



The UOA Report Updates...Outlooks...Analysis

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TODAY' ECONOMY AND SELLER FINANCING

In today's tight business-for-sale marketplace, an owner's willingness to finance the sale gives him or her an edge over the competition. But owner financing isn't for the faint of heart. To stay on track, sellers need to follow some obvious – and some not so obvious – dos and don'ts.

Currently, many business owners are facing difficult situations. It's not that their business is not attracting attention or being seriously considered. Most of the time, the business isn't the problem. In fact, a business that generates significant attention in the marketplace is usually a good candidate for a sale. Instead, the issue is most often the buyers' inability to secure financing at the owner's asking price. That leaves owners with two options: Either lower the asking price or work with the buyer to overcome sale barriers.

Many owners in today's market need to carefully consider the option of holding a portion of the note. If one of the main attractions of their business is that they deal with a significant amount of cash you can almost guarantee a significant portion of the financing will be in seller form. Carefully review some of the dos and don'ts.

Assess Risk

An owner financed sale needs to be assessed as an investment. Nothing could be more important (when considering seller financing) than qualifying your new buyer. Does he or she have the necessary background to be successful in your business? Assess your own business. What is it lacking? Do you need a person with a background of sales or is operations possibly a deficiency? A new buyer may be qualified to purchase your business from a down payment standpoint, but are they capable of taking the business to the next level without you?

Leverage the Benefits

If the buyer is, in fact, a good investment risk, the seller stands to reap substantial benefits from self-financing. Too many sellers view financing as a desperate measure to unload the business when they should be viewing it as a resource for enhancing the benefits of the sale.

Right out of the gate, a seller's willingness to hold paper increases the final selling price of the business. Partially-financed sales typically result in a price that is more than 15 percent higher than their cash sale counterparts. That means you can leverage your seller's willingness to finance as a bargaining tool during negotiations.

The other big benefit of financing the sale is the potential to multiply the principal value of the business through future interest payments. As you might expect, a financed sale garners a much higher rate of return than many other investment vehicles with a five to seven year note at 8 to 10 percent interest as the norm.

Advertise Your Willingness to Finance

Many Sellers are not comfortable advertising they are willing to hold a portion of the note. This can be a mistake if you have decided you are willing to finance. Many qualified buyers are looking specifically for sellers willing to finance. Many educated buyers want the seller to still be involved to some degree. They may need advice or contacts and want to know you will be available to answer their questions. Obviously, there is more incentive to return those calls if you are collecting a monthly check.

Give and take is necessary in all negotiations and in business. Seller financing is no different. If you are in the market consider the points above, they may benefit you.

2007 Average Annual Sales of Companies with:

0-4 Employees - \$283,000 5-9 Employees - \$794,000 10-19 Employees - \$1,673,000
20-99 Employees - \$5,701,000 100-499 -\$27,056,000 500+ \$540,467,000

WHAT THE SBA CONSIDERS "SMALL BUSINESS."

- 500 or fewer employees for most manufacturing and mining industries (a few industries permit up to 750, 1000 or 1,500 employees)
 - 100 or fewer employees for all wholesale trade industries
- \$6 million per year in sales receipts for most retail and service industries (with some exceptions)
 - \$27.5 million per year in sales receipts for most general & heavy construction industries
 - \$11.5 million per year in sales receipts for all special trade contractors
- \$0.5 million per year in sales receipts for most agricultural, forestry and fishing industries

Businesses for Sale:

- Food Manufacturer
- Other Manufacturing
- Automotive Salvage Yard
- Scooter/Moped Dealer

We Have Qualified Buyers For:

- Home Health Care
- Manufacturing
- Commercial Printing
- Small Accounting Firms
- Mid-Large Electric Companies



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