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Unplanned Business Liquidations

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What is it?

Unplanned business liquidations typically occur when a sole owner suddenly becomes disabled or dies and does not have an effective succession plan in place. If there is no one to step in and maintain the business as a going concern, then a liquidation may be the only choice. Unplanned liquidations may also occur when your company becomes insolvent and your creditors file a petition in a federal bankruptcy court requesting that your assets be liquidated to satisfy debts.

Generally, liquidation is a worst-case scenario. When your company is forced into an unplanned liquidation, you will lose the business's going-concern value. This can be devastating to you and/or your heirs.

Why do you lose so much in a liquidation?

You sacrifice the goodwill value of the business

Your business's goodwill consists of your reputation, your good name, your customer relations, your employee relations, and other such intangibles that make your business more profitable and therefore more valuable. In an unplanned liquidation, you will almost certainly sacrifice goodwill, which typically has no independent market or liquidation value. If you can find buyers interested in exploiting the company's name and reputation, they are unlikely to offer a defunct (or soon-to-be-defunct) business much for the privilege.

Hard assets are sold at forced sale prices

Assets such as equipment, real estate, inventory, fixtures, furniture, and vehicles all have a value. In most cases, these types of assets can generate more sale proceeds when properly packaged and marketed. See [Selling Shares or Assets](#).

In unplanned liquidations, assets are frequently sold piecemeal at an auction, with little or no effort put into packaging and marketing. A newspaper article announces the auction sale, and local buyers show up looking for bargains. In this type of liquidation, you are usually lucky to get what you can for the remains of your business. For example, you might have a printing press worth \$50,000 to a printer that is 300 miles away. However, that printer never hears about your liquidation sale. The local scrap iron dealer shows up at the auction and buys the press for a penny a pound. Even if you can arrange a private sale on short notice, buyers are likely to offer only slightly more than what you would get at auction.

Tip: Some assets, such as real estate and automobiles, tend to hold their value better than others. However, it is not unusual for real estate to be auctioned off for as little as 70 percent of its fair market value.

Caution: If the real estate has potential environmental hazards due to actual or possible ground contamination, it may be worthless in the eyes of potential buyers.

Accounts receivable drop in value

Accounts receivable are harder to collect after your company has gone out of business. Customers tend to believe that if the creditor no longer exists, then there is no reason to continue paying on the account. It may take you several months to find a buyer for your accounts receivable. By that time, your customers may have assumed that the debts have been extinguished. When an unknown party shows up and demands payment of your accounts receivable, customers often become suspicious and resistant to collection efforts. This means a smaller percentage of your accounts receivable will be collected, and the buyer will have to spend more time and effort doing it. Faced with these complications, the sale of your accounts receivable will likely require a severe discount on their value.

How do you avoid an unplanned liquidation?

You avoid some types of unplanned liquidations with succession planning and short-term contingency planning. Proper succession and contingency planning protects your retirement income, protects you in the event of disability, and protects your heirs upon your death. A good plan will provide for the smooth transfer of control and ownership of your business upon any one of a number of triggering events. A good succession plan will also preserve the going-concern value of your business.

Caution: Succession planning will not help you if you are facing an unplanned liquidation due to insolvency and business failure. You need proper business and financial planning to avoid that situation and the services of an experienced Chapter 11 bankruptcy attorney if you are already or expect to be in that situation.

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