

and liabilities, and one is looking at the financial statements of a Fortune 500 company.

Liquidity and Illiquidity. When dealing with investments of any kind, a prospective buyer must ask if the investment could be turned quickly into an amount of cash close to its fair market value should the need ever arise. This quality of an investment to be convertible quickly into cash is known as liquidity. Examples of liquid investments are stocks and bonds listed on an exchange; certificates of deposit (their penalty clauses notwithstanding); gold and silver coins; traded commodities including their futures; passbook savings accounts; and U. S. Treasury bonds. Each of the above may be converted into cash at or near its fair market value within a few days. In contrast, investments in real estate and small businesses tend to be illiquid although the degree of illiquidity may depend on any of several factors related to the economy and to the individual item for sale. Note the following examples:

Generally Less Illiquid

- Residential real estate
- Distributors
- Manufacturing companies with established product lines
- Retail dry cleaners

Generally More Illiquid

- Commercial real estate
- Job shops
- Most small businesses

There are at least nine reasons that small businesses are illiquid and it is imperative that buyers and sellers understand these reasons. First, the demand for most small businesses is small. The result is that it often requires a year or even two or three years to find an able and willing buyer.

Second, the personal nature of the matchup between the buyer and the business being sold is an opportunity for dissimilarity. Such businesses as restaurants, beauty salons, bars, coin-operated laundries with attendants, convenience stores, gift shops, job shops, and so on are personalized in a myriad of ways, often without the owners realizing it. The wide variety of personality factors making these businesses hard to sell is not superficial or cosmetic but,

on the contrary, is substantial and not easy to change. For example, note the wide variety of types of clienteles that a retail business might especially cater to: older clienteles vs. younger; upper class vs. middle or lower; fashion-wise vs. homespun; liberal or trendy vs. conservative or staid; spenders vs. thrifty; tourists vs. locals; service-oriented vs. price-oriented; business vs. consumer; daytime vs. evening; and so on. Each prospective buyer has his or her own preference for the type of clientele to serve and if the business for sale does not cater to that clientele, the buyer probably is not interested. To take another example, in the machine shop trade a wide variety of work types exists: large machinings requiring nine-foot-diameter work tables and ten-ton overhead cranes vs. medium-size machinings vs. small; precision vs. rough vs. anything in between; simple vs. complex; high quantity vs. low quantity; steel vs. aluminum or brass; flight-worthy vs. non-flight-worthy; ordinary metals vs. exotic; harmless metals vs. toxic; stamping vs. milling; full service including heat treating, three types of welding, and various design services vs. machining only; and so on. As in the retail trade, if the seller's type of work or clientele does not match the buyer's preference or experience, there probably is no sale. Since each attempted matchup is statistically improbable, it may require many attempts, and months or years before attaining success.

Third, a business for sale must be checked out thoroughly to provide enough confidence for the buyer to commit his or her wealth and dedicate his or her career. Checking out a business quickly can be accomplished in some cases but generally the process is time-consuming, often taking a month or two or longer.

Fourth, the stakes are so high for both buyer and seller that a deliberate pace is appropriate.

Fifth, when bank financing is involved, about two months or more may be added to the schedule. First, a loan application package must be prepared and submitted. Then the bank needs time to check out both the business and the buyer and to evaluate the entire situation including how the loan may or may not fit into the bank's portfolio. If the loan application is rejected at one bank, the process will be repeated, perhaps several times.

Sixth, if the seller has been failing to record his true income, a more

skillful buyer is required to agree with the seller's price, a more skillful preparer of the loan application package is required to bring the hidden or unrecorded earnings out of hiding without calling attention to what is going on, and a more skillful bank is required to approve the financing, all three requirements tending to slow the rate of progress.

Seventh, since lawyers and accountants usually are involved, the schedule may be delayed depending on their work loads and whether they are on vacation or sick leave, tied up in court, or at the height of the tax season.

Eighth, all parties must set priorities for their time but business sales tend to receive low priorities for a number of reasons. Sellers may give first priority to running their businesses. Banks may give priority to more attractive loan applications or to other matters of importance. Lawyers give priority to court appearances, to emergencies such as clients under arrest, to deals nearing closing, or to matters of greater importance in the lawyer's judgment. Accountants give priority to tax report deadlines, especially from early January through the end of April.

Ninth and finally, transactions often are slowed by unforeseen problems: a reluctant, foot-dragging landlord who does not want to lose a good tenant to sublease to an unknown buyer; an arrogant lawyer who refuses to compromise mundane matters with an opposing lawyer, a problem truly compounded when three or more lawyers are involved; a municipal code, catching everybody by surprise, requiring the impending sale of certain businesses to be thrice announced in the minutes of the monthly meetings of the city elders; and so on.

By understanding the reasons for illiquidity, buyers and sellers, and their advisors, should be able to plan more intelligently for their transactions. They should also become more patient. Patience is a prime asset in the purchase and sale of a small business.

Discussion of other factors contributing to illiquidity is found in Chapter 5 in the section titled "Business Brokers' Fees."

Confidant. A confidant is one to whom problems and secrets are entrusted, especially those which are intimate, dear, or of high importance. There are