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Actual Sales of Small Businesses

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There have been many attempts to determine just how many small businesses actually sell in any given year. As far as I can tell, there is no comprehensive list anywhere that is able to monitor which small businesses or even how many small businesses sell in a year. A number of business brokers, when pointedly asked the question how many of their small business listings actually sell, try and hide the issue as they appear to be afraid that if business owners considering selling actually knew how few small businesses actually sell, it would hurt their business. A number of business brokers that have sold businesses for many years have been willing to frankly discuss this issue. Jeff Jones, a very well-known business broker in Houston, Texas states that in his 40 years of experience in selling small businesses, only about twenty percent (20%) of the businesses listed for sale actually sell. This is quite similar to what I have heard from other business brokers over the years as well. It should be noted that a business that is closed down or otherwise goes out of business does not count as a sale.

Bill Laska, of the Laska Company in Boise, Idaho, reports that his firm actually sells between 50% and 70% of the businesses they list for sale. Exploring this further with him, he explained that he simply is very selective about which businesses he lists for sale. If a business owner that wishes to sell will not accept what he knows and explains is the likely selling price, i.e. they are not really ready to sell, he won't take the listing. This is pretty unusual, most business brokers will take almost any listing and simply hope to find a buyer or hope that the seller will eventually become reasonable. I have known Bill Laska for many years and admire the way he does business. Whenever anyone asks me about selling their business, I refer them to him.

Based on discussions with various business brokers, I have determined that the following are the major reasons that many small businesses do not sell:

1. The business is over priced. This is the most common reason for failure of a business to sell. Many small business owners have an unrealistic view of what their business is really worth. A common problem is that many owners set the price on what they would like to get out of the business to meet their personal financial goals rather than basing it on the amount of cash flow it actually generates.

2. The business records are in bad shape and claimed earnings cannot be confirmed or earnings simply do not exist. This is the second most common reason many small businesses do not sell. The tax returns and other financial records will demonstrate perhaps earnings to the owner of $25,000, yet the owner claims it really is $100,000 plus, i.e. they don't report some of the revenue or claim that many of the historical expenses are hidden personal expenses, etc. If a small business owner is serious about selling, they simply cannot play financial games; they must report all revenue and expenses and pay their income taxes. Also, if a small business does not generate enough earnings to pay the owner a reasonable salary and hopefully a profit, it rarely has any value other than would could be generated in a liquidation of the business.

3. The refusal of the owner to carry financing for a sale and the lack of the availability of bank (SBA) financing for specific types of businesses. Most sales of small businesses require some type of

financing as the typical buyers for such businesses simply do not have enough cash available for an investment to meet the entire purchase price. If a small business buyer has a large amount of cash, they usually try to purchase a much larger business, thus still requiring financing. In order for many small businesses to sell, the owner is required to carry the financing with only the business assets purchased as collateral. A seller generally gets a good sized down payment, but there is still considerable risk that the financing carried in a sale may not get paid, i.e. the buyer may not do well and the seller will get the business back; usually in not very good condition. From a buyer's perspective, obtaining an SBA backed loan is difficult, time consuming, and expensive. If a seller is totally unwilling to carry financing, many buyers wonder what is wrong with the business that is not being disclosed. Some SBA backed loans are obtainable, but generally only for those businesses with very good records and for buyers with good financial statements, a strong cash down payment, excellent credit, and other available collateral (such as a personal residence with equity) that he or she is willing to pledge to the bank.

4. Lack of strong seller motivation to sell that usually results in the seller not being timely in getting the items needed to effect the transfer of the business such as current financials, tax returns, copy of the lease, list of assets to be included in the sale, etc. and/or the seller's accountant or attorney insisting on a stock sale rather than an asset sale or otherwise changing the "deal" such that it falls apart.

According to Jeff Jones, the average number of times he has had to show a business in order for it to sell over the years is 54 times. He states that has had a business that he showed over 100 times that did not sell and he has occasionally had a business that sold to the first person who looked at it. It is a numbers game – it often takes exposure to quite a number of prospective, qualified buyers in order to successfully sell a small business.

Another interesting statistic Jeff Jones reports is that between 30% and 50% of the businesses for sale actually go out of business within one year of being put on the market. When a business goes out of business, this is not a sale! Businesses go out of business for a variety of reasons. The most common are: it was not making money and the seller could no longer fund the losses and landlords who refuse to allow another tenant to take over the existing lease either due to their having another tenant they prefer to lease to or demanding more rent that the business can afford. Some owners simply decide to shut down the business even though it may be salable often because what they owe may be larger than what it can be sold for. Rather than sell and mitigate their losses, they choose to walk away and take whatever consequences arise.

Working with small businesses is always interesting. Every case is different with some similar and some unique problems and challenges.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value real estate, businesses, and personal property including livestock and machinery & equipment.**

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