

## 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."*

In trying to explain the actual value of the term full price, we have always found the following scenario helpful: *"If we could find you a business that would net you \$250,000 a year after debt service, and you could buy it for \$100 down payment, would you really care what the full price was?"*

We receive numerous calls from business brokers asking us how to arrive at a price for a particular business. It seems that everyone is concerned only about full price. And yet, we all know that 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, the full price will be lower – or, in most cases, the difficulty of sale increases radically. 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.

Nothing is new. Sellers always ask, "What is my business worth?" It's a natural question. They ask this even if they're not considering selling. It's as if they're telling the business broker, "If you give me a super high price for my business, I might consider selling." We were taught many years ago to respond with, "Mr. Seller, if we give you a price that's too high, you'll be very happy. But, it won't sell and then both of us will be unhappy. On the other hand, if I give you a price that's too low, you'll throw me out the front door." We were taught to then explain that our job was to try to get what the seller thought his or her business was worth.

Sellers (and we suspect some business brokers) should understand that several factors dramatically influence the asking price, including how the sale is structured and what the seller is trying to accomplish by selling. 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 important 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.

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 for some sellers may be more important than price. 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.

What all this demonstrates is the importance of the business broker professional sitting down with the seller prior to recommending a go-to-market price. During this meeting, the broker can find out what is really important to the seller as these issues may have a direct bearing on the price.