

Why Seller Financing Could Save Your Acquisition Deal From Disaster

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When it's time to sell your business, you know it in your gut. You might feel burnt-out, anxious or long for a fresh start. However the feeling manifests, you must act on it quickly. Things move at warp speed in startup land. If you want the best acquisition deal, you need to move equally fast.

But not all potential buyers have the capital for an acquisition or the means of raising it. They might be waiting on bank financing, a loan from the SBA (Small Business Administration) or simply for their coffers to fill. So what do you do? Trade a sale now for one in the future when your valuation might not be so secure?

Although a cash sale is usually preferred, seller financing opens the door to buyers who don't have the funds for a cash purchase. With a bigger buyer pool, you stand a better chance of selling at the right price, at the right time *and* to the right buyer. So let's take a look at what seller financing means and how it could help you.

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What is seller financing?

In some ways, seller financing is just like any financing.

Instead of selling your company for a lump sum, you agree to let the buyer spread the payment over a number of years after they put down a down payment. Where seller financing differs from, say, a mortgage loan, is that the repayment term is much shorter – typically five to seven years maximum – and instead of handing over money you hand over your business.

How does it work?

Your buyer might ask for seller financing, or you can use it as a bargaining chip in negotiations. Either way, hire a lawyer to act as intermediary and to ensure the deal is to your advantage. You're taking all the risk here, so ensure there are safety measures in place that protect you from buyer default. Seller financing usually works like this:

You and the buyer agree the terms of financing. This includes the down payment, interest rate, term, collateral, and so on. Usually, the business is the collateral, so if the buyer defaults you can reclaim the business in its entirety. However, you can ask for additional collateral – especially if their credit rating is poor – in the form of property or other assets.

Buyer makes a down payment. Because the repayment terms are shorter, the buyer must put down at least 25 to 35 percent of the purchase price. Then a larger installment payment at the end, called a balloon payment, settles the debt.

Buyer signs and files a promissory note. The promissory note is the legal contract that binds the buyer to the installment repayment plan. Ask them to file this for you so you don't have to do it yourself (like I said, you're taking the risk, so the buyer should be doing most of the administrative legwork).

Buyer makes their regular payments. While the buyer repays, the business is under their control. This is where things can

go awry. If they run your business into the ground or don't make as much money as they thought they would, they might be unable to repay. You'll then have to go through the courts to reclaim your business and assets. That said, if you did your homework before agreeing to seller financing, the chances of this happening are low.

Buyer makes the final balloon payment. Hurrah! It's done. The buyer has paid you the purchase price in full, and you can draw a line through this stage of your entrepreneurial career and focus on the future.

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Why seller financing can change your life (for the better)

Ninety-nine percent of an acquisition is finding the right buyer. Believe me, this is no easy task. When I sold my first "big" business, Bizness Apps, I'd had countless offers. Some I pursued but they fell through, others demanded too much of me or my employees or just weren't the right fit. When you've poured years of blood, sweat and tears into a business, you don't let it go to just anyone – you want someone who'll do great things with it.

Unfortunately, finding someone that is both well-funded *and* the right fit can take months – perhaps years – and in that time your business is exposed to all kinds of threats. Think market changes, consumer changes, technology changes – all of which can hurt your valuation (granted, they might boost it too, but who wants to take that chance?).

A seller financing deal, however, attracts more buyers. This boosts your chances of finding the right one *and* justifies a higher sale price. There are taxation benefits, too, because

seller financing results in per year capital gains tax, so you'll pay less to the IRS than if it had been an all-cash purchase.

Perhaps the biggest benefit, however, is how a quick sale helps your career. When you're stuck on a train with no enthusiasm for its destination, life is glum. You might be moving forwards, but not in the direction you'd like. But if you can sell quickly, and at the right price, you can switch tracks and take your career anywhere you want. Seller financing, then, rather than being a last resort, could be your key to entrepreneurial freedom, a springboard to better things – so keep it up your sleeve when you're ready to sell.

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