

FOR SALE BY OWNER?

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According to the National Association of Realtors (*Profile of Homebuyers and Sellers – 2003*), 14% of all residential sales are “For Sale By Owner (FSBO). The number of residential FSBOs has trended down in recent years from its high of 19% in 1997.

While I have seen no comparable statistical findings for business sales, experience tells me that upwards of 80% to 90% of businesses are attempted For Sale By Owner. Experience also tells me that a large number of those business owners attempting a FSBO of their companies are risking the future earning potential of their business as well as leaving valuable dollars on the table. The risk of a FSBO in a business sale is much greater for the owner and calls into question the wisdom of attempting such a transaction.

Why?

Residential real estate transactions are fairly straightforward: the buying/selling process is relatively well-known among the general public, real estate is easy to finance through a variety of sources due to the nature of the collateral, potential buyers are qualified by banks through the loan process, and the residential sales process by its nature is open to the public. In essence, the process is commonplace and relatively straightforward.

Business sales, on the other hand, are more intricate in their structure and fraught with pitfalls for the uninitiated - the stakes for the owner are much higher; confidentiality is of major concern; much time and effort is wasted on potential buyers who lack the proper qualifications; and, financing the transaction through traditional sources is difficult at best.

Further examination of these pitfalls proves the point.

Higher Stakes

In many cases, businesses are sold because of the retirement of the owner or for other personal reasons. The owner is depending upon the proceeds of the sale to fund his lifestyle going forward – there is no margin for error for every dollar earned in the sale is a dollar that goes toward maintaining the long-term well-being of the owner and his family. Unlike a residential real estate transaction where the proceeds are likely to be plowed into the purchase of another home, the proceeds of a business sale are more likely to be funds depended upon to maintain a lifestyle – the downside of a blotched business sale is much greater.

Confidentiality

Unlike a residential sale where “the more people that know the better,” a business sale must be conducted in confidence in order to protect the ongoing viability of the business asset. If word leaks out that a business is for sale, employees flee, competitors pounce, suppliers fret, and the future of the business is jeopardized. Additionally, as businesses are valued on the basis of their cash flow, the “worth” of the business may decline as the owner’s attentions are focused on the sale.

Financing the Transaction

In a residential sale, the house and the land serve as the under-lying basis for the collateral that allows the buyer to obtain traditional financing. In a business sale, much of the value of a business is its intangible goodwill. Banks are faced with very little to foreclose upon should the business fail under the new owner.

For that reason, seller financing is a major issue in business sales transactions. The seller, therefore, has a tremendous stake in knowing the buyer – not only the buyer’s ability to operate the business, but his reputation and personal financial condition. All too often, an owner

will celebrate the sale of his business only to find that he has been misled by a buyer who subsequently ruins his business and jeopardizes ultimate repayment of the loan.

The Solution?

In too many cases, a business owner will pursue a FSBO in an effort to avoid paying a commission to a business advisor and/or broker. The short-term reality of the payment of a commission has overshadowed the benefits of having a seasoned veteran of business sales on his side. In most cases however, using a broker actually *increases* the cash that remains in the owner’s pocket following a business sale. A good broker will work for the best interests of the owner throughout the transaction; has experience in the opportunities and pitfalls inherent in business transactions; maintains confidentiality throughout the process; qualifies potential buyers for reputation and financial capability; helps structure financing scenarios that are most beneficial for the owner; and, allows the owner to concentrate on what he does best – running his business profitably.

Using a business broker, especially one designated as a **Certified Business Intermediary (CBI)** by the International Business Brokers Association, will reap dividends for the business seller – the stakes in the transaction are too high to proceed otherwise. While a FSBO can make sense in the residential real estate environment, it rarely pays dividends in a business sale.



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