

Small businesses can sell in recession

GUEST VOICES

John F. Dini

Many business owners think that the current recession has ruined their exit strategy. While the climate may be more daunting for budding entrepreneurs, there are still plenty of buyers around for small businesses.



John F. Dini wrote "11 Things You Absolutely Need to Know About Selling Your Business."

For Main Street businesses (those selling for less than \$3 million), buyers chiefly are driven by personal economics. They are seeking a business as a way to make a living. Their main objective is cash flow, the amount of discretionary income the business gen-

See VOICES/4C

VOICES

CONTINUED FROM 1C

erates to cover bank debt and an owner's salary.

In a recession, the most common economic buyer is an executive who has lost his or her corporate job. These buyers usually have good management skills and substantial savings, along with enough net worth to make a lender comfortable.

Be aware, however, that former corporate executives are also very cautious shoppers. The concept of going it alone can be terrifying enough in the best of times. As a buyer gets closer and closer to closing, the idea of working without a safety net looms larger.

In a giant organization, missing your budget means a poor performance review. In a small business, it could mean closing the doors. Executive buyers need extra assurance that they will succeed. If you are an entrepreneur who has risked it all for years, their

concerns may generate little sympathy, but they are a fact you have to deal with.

Harsh economic times also bring out the bottom feeders. These are buyers who shop incessantly for companies that can be bought at bargain basement prices. They frequently will use the economy as an excuse to make a low-ball offer, claiming that your business will not be able to sustain its historical profitability going forward.

Unless you're actually seeing a decline in revenues and profits, there is no reason to entertain an unfairly low offer for your company. Most small businesses have a minuscule market share and can thrive in any economy if they are careful and aggressive. Unless you are focused in an industry that is especially hard hit by the current downturn, there is no reason to think that general economic conditions will have a proportionate effect on your company.

Of course, your expectations of what consti-

tutes a reasonable price are critical. When buyers are already nervous about financing and the future, an inflated price can scare them away quickly and permanently.

Many business owners price their companies beyond achievable expectations based upon multiples for public companies, industry rumors, their own financial needs or simple misunderstanding of the profitability measurements used in mergers and acquisitions.

There are several national databases that show actual sale prices of small businesses in relation to the profits and size of the company. Though the opinions of your accountant or attorney may be helpful, they may vary widely from the actual pricing that is being achieved in the marketplace.

Just because times are challenging, that is no reason to put your life plan on hold. Like every other aspect of owning a business, the sale of the company will be much more successful if you start with good informa-

tion, plan carefully and have realistic expectations about the outcome.

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