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Unforeseen Challenges to Third-Party Sales

For many business owners, a sale to a third party is their assumed Exit Path. Some business owners even start their businesses with the goal of finding a larger, more deeply pocketed buyer; selling the business; and retiring early. The potential to sell the business for cash draws business owners to third-party sales. If you are considering a third-party sale, do you know the full scale of the planning you'll need to do to get ready? Those who make plans improve their chances for a successful sale.

While it's true that many business owners initially intend to pursue a third-party sale as their Exit Path, it's also true that many of those same owners choose a different Path in the end. There are four challenges that you may face in pursuing a third-party sale that may cause to you change your mind, and some of them are unexpected.

Challenge 1: Threats to Financial Security

Third-party sales are a two-sided coin. While they may attract the highest sale price, they also can require you to give up control. If you do not receive the entire purchase price in cash at closing, you risk relying on the company's new owners to perform well enough to support the earn-out or pay off a promissory note. If the company struggles after the sale, and you are reliant on the continued performance of the business you no longer own for

post-exit security, you may find that you have to go back to work.

Challenge 2: Seller's Remorse

Seller's remorse occurs when business owners sell their businesses and find that they don't have anything that they like to do outside of running the business. You may assume that you will figure out what to do after you exit, only to panic as the sale date approaches. Pulling out of a sale can have a ripple effect, since qualified buyers might shy away from businesses that go on the market then come off the market without selling. Additionally, owners who don't know what to do with their lives without the business can have an unfulfilling post-exit life if they sell the business without a post-exit plan.

Challenge 3: Tax Consequences

Will you be one of the unfortunate owners who finds yourself owing a significant percentage of your sale price to the government in taxes? Without a pre-sale analysis of the business and personal tax consequences of a sale, you may go too far down the path with an attractive buyer before you realize you can't afford to sell the business for the price they offer.

Challenge 4: Culture Shock

Buyers commonly want to make changes to their acquisition post-closing. After all, buyers rarely buy businesses unless they think they can make changes to improve them. You may regret selling to a buyer who radically changes your company, which can dampen your post-exit satisfaction. Perhaps more harmful are owners who decide that they cannot stomach a radical change to their businesses' culture and take them off the market, thereby causing the value of their businesses to drop dramatically (i.e., tainting the marketplace).

There are many assumptions for business owners to make if they decide to pursue a third-party sale. Those assumptions can have negative effects for owners and their businesses if not properly addressed. If you'd like to discuss the plausibility and challenges of a third-party sale for your business, please contact us today.

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Please contact Dan O'Brien for a free one hour consultation on your exit planning needs

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