

Why Do Deals Fall Apart?

In many cases, the buyer and seller reach a tentative agreement on the sale of the business, only to have it fall apart. There are reasons this happens, and, once understood, many of the worst deal-smashers can be avoided.

Understanding is the key word. Both the buyer and the seller must develop an awareness of what the sale involves--and such awareness should include facing potential problems before they swell into floodwaters and "sink" the sale.

What keeps a sale from closing successfully? In a survey of business brokers across the United States, similar reasons were cited so often that a pattern of causality began to emerge. The following is a compilation of situations and factors affecting the sale of a business.

The Seller Fails To Reveal Problems When a seller is not up-front about problems of the business, this does not mean the problems will go away. They are bound to turn up later, usually sometime after a tentative agreement has been reached. The buyer then gets cold feet--hardly anyone in this situation likes surprises--and the deal promptly falls apart. Even though this may seem a tall order, sellers must be as open about the minuses of their business as they are about the pluses. Again and again, business brokers surveyed said: "We can handle most problems . . . if we know about them at the start of the selling process."

The Buyer Has Second Thoughts About the Price In some cases, the buyer agrees on a price, only to discover that the business will not, in his or her opinion, support that price. Whether this "discovery" is based on gut reaction or a second look at the figures, it impacts seriously on the transaction at hand. The deal is in serious jeopardy when the seller wants more than the buyer feels the business is worth. It is of prime importance that the business be fairly priced. Once that price has been established, the documentation must support the seller's claims so that buyers can see the "real" facts for themselves.

Both the Buyer and the Seller Grow Impatient During the course of the selling process, it's easy--in the case of both parties--for impatience to set in. Buyers continue to want increasing varieties and

volumes of information, and sellers grow weary of it all. Both sides need to understand that the closing process takes time. However, it shouldn't take so much time that the deal is endangered. It is important that both parties, if they are using outside professionals, should use only those knowledgeable in the business closing process. Most are not. A business broker is aware of most of the competent outside professionals in a given business area, and these should be given strong consideration in putting together the "team." Seller and buyer may be inclined to use an attorney or accountant with whom they are familiar, but these people may not have the experience to bring the sale to a successful conclusion.

The Buyer and the Seller Are Not (Never Were) in

Agreement How does this situation happen? Unfortunately, there are business sale transactions wherein the buyer and the seller realize belatedly that they have not been in agreement all along--they just thought they were. Cases of communications failure are often fatal to the successful closing. A professional business broker is skilled in making sure that both sides know exactly what the deal entails, and can reduce the chance that such misunderstandings will occur.

The Seller Doesn't Really Want To Sell In all too many instances, the seller does not really want to sell the business. The idea had sounded so good at the outset, but now that things have come down to the wire, the fire to sell has all but gone out. Selling a business has many emotional ramifications; a business often represents the seller's life work. Therefore, it is key that prospective sellers make a firm decision to sell prior to going to market with the business. If there are doubts, these should be quelled or resolved. Some sellers enter the marketplace just to test the waters; to see if they could get their "price," should they ever get really serious. This type of seller is the bane of business brokers and buyers alike. Business brokers generally can tell when they encounter the casual (as opposed to serious) category of seller. However, an inexperienced buyer may not recognize the difference until it's too late. Most business brokers will agree that a willing seller is a good seller.

Or...the Buyer Doesn't Really Want To Buy What's true for the mixed-emotion seller can be turned right around and applied to the buyer as well. Buyers can enter the sale process full of excitement and optimism, and then begin to drag their feet as they draw closer to the "altar." This is

especially true today, with many displaced corporate executives entering the market. Buying and owning a business is still the American dream--and for many it becomes a profitable reality. However, the entrepreneurial reality also includes risk, a lot of hard work, and long intense hours. Sometimes this is too much reality for a prospective buyer to handle.

And None of the Above The situations detailed above are the main reasons why deals fall apart. However, there can be problems beyond anyone's control, such as Acts of God, and unforeseen environmental problems. However, many potential deal-breakers can be handled or dealt with prior to the marketing of the business, to help ensure that the sale will close successfully.

A Final Note Remember these four components in working toward the success of the business sale:

1. Good chemistry between the parties involved.
2. A mutual understanding of the agreement.
3. A mutual understanding of the emotions of both buyer and seller.
4. The belief, on the part of both buyer and seller, that they are involved in a good deal