What Makes the Sale of a Business Fall Through?

by Tom West

There are myriad reasons why the sale of a business doesn't close successfully; these multiple causes can, however, be broken down into four categories: those caused by the seller, those caused by the buyer, those that just happen ("acts of fate"), and those caused by third parties. The following examines the part each of these components can play in contributing to the wrecked deal:

The Seller

1. In some instances, the seller doesn't have a valid reason for entering into the sale process. Without a strong reason for selling, he or she has neither the willingness to negotiate nor the flexibility to see the sale to a conclusion. Without such a commitment, the desire to sell is not powerful enough to overcome the many complexities necessary to finalize the sales process.

2. Some sellers are merely testing the waters. As detailed above, they are not at that "hungry" stage that provides the push toward a successful transaction. These sellers merely want to see if anyone wants to buy their business at the price they would like to receive.

3. Many sellers are unrealistic about the price they want for their business. They may be sincere about wanting to sell, but they are unable to be realistic about how the marketplace will value the business. The demand for their business may not be there.

4. Some sellers fail to be honest about their business or its situation. They may be hiding the fact that new competition is entering the market, that the business has serious problems or some other reason the business is not salable under existing circumstances. Even worse, some sellers do not disclose that there is more than one owner and that they are not all in agreement about selling the business.

5. A seller may decide to wait until a buyer is found and then check with their outside advisors about the tax and/or legal consequences. At this point, the terms of the deal have to be altered, and the buyer won't agree. Sellers should deal with these complications ahead of time. Nobody likes changes...especially buyers!

6. Sometimes sellers don't understand that almost all businesses are seller-financed. Buyers have to be able to make the payments while

still making a living from the business. If the business cannot offer this necessity, no one will buy it.

The Buyer

1. The buyer may not have an urgent need or a strong desire to go into business. In many cases the buyer may begin with positive intentions, but then doesn't have the courage to make "the leap of faith" necessary to go through with the sale.

2 Some buyers, like sellers, have very unrealistic expectations regarding the price of businesses. They are also uneducated about the nature of small business in general.

3. Many buyers are not willing to put in the hours or do the type of work necessary to operate a business successfully.

4. Buyers can be influenced by others who are opposed to the purchase of a business. Many people don't or can't understand the need to be "your own boss."

Acts of Fate

These are the situations that "just happen," causing deals to fall through. Even considering the strong hand of fate, many of these situations could have been prevented.

1. A buyer's investigation reveals some unmentioned or unknown problem, such as an environmental situation. Or, perhaps there are financial deficiencies discovered by the buyer. Unfortunately, these should have been on the table from the beginning of the selling process.

2. The seller may not be able to substantiate, at least to the buyer's satisfaction, the earnings of the business.

3. Problems may arise, unknown to both the seller and the buyer, with federal, state, or local governmental agencies.

Third Parties

1. Landlords may become difficult about transferring the lease or granting a new one.

2. Buyers and/or sellers may receive overly-aggressive advice from outside advisors, usually attorneys. Attorneys, in their zeal to represent their clients, forget that the goal is to put the deal together. In some cases, they erect so many roadblocks that the deal can only fall apart.

Most of the problems outlined here could have been resolved before the selling process was too far advanced. There are also some problems that could not have been avoided...people do sometimes enter situations with the best of intentions only to find out that this is not the right answer for them after all. These are the exceptions, however. Most business sales can have happy endings if potential difficulties are handled at the appropriate time.

Business brokers are aware of the various ways a deal may fall through. They are experienced in resolving issues before the business goes onto the market or before a buyer is introduced to the business. To buy or sell a business successfully, sellers should resolve any potential deal-wreckers, following the advice of a professional business broker.

Although business brokers cannot provide legal advice, they are familiar with the intricacies of the business sale. They are also familiar with local attorneys who specialize in the details of these transactions. These attorneys will usually be more efficient, and therefore more cost-effective, than the attorney who handles a general practice