Q: WHAT IF I CAN'T SELL MY BUSINESS?

BY **RON EDMONDS**

A: Often, Green Industry business owners have a tremendous percentage of their wealth tied up in their businesses. Many assume they'll be able to sell their business when they're ready to retire or move on to another opportunity. Unfortunately, few have actually planned how to monetize this asset when that time comes, though. Many businesses are placed on the market without considering the best plan for achieving a transaction that meets the owner's requirements. As a result, business owners sometimes are unable to sell their businesses, at least at a price they're willing to accept.

So what should you, as a business owner, do if your company doesn't sell?

The first step is to identify why your business failed to sell. Possibilities are:

The business isn't attractive to potential buyers. This is difficult. Buyers tend to favor businesses with a significant stream of recurring revenue, such as landscape maintenance or lawn care. A construction-oriented business may be solid and highly profitable, but buyers usually are wary about their ability to continue the existing level of operations after a transition.

The business is too dependent on the owner. Many Green Industry businesses are identified highly with their owners. No matter how much the business has grown, the owner may be the principal salesperson, quality control officer and chief recruiter, as well as being involved in client relationships. The owner's name is often on the business, too. In these situations, a buyer would be concerned about his ability to maintain the existing business after the original owner is no longer present.

The business is too dependent on a few customers. The business may be profitable but have just a few customers that produce a large portion of the business. If a business is dependent on one customer or group of customers to make up 50 percent of sales, a buyer will be concerned about the risk of that customer going away, for whatever reason, after the sale is completed.

The business isn't priced correctly. Unrealistic prices are often reasons businesses don't sell. Owners may ask for an offer from a potential buyer, but the asking price sets an expectation of what it takes to buy a business. If a buyer believes the asking price is significantly too high, he often won't make an offer, avoiding wasting his time and money pursuing the transaction, believing the owner may not take a reasonable offer.

The business hasn't been marketed effectively. A business opportunity must be presented to a large enough market to identify one or more interested buyers. If too few potential buyers have been exposed to a business for sale, the process may not produce a buyer. This can happen when a business

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ILLUSTRATION: ISTOCK INTERNATIONAL INC.

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intermediary has too many restrictions placed on marketing the business or doesn't have the right connections or resources to market the business effectively.

Market conditions are negative. The market is cyclical. There are times when few transactions take place because credit markets tighten. When interest rates are higher, the available financing usually decreases because lenders require a certain level of debt service coverage.

LOWERING THE BUYER'S PERCEPTION OF RISK

The first three reasons a business may not sell are primarily because of the perceived riskiness of the transaction to a potential buyer. A few strategies are available to address the risk to a buyer. The best thing to do, if possible, is to address the reasons for the perception of risk by steps such as:

› Build the recurring revenue components of the business or create new ones. This is somewhat counterintuitive, but one way to do it is make an acquisition or two.

› Develop the management team and make the business less dependent on the owner.

› Diversify the customer base.

Unfortunately, those ideas take time. If you don't have the time to make significant changes in the business, alternatives are:

› Make a portion of the purchase price an earn-out payable only if the business achieves a certain level of performance after a deal is done. These are tricky. The objective is to decrease the buyer's perception of risk while not significantly increasing the seller's risk of going unpaid.

› Provide some of the financing for the transaction in the form of a seller note. This, too, is tricky because a seller note will be subordinate to the traditional financing a buyer obtains and may have limited payments for two to three years. However, lenders often prefer 20 percent in seller financing. Fortunately, sellers who are willing to take a seller note will, on average, realize a significantly higher price for their businesses than those who are unwilling to take seller paper.

› Focus on buyers who will have a lower perception of risk, such as key employees or, perhaps, competitors.

PRICING AND MARKETING

To stimulate buyer interest, it's a sound idea to have a discussion with a merger-and-acquisition adviser about an asking price that will be attractive to potential buyers without leaving money on the table. In some cases, an earn-out or similar provision can help bridge a valuation-perception gap.

One factor that diminishes the likelihood of receiving an offer is a limited marketing plan that's the result of concerns about confidentiality. Many owners are concerned their business may implode if employees or customers find out it's for sale. Thus, they limit the advertising or types of contacts their intermediary can make to avoid the risk of inadvertent disclosure. However, there's a direct relationship between the number of potential buyers who know about an opportunity and the likelihood of receiving an acceptable offer. It's often wise to have as broad a marketing program as possible.

Negative market conditions are one thing you can't control. The best advice is to prepare ahead of time and be ready to sell when market conditions are right, not knowing exactly when that may be. Your only other realistic alternatives are to delay your transaction until market conditions improve or use transaction terms (seller financing, earn-outs and asking price) to make a proposed transaction attractive, even with negative market conditions.

BUYERS TEND TO FAVOR BUSINESSES WITH A **SIGNIFICANT STREAM OF RECURRING REVENUE,** SUCH AS LANDSCAPE MAINTENANCE OR LAWN CARE.

BEING OBJECTIVE

Examine your business as a buyer would, and address the things that would make your business unattractive to you if you were considering purchasing it. Being objective is difficult when it's your business, so consider asking trusted advisers to do the same thing and be straightforward with you about what they think.

The best alternative is to avoid this situation altogether by developing an exit plan. An effective exit plan should assess the value and marketability of your business and include action steps to improve them throughout your planning timeline. A primary goal of your exit plan should be to enable you to sell your business on your terms and timetable. LM

Planning pointer

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