Unforeseen Challenges to Third-Party Sales

Peter Racen, CLU®, ChFC®, CASL®, CFP®, AEP®
peter.racen@nm.com

Northwestern Mutual Wealth Management Co., LLC
www.peterracen.com
424 S. Woods Mill Road
Suite 110
Chesterfield, MO 63017
314-744-5270

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.

The information contained in this article is general in nature and is not legal, tax or financial advice. For information regarding your particular situation, contact an attorney or a tax or financial advisor. The information in this newsletter is provided with the understanding that it does not render legal, accounting, tax or financial advice. In specific cases, clients should consult their legal, accounting, tax or financial advisor. This article is not intended to give advice or to represent our firm as being qualified to give advice in all areas of professional services. Exit Planning is a discipline that typically requires the collaboration of multiple professional advisors. To the extent that our firm does not have the expertise required on a particular matter, we will always work closely with you to help you gain access to the resources and professional advice that you need.

This is an opt-in newsletter published by Business Enterprise Institute, Inc., and presented to you by our firm. We appreciate your interest.

Any examples provided are hypothetical and for illustrative purposes only. Examples include fictitious names and do not represent any particular person or entity.

Peter Andrew Racen is primarily licensed in Missouri and may be licensed in other states.

CA License: #0D29950

AR License: #3201464

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ CFP® (with plaque design) and CFP® (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

The Chartered Advisor for Senior Living (CASL®) designation is conferred by The American College of Financial Services.