

Price or Terms: The Structure of the Deal

An old saying in negotiating the sale of a business goes like this: *The buyer says to the seller, "You name the price, and I get to name the terms."*

Another saying used to explain the actual value of the term full price: *"If we could find you a business that nets you \$250,000 a year after debt service, and you could buy it for \$100 down, would you really care what the full price was?"*

It seems that everyone is concerned only about full price. And yet, full price is just part of the equation. If a seller is willing to accept a relatively small down payment and carry the balance, a higher full price can be achieved. On the other hand, the more cash the seller wants up front, the lower the full price. If the seller demands all cash, barring some form of outside financing, full price lowers – and, in most cases, the chance of selling decreases as well. Even in cases where outside financing is used, such as through SBA, etc., the lender will do everything possible to ensure that the price makes sense.

Sellers should understand that both what they hope to accomplish in the sale of their business and the structure of the actual sale can dramatically influence the asking price. Price is obviously important, but other factors may be even more important. For example, consider a seller with health issues who needs to sell as quickly as possible. In his case, timing becomes more essential than price. Another seller may place more importance on her business remaining in the community. In her case, finding a buyer who will not move the business may supersede price or certainly influence it.

Likewise, the structure of the deal can both influence price and be a more significant factor than price to either the buyer or the seller. The structure can dictate how much cash the seller receives up front, which may be more important than price for some sellers. On the other hand, sellers should also be aware how much the interest on their carry-back can add up to. If cash is not an immediate concern, monthly payments with an above-average interest rate may be enticing.

These examples all demonstrate the importance of a business broker or M&A Advisor sitting down with the seller prior to recommending a go-to-market price. During this meeting, the broker should find out what is really important to the seller, as these issues may have a direct bearing on the price.



Sellers should look at the following factors and rank them according to importance on a scale of one to five, with five being extremely important.

- Buyer Qualifications
- Full Price
- Amount of Cash Involved
- Financing
- Confidentiality
- Commission/Selling Fees
- Closing Costs
- Exclusive Listing
- How the Business is Shown
- Advertising/Marketing
- How a New Owner Continues the Business

By ranking these items and discussing them with a professional Business Broker or M&A Advisor, a seller can receive helpful advice from the advisor on price, terms, and structuring the sale.

CK Business Consultants, Inc. has been dealing exclusively in the sale and acquisition of petroleum and propane related mid-market companies since 1976. We are qualified, experienced, and highly professional intermediaries working with both buyers and sellers in the successful transfer of business ownership. We handle all phases of the project including initial analysis, valuations, developing a confidential information memorandum, locating qualified buyers, negotiations, and execution of the transaction. For more information, please call or email Gary Papay @ 570-584-6488, gpapay@ckbc.net or visit our website @ www.ckbc.net.