CK BUSINESS CONSULTANTS, INC.

Successfully Navigating Seller Financing

Only a small percentage of the population is able to go through life without using some form of financing at some point. Most people have little choice but to finance everything from their home and car purchases to their college education. Now, with that stated, most business owners would love to receive an all-cash offer for their business. But the reality of the situation is quite different. The facts are that owner financing is very common, and it is sometimes the only way to put a deal together.

Sellers have to be ready and willing to entertain the idea that they may, ultimately, be called upon to handle some aspect of financing if they want to sell their business. It surprises many to learn that if a seller is not willing to finance the sale, then buyers begin to worry and may even see this as something of a "red flag." The reason for this is that many buyers feel that if a business is a solid investment, then the business will be profitable and repaying the seller should be no problem.

Buyers may worry that if a seller isn't willing to help with financing there could be a "hidden" problem with the business. It might occur to them that sellers are "jumping from a sinking ship." It is important that sellers keep this important aspect of buyer psychology in mind when addressing whether or not they are willing to finance.

Buyer psychology plays a major role in another aspect of seller financing and that comes in the form of collateral. Sellers may want to have some form of outside collateral to secure the loan on their business. While this may seem perfectly understandable to the seller, buyers can have something of a nervous response to this issue as well. As much as buyers worry that a seller's refusal to provide financing is a red flag, the same holds true for sellers who seek collateral. Once again, the concern is that if the business was healthy and thriving there should be no need for collateral. The buyer is left wondering, "What is going on here? How worried should I be? Why do they need collateral if this business is so great?"

Typically, buyers are "maxed out" when buying a main street business. They are allocating most of their available funds to the down payment on the business. That means they will be unlikely to "push all their chips in" and gamble everything by also putting up the home, retirement funds or other collateral in the process. Sellers need to see the situation from the buyer's perspective and remember that a collateral requirement could mean that if the business fails, the buyer could be left with nothing.

Navigating the complex interaction between buyers and sellers is no easy feat. It requires a careful balancing of several different skills, ranging from understanding finance to psychology. Working with an experienced business broker or M&A Advisor can help buyers and sellers connect and find workable agreements so deals can get made.