The Benefits and Challenges of a Third-Party Sale

Depending on what type of business you have, what your key employees are like, the current market, and your array of potential buyers, business owners may have a long list of candidates to whom they might sell their business.

One of the first options owners often consider is to sell the business to an unrelated third-party buyer. This option can allow an owner to receive the largest sum of money for their business in the shortest amount of time. Let's review some of the perks and drawbacks to selling your business to a third-party purchaser.

Third-Party Sales Perks: Money

For some business owners, third-party sales are most appealing because of the potential payoff. Unlike family members or key employees, outside buyers may have the funds to pay for ownership in full. This can mean that you won't have to accept a promissory note (or at least it may be a smaller part of the deal) or rely on business performance after you have gone.

There are a few caveats, however. First, to receive a maximum payout, you must have your business in order. This means beginning to install crucial Value Drivers that many buyers look for in a business. This often requires the help of several different advisors, so be sure to start building that team of professionals sooner rather than later.

Second, most business owners understand that they probably won't receive billion-dollar offers for their businesses. But often, business owners will fall into the trap of believing that their businesses are worth more than an objective buyer will pay. There are two things that you can do to avoid this temptation:

1. **Get a professional appraisal.** Many owners want to use an industry rule of thumb or their own personal estimate of value when pursuing a third-party sale. This can hurt you in the long run because an incorrect estimate of value can leave you under the false impression that you don't have to continue building business value. You can obtain an accurate, professional valuation from a certified business valuation specialist.
2. **Get help finding qualified buyers**. Even when owners have businesses that have maximum value, they can struggle to find the right buyer for their businesses. Buyers are rarely charitable with what they're willing to pay for business ownership, and negotiating the right deal often requires professional help. Your "deal team" may need to include market research, deal marketing, auctioning, offer management, negotiation, legal positioning, and/or tax analysis expertise. It's a good idea to start identifying those team members early.

Though money is a common reason owners look to sell to third parties, it's far from the only reason. Another popular reason owners like third-party sales is how much time they can save.

Third-Party Sales Perks: Time

Studies and surveys by a range of organizations consistently report that the majority of business owners want to exit their businesses within the next 10 years. While a typical plan to build up and sell a business can take 5–10 years to create and implement, the right strategies may reduce the time it takes to transfer ownership by pursuing a third-party sale.

Although there may seem to be quite a few advantages to a third-party sale, there is one major drawback to consider.

Third-Party Sales Drawback: Tainting the Marketplace

In terms of third-party sales, one negative factor is that owners can taint the marketplace. Tainting the marketplace can happen if you put the business on the market for sale, then pull the business off the market without selling it. When buyers see that an owner failed to sell the business, it can serve as a black mark on that business, regardless of why the owner takes the business off the market without selling. Tainting the marketplace is frequently a result of business owners desiring the two perks of third-party sales (maximum money and minimal time), failing to get a proper business valuation, and rushing the business out to market because they are ready to leave.

To avoid this problem, follow a disciplined approach to prepare your business, prepare yourself, understand the market, clean up potential problems, and set your expectations, all well before you make your first move toward the sale process.

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