

Business Owners Can't Always Sell When They Wish

A recent article in Forbes was entitled, “Study Shows Why Many Business Owners Can't Sell When They Want To”. Based on an Exit Planning Institute (EPI) study, it offered a thought-provoking idea, that is, business owners frequently cannot control when they need to or are practically able to sell a business. While many business owners expect to succeed in selling a firm when they want to, the study found that selling is often easier said than done. According to EPI only 20% to 30% of businesses that go on the market will actually sell. Poor preparation and poor timing, as well as unrealistic value expectations, are often to blame.



Many studies have found that almost all owners recognize that having an exit plan is smart business, but few are prepared with a real plan in place for a strategic exit that may arise unexpectedly or later at a time of their choosing. Stephen Covey, describing highly effective people, notes, “Begin with the end in mind”, is one of the critical traits. When owners compare the many possibilities for their succession at their exit, commonly they discover that selling a business while during time when market business valuations are high is their superior choice.

Studies also find that, for a variety of reasons, most business owners will choose, or will need to sell within the next decade or so, but too often they will be poorly prepared or equipped to do so. This is all the more striking when considering that many owners have up to 90% of their estate assets tied up in their businesses. Currently many Baby Boomer owners, who are expected to begin selling businesses in record numbers, are waiting to sell until they are early 70s. This is a risky decision, as today's record high business valuations are quite likely to fall over the coming years, according to most professionals, including M&A brokers and advisors, investment bankers, business brokers, and economists.

EPI's San Diego business survey is in line with others that have studied exit planning and preparations, in finding 53% had given little or no attention to their transition plan, 88% had no written plans for transitioning to the next owner, and the vast majority had failed to seek professional advice from estate planning advisors or business transition experts, such as M&A business brokers and advisors. Only about one third had completed any meaningful estate or business succession planning.

Surprisingly, most surveyed business owners don't really know their business's value. Thus, a large percentage of people who will be selling a business are Baby Boomers who lack a solid grasp on the estate value the business asset represents, plus they may be unknowingly holding their biggest estate asset into declining market values for businesses. They have not charted out

a clear exit strategy or transition plan, have no tangible idea as to their true business worth or the value trends.

In Snider's view, the survey indicates that many business owners are failing "to maximize the transferable value of their business." Additionally, they are not "in a position to transfer successfully so that they can harvest the wealth locked in their business."

Business owners should regularly consider the day when they will sell their businesses. Now is the time to begin working with an expert M&A broker and advisor, or investment banker, to help you prepare your strategies for maximizing your business's value.

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www.OilGasAdvisor.com 844 749-6016 info@OilGasAdvisor.com

Offices serving the oil and gas business across North America

DFW, TX
Don Hankins
DHankins@OilGasAdvisor.com
(817) 615-8393

Tulsa, OK
John Johnson
JJohnson@OilGasAdvisor.com
(918) 749-6016

Tyler, TX
Keith Chapman
KChapman@OilGasAdvisor.com
(903) 245-9233

Williamsport, PA
Gary Papay
GPapay@OilGasAdvisor.com
(570) 584-6488