

TODAY'S BUSINESS SCENE

the newsletter for privately held businesses



**Mountain States
Business Brokers**

Are we in a recession? Yes!
Will we always be in a recession? No!
What should you do about it?

Actually, now is the time to prepare for the coming turn-around in the economy and in your business. The way to do that is the same as always and involves 3 proven steps. First, position your business to be the one future customers will want to do business with. Second, build a platform for that business where customers can easily find you. Third and most important, keep working hard. The same holds true if you want to sell your business. Position your business to be the one future buyers will want; create a marketing plan that places you in front of the greatest number of buyers; and keep working like it will always be yours!

We can help you with the first two steps- preparing for the sale and marketing your business- and we will work just as hard to sell your business as you have to build it.

**Ben Mahrle, CBI
Managing Broker**

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What About Seller Financing?

Some of the very first questions potential buyers ask a business brokerage specialist are: "How much is it?" "How much can I make?" And then, "How much money do I need to buy it?" Many sellers expect, or at least want, an all-cash sale. Interestingly, when asked if they paid cash when they purchased the business, most will respond with a "no." Many of those who say "yes" actually started the business from scratch as opposed to buying it. Most business sales are financed either by an outside source or by the seller. An all-cash sale is quite difficult to get in today's economy. Actually, it was quite difficult to get in yesterday's economy.

Banks like to lend only against hard assets. The Small Business Administration (SBA), under its 7(a) program, lends money for a buyer to purchase an existing business, but today, the requirements for this program are very stringent. The buyer generally must have had experience in the type of business being purchased; in many cases the goodwill will not be included in the purchase price; the buyer must have very good credit; and the business must have an excellent track record and be able to show it with good financials. And these are just the basic requirements.



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What About Seller Financing? (continued from cover)

Seller financing has quite a few pluses. Here are a few:

- There is a better chance that the business will sell. In fact, in many cases the business won't sell for all cash unless the seller is willing to lower the price substantially.
- The seller will usually receive a much higher price if he or she is willing to finance a portion of the sale price.
- Most sellers are unaware of just how much interest can increase the total consideration paid for the business. A seller-financed note, for example, at eight percent interest paid over nine years actually doubles the amount carried.
- With interest rates paid by banks and other savings institutions and the stock market the lowest they've been in years, seller financing may make a lot of sense economically.
- Seller financing may also have some positive tax consequences.
- And, finally, financing the sale tells the buyer that a seller has sufficient confidence in the business that it will or can pay for itself.

Other than a seller needing the cash to purchase another business or some other personal reason, the biggest obstacle is the seller's concern regarding whether a new owner will be able to pay off the loan from the profits of the business. While the seller already has the best idea about the potential profits of the business, there are some additional things a seller can do to check out the buyer.

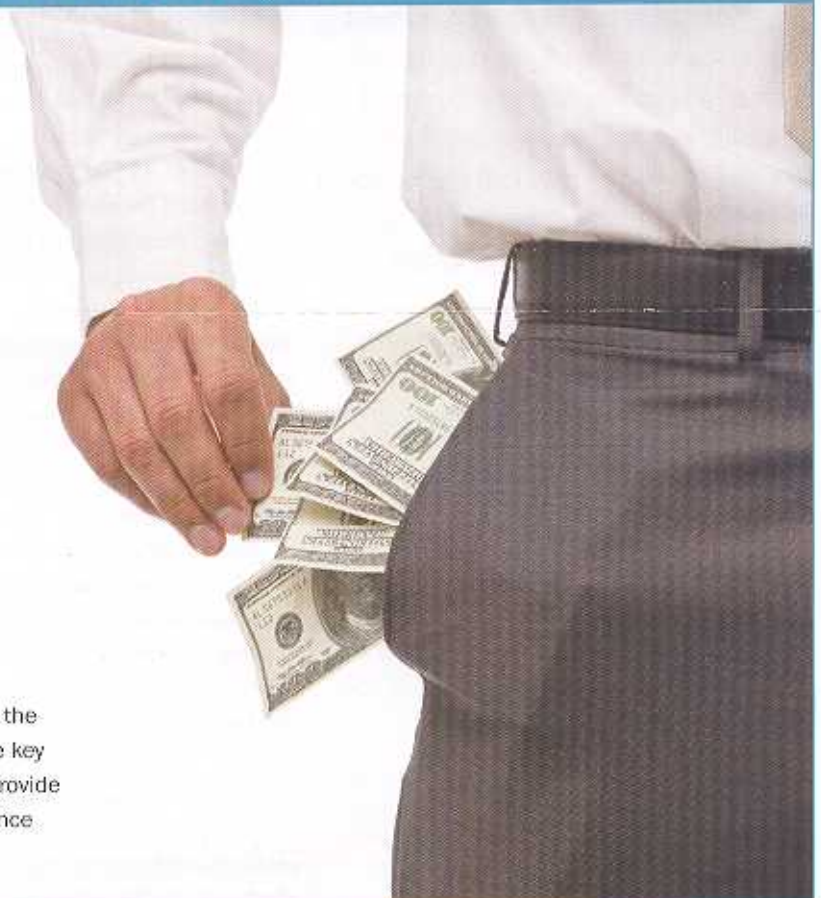
- Does the buyer own his or her own house? If so, how long has he or she lived in it?
- What is the buyer's work history?
- Obtain a copy of the buyer's credit report.
- Check out the buyer's personal references.

Creative financing can also be very helpful. For example, a toy store generally does 40 percent or more of its business in October, November and December. Make the payments higher in those months and lower in the summer when business is not usually as good. Or, if the business is in a summer resort, make the payments much higher in those months and lower in the middle of winter. Seller financing has been the mainstay for successful business sales.

Financing the Sale: Some Questions to Ask Yourself

- What is the lowest amount of cash you will accept from a sale?
- Have you considered what will have to be paid from the cash received? Don't forget suppliers, vendors, unsecured creditors, a portion of the closing costs, other debt, etc.
- Is there any long-term or secured debt that could be assumed by the buyer? This may leave more available cash from the sale for the seller.
- What is an acceptable interest rate for seller-financing?
- What are the tax consequences of the sale?
- Will the business be able to service the debt and still provide a living and return to the buyer? This is a key question for parties on both sides of the sale.

How the sale is structured is important to the best deal for the buyer and seller. A professional business broker can be the key player in accomplishing this goal. Business brokers can't provide legal advice, but their deal-making knowledge and experience can greatly assist in ensuring a win-win transaction.





Secrets for Successful Business Sales

The Buyer and Seller should be in agreement from the beginning. In many transactions, the buyer and seller weren't really in agreement initially or didn't really understand the terms of the sale. They must also be comfortable with the terms and structure of the sale. Misunderstandings force many deals to fall apart.

Both sides must be patient. Putting a deal together and closing it takes time. It is also important that both buyer and seller make their advisors stay on schedule. The attorneys involved should be told from the outset by buyer and seller that unless the deal is illegal or unethical, they want it to work.

No one likes surprises. Everything should be revealed from the start. Buyers understand that nothing is perfect, and if the minuses are communicated to them out front, the surprises are eliminated. If not exposed initially, the minuses will be exposed sooner or later.

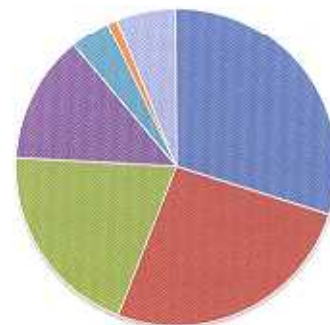
Buyer and seller must feel like they both got a good deal. If all parties to the transaction feel good about the deal, the closing is a mere formality. Both parties should feel comfortable with the terms and conditions as well as the chemistry between them. That's the sign of a win-win transaction.

The real secret! The real secret is tied up in one word - listen. Everyone involved in the deal must listen. No one can win on every point. By listening, both sides will understand what is really important to the other. Listening creates a spirit of cooperation and allows both sides to work together to make the deal work. After all, the buyer and seller wouldn't be involved if the seller wasn't interested in selling and if the buyer didn't like the business well enough to attempt to buy it.

Why Business Sales Fall Apart

A recent survey of business broker professionals reported the following response to the question: What was the main obstacle that prevented pending sales from closing?

■ Financing	30%
■ Seller Issues	26%
■ Buyer Issues	20%
■ Landlord/Lease Issues	13%
■ Legal Issues	04%
■ Governmental Issues (Inspections, Environmental, etc)	01%
■ Other	06%





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Why People Want to Own Their Own Business

The economy is certainly not the best it's ever been. Small businesses are hurting; business is off. The owners are working longer hours for less profit. So what's the big attraction in owning your own business? Now may be a good time to pause and reflect on all of the reasons owning your own business is still the best way to go!

- You are your own boss. You answer only to yourself.
- You make your own decisions.
- You can build your business as you see fit.
- You can build your own wealth.
- You can't be fired, laid off or downsized.
- You can take a day off when you want.
- You don't have to deal with the corporate bureaucracy.
- You can "hang out" at your own water cooler and take coffee breaks when you want.
- You can build your own safety net.
- You are building your own equity
- You have something to leave to your children.
- You control your own destiny and future.

