective buyer will want to know how money is being spent. You can expect them to make sure that major expenses have already been paid for as they will want to make sure they won't be caught off guard by large pending purchases.

Do you have professional assistance?

The bottom line is that the more in-depth questions a person is asking, the more serious they are likely to be. Your business broker's job is to screen prospective buyers. Years of experience doing so helps them know the warning signs that pop up when buyers profess to be interested, but are not likely to go through with the sale.

When you are trying to sell your business, it is critical that you focus your time wisely. Your brokerage professional will help ensure that you do not waste time working with people who are just kicking the tires.

How Leases Factor into Business Sales

If you're planning to buy or sell a business that involves a lease, this can lead to an extra level of complication. Oftentimes, such as in the case of a restaurant or retail establishment, the location is essential to the success of the business itself. That means that if you're buying a business, you'll have to make sure any lease issues you might encounter are straightened out before you sign on the bottom line. But even if you're buying a business that isn't location-sensitive, you'll still want to iron out all the details about your lease ahead of time.

Negotiating a Lease

If you're buying a business with a lease, one word of advice is to have a clear way out of the lease in the near future. After all, with a business so new to you, you might make changes in the short term. The general recommendation is to negotiate a oneyear lease that has an option for a longer period of time.

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How Leases Factor into Business Sales (continued)

In many instances, the buyer of a business with a lease will find that he or she doesn't have too much leverage. However, buyers typically find that there is more opportunity to negotiate if the lease is close to its expiration date or the business is performing poorly.

Future Contingencies

When you're first negotiating your lease, you may also want to think about the big picture. For example, if your business is in a mall, you might want to confirm that no future tenants will be allowed to move in and be your competition. Along similar lines, some businesses located in shopping centers seek to outline a reduction of rent if the shopping center's anchor store were to close, as that could negatively impact the business.

Have a
clear way out
of the lease.

When you negotiate your lease, you'll also want to think about the far-off future when you'd like to sell the business. You will want to make sure that the landlord allows for lease transfers, and you'll want to confirm the requirements necessary for a potential transfer.

Another thing to consider is what if the property did become available in the future? If this were to occur, you might want to negotiate the option to potentially buy the property. Otherwise, you might find yourself in an unfortunate situation where you are forced to move your establishment.

Basics for Your Lease

A lease should always outline your responsibilities as well as those of your landlord. Make sure you carefully review the lease with your attorney. You'll want to be sure that you thoroughly understand all the terms. It should cover various issues that might arise in the future and how they will be handled. For example, if there were a fire or disaster, who would pay to rebuild the building? How are the taxes, fees and maintenance handled for the property?

Unfortunately, in some situations a landlord's lack of flexibility with a lease has even sunk a deal. If the landlord is unwilling to agree to a new lease or offer concessions to an ongoing one, buyers often will find the situation too restrictive. In certain instances, however, sellers have been willing to offer concessions to buyers to counterbalance issues with a lease.

The fate of your business could literally depend on your lease. If you set things up correctly in the beginning, it will most likely benefit you tremendously in the long run.

5 Ways that Sellers Can Focus on the Positives

When you are looking to sell, always focus on the positive aspects of your business. Many business owners fail to properly make a case for the benefits of their businesses to prospective buyers. Be sure to make it clear that your business has stability and ample financial health. Let's take a closer look.

1. Prepare in Advance

Preparing paperwork in advance will help to make sure that everything is in proper order and you're not scrambling at the last moment. When your records are organized and correct, your prospective buyer will be able to truly see the value of your business.

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5 Ways that Sellers Can Focus on the Positives (continued)

Buyers will also like to know that you have robust accounting processes that they can rely on in the future.

You should also make sure that inventory is in stock and that any necessary upkeep has been done. All of these updates are part of the big picture when it comes to presenting your business in the best light to buyers.

2. Reveal Your Methods of Operations

You'll also want to demonstrate that you have a solid formula for a successful business. Buyers love to see items in place like procedures manuals, as they reveal

the routine tasks necessary to run the business. Anything you can provide that will help the buyer understand how to successfully run your business will help them understand its advantages.

3. Keep Things Consistent

During the sales process, you'll want to be sure to maintain regular operations. If prospective buyers see any kind of dip in success, this could negatively impact your deal. Selling a business is an all-encompassing process, and it can be next to impossible to handle all the associated tasks while still putting all the necessary time and energy into your business.