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Businesses Put Up for Sale Smack Into Harsh Reality

By SARAH E. NEEDLEMAN

Small-business owners banking on a big payoff when they sell their establishments may have to settle for a lot less than planned.

A combination of tight credit, skittish buyers and business owners unwilling to sell at rock-bottom prices—factors similarly affecting home sellers—has left the small-business marketplace at a standstill.



David Wetzel tried for two years to sell his New Jersey hardware store. (Photo by Bill Denver for the Wall Street Journal)

David Wetzel says he spent two years trying to sell his business, Dorset Hardware, a Ventnor City, N.J., shop he's owned since 1993. He's now liquidating the business and expects to earn only about a third of his asking price. "I had some very close leads who wanted to buy, but they could just not get the financing," says Mr. Wetzel, who is 64 years old.

Just 1,117 small businesses were sold in the U.S. in the third quarter, the same number as in the year-earlier period, reports BizBuySell.com, an online marketplace for small-business acquisitions in San Francisco. By contrast, there were 1,462 small businesses sold in the third quarter of 2008, according to BizBuySell. (BizBuySell.com licenses some of its data to The Wall Street Journal.)

One of the problems, experts say, is that business owners are proposing prices greater than their companies' true value.

"Owners still think their businesses are worth what they used to be," says Thomas Coffey, a partner in Malvern, Pa., with B2BCFO, a provider of outsourced chief financial officers to small businesses. In reality, many "small companies just aren't earning what they used to earn," he says.

During the third quarter of 2010, owners listed their businesses for a median price of \$245,000, according to BizBuySell. However, the average closing sale price in the period was \$140,000, which was 6% less than what owners sold their businesses for during the same period in 2009, according to BizBuySell data.

Some owners say they have identified interested buyers but that many of these people are unable to obtain sufficient funding amid declines in loans guaranteed by the Small Business Administration. The agency backed \$16.84 billion in loans in its fiscal 2010, down from about \$20.61 billion in 2007.

As an alternative, some sellers are offering to finance part of the asking price for buyers "to close the gap," says Joseph L. Caffrey, president of Worldwide Business Brokers LLC. The arrangement has been typical of transactions that his company has brokered over the past 18 months, he adds.

For example, the owner of a frame shop in Virginia recently agreed to finance \$62,500 of the business's \$125,000 price tag over a five-year-period for a buyer who could raise only half of the total upfront and was unable to obtain a loan for the rest, Mr. Caffrey says.

Another challenge hindering sellers is that even potential buyers with sufficient funding are hesitating to close deals due to the volatile economy, says Mike Handelsman, BizBuySell.com's general manager. "People's risk profiles have taken a dramatic kick in the stomach over the last few years," he says.

Business owners also are shying away from the marketplace. Though the number of enterprises sold in the third quarter was stagnant, there was a 7.1% decline in listings from a year ago, to 31,856, according to BizBuySell.

Mr. Caffrey says some owners whose businesses lost market value during the recession are waiting for the economy to rebound before going to market. "They're reluctant to sell based on current valuations," he says.

For many, selling in the current environment will likely mean having to settle for less, which from the buyers' perspective, can be a good thing.

Timothy C. Barry says he bought two online stores last spring for the e-commerce and consulting business he co-owns, Intelligent Technologies Inc. of Vancouver, Wash. He says he first saw them listed nine months earlier for double the amount of the final sale price.

In January, Dwight Davis bought an existing LearningRx franchise in Charleston, S.C., that he says had been on the market for about year. With the help of a bank loan, he says he paid \$107,000 for the cognitive-skills-training business, which was roughly 30% less than the original asking price, he says.

Franchises may have the benefit of a more recognizable brand name. Stacy Swift, owner of FranNet Colorado, a franchise brokerage business in Denver, says sales of new and existing franchises she's brokered over the past year have increased moderately. She declined to disclose figures.

Some business owners fearing a double-dip recession aren't willing to wait around for the market to improve, especially baby boomers like Mr. Wetzels, who is hoping to retire after the liquidation of his hardware store.

"They probably started thinking of selling their businesses years ago and times got tough," says Maria Coyne, executive vice president of the business-banking unit at KeyBank, a division of KeyCorp., in Cleveland. "But now they're thinking we're back to a more reasonable environment" and they're not going to go through a recession again.

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