

Asset Liquidation

By Patrica Cavanaugh

Before you terminate your lease, sell a key piece of equipment, or disconnect your utilities, make sure you review this liquidation sale checklist.

If you have decided to get out of business and are not able to pass your business on, merge, or sell it as a going concern, liquidating the assets could be the most appropriate exit strategy. However, before you terminate your lease, sell a key piece of equipment, or disconnect your utilities, make sure you have a well thought-out plan.

Step 1. Talk to your lawyer and accountant.

The information on this site is intended to provide you with a general overview of the liquidation process. It is not a substitute for case specific advice that only your lawyer and accountant can provide.

Also remember that you will need the cooperation of your creditors. Once you have developed a plan, present it to them; get their permission before you act. As long as you are candid and have a well thought-out plan, they will most likely go along with it.

Related Information:

[FTC's Internet Auction Guide](#)

Make sure you understand how Internet auctions work before you embark on this course of action.

[National Auctioneers' Association](#)

Find a professional auctioneer in your area to conduct your sale.

Step 2. Scrutinize your assets: inventory, assess, and prepare each item for sale.

Begin by preparing a current inventory of your business assets. Try to include photographs, serial numbers, and a brief description of the condition of each item. Your inventory will save you considerable time and expense as you move through the sale process and will be invaluable if you are later asked to explain the sale to your creditors or the Internal Revenue Service.

Next, start preparing your assets for sale. Don't risk diminishing the appeal of your marketable items by keeping outdated or worn-out equipment, furniture, or inventory. Their primary value is in the form of a tax deduction, so why not donate them to an appropriate charity?

If necessary, wash, paint, or repair the items you intend to sell. Make sure your business premises are neat and clean if the sale will be held there.

Be able to demonstrate your equipment. Have the warranties and repair records available for inspection.

Don't scare buyers away. If hazardous waste products, such as used chemicals and batteries, are stored on your business premises, contact your local Department of Ecology for a list of companies that purchase these items. If they can't be sold, dispose of them properly.

If you have items that are leased with an option to purchase, don't just turn them back in. Find out how much is owed. You might be able to pay off an item, such as a forklift, for a few hundred dollars and sell it for a few thousand.

If you have attractive items on consignment or with high residual lease balances, you might want to ask the owners to include their items in your sale. It will save them the hassle and expense of moving them, you will have someone to share the costs of the sale with, and their big-ticket items will help you attract more buyers.

If your business premises are leased and you have trade fixtures or other items attached to the real estate, make sure they are worth more than the cost of repairing the damage done by removing them. Inquire about your landlord's plans for the premises. The new tenant or your landlord may be interested in buying your items or including the items in your sale.

Finally, don't overlook your intangible assets. For example, is your lease assignable? Are the business licenses, permits, patents, or trademarks that you hold in demand? Can they be transferred? Is there a market for your customer list, contract rights, or accounts? You may wish to check with your attorney or accountant.

Step 3. Secure your merchandise.

If your customers or employees will be disgruntled when they learn that your business is closing, consider collecting the keys, changing the locks, or hiring a security guard. You won't be able to recover any of your investment if the items you've invested in are no longer around.

Step 4. Establish the liquidation value of your assets.

Liquidation value refers to the amount you can expect to recover in a forced sale situation. Generally, this amount is at least 20% less than retail value. To establish the liquidation value of your assets, work with a qualified appraiser. Obtain a written liquidation value appraisal before you entertain any offers.

Study it before you make any significant decisions concerning your sale.

Step 5. Make certain that a sale is worthwhile.

Once you have your liquidation value appraisal, estimate your net sale proceeds. Remember to deduct all of the costs of the sale. These include items such as commissions, advertising expenses, moving and storage costs, labor expenses, credit card discounts, rent, and utilities. Also deduct amounts that are secured by liens on your assets such as rent, delinquent personal property taxes, and loans owed to secured creditors.

If a liquidation sale doesn't look worthwhile after you've done your calculations, talk to your attorney. There may be more appropriate exit strategies for you to pursue.

Step 6. Choose the best type of sale for your merchandise.

If a liquidation sale looks worthwhile, the next step is to decide what type of sale to hold. One, or a combination of several, of the following types of sales may be appropriate.

Negotiated sales in a distress situation are desirable but uncommon. Logical buyers include your competitors, customers, suppliers, and landlord. For example, if you own a restaurant, your landlord may be interested in purchasing your equipment so that the premises can be rented to a new operator at a higher rate.

Consignment sales are appropriate when time is not of the essence, your assets are easily movable, and there is a local dealer specializing in the type of items you want to sell. If you choose a consignment sale, you will need to turn your assets over to the dealer, who will sell them and pay you an agreed-upon amount following the sale.

Internet sales are rapidly growing in popularity and importance. Before deciding whether to sell online, familiarize yourself with the rules and your legal obligations as a seller by reading the FTC's Internet Auction Guide. You may also want to consult a traditional auction company, since many are now able to accommodate simultaneous in-person and online bidding.

Sealed bid sales are appropriate when confidentiality is important. All the bids are submitted in sealed envelopes that are opened at the same predetermined time and place.

Retail sales, also known as Going-Out-of-Business Sales, are appropriate for consumer items like small appliances, gifts, and gadgets. They are also a good way to sell shoes and clothing, since people don't like to buy these items unless they can try them on first.

A retail sale followed by an auction works particularly well for some businesses. For example, if you are trying to close a grocery store, you can start with a retail sale to dispose of the food, and follow it up with an auction to dispose of the shelving, freezers, cash registers, shopping carts, and other miscellaneous items.

To protect consumers from unscrupulous retailers who falsely claim to be going out of business week after week and year after year, many states now regulate Going-Out-of-Business Sales. If you want to conduct such a sale, be sure to research the law in your area.

Public auctions are appropriate for most business assets. Typically, your property is sold item by item to the highest bidder. You may, however, also be able to take advantage of the aggregate bid process, which can result in a considerably higher sales price. This works particularly well if your landlord is willing to prequalify the bidders as tenants. For example, suppose you want to sell a laundromat. Each washer and dryer can be auctioned separately, the individual bid prices totaled, and the bidding reopened on all of the items for an amount that is higher than the aggregate amount of the individual bid prices.

The aggregate bidding process also works on a smaller scale. For example, a bulldozer can be auctioned separately from its ripper. The bids can then be totaled and the machine and its attachment offered as a package subject to a minimum bid higher than the aggregate amount of the individual bid prices.

Step 7. Select the best time for your sale.

Begin with the season, then select the best day and time to hold your sale. The season should be appropriate for the type of merchandise you want to sell. Snow-blowing equipment, for example, will sell better in December than it will in July!

The day of the week and time should be convenient for the customers you're hoping to attract. For example, few contractors will leave a job site in the middle of the day during their workweek to attend a liquidation sale, but if you schedule it for a Saturday morning, they'll be there. Similarly, hair salons and restaurants are typically open on Saturdays, but closed on Mondays. Make it easy for the owners of these businesses to attend your sale; schedule it for a Monday.

Of course, you also need to take your marketing plans into account. Find out when the trade journals you want to advertise in are published and how much lead time they'll need to include your ad.

Step 8. Arrange to hold your sale at the most appropriate location.

The location of your sale can have a significant impact on your net proceeds. Choose it carefully, based on what you're trying to sell. While construction equipment, cars, trucks, snowmobiles, and lawnmowers can be moved and sold just about anywhere, other items should be sold in place. Restaurant equipment, for example, can drop as much as 50% in value if moved.

As a general rule, it is best to hold your sale on your business premises. From a marketing perspective, most items look best in the surroundings where they are used. Some, such as you'd find in a machine shop or a sawmill, have special voltage requirements. Your business site is wired to accommodate them; most storage warehouses aren't. Keep in mind that prospective buyers are unlikely to buy equipment they can't test unless they get a large discount, and moving and storage costs will reduce your net recovery.

Sometimes, a poor landlord-tenant relationship can prevent a business owner from obtaining permission to hold an on-site sale. If you find yourself in this situation, don't give up. Your auctioneer or attorney may be able to obtain your landlord's cooperation.

Finally, in exceptional circumstances, the best place for your sale may be somewhere other than where your assets are located. This is particularly true when they are impractical or impossible to move, such as a cruise ship or a mountaintop resort, and interest in purchasing them extends to other areas of the country. In these cases, you may be able to recover more by selling them in absentia. For example, a fish cannery located on a small island in the Aleutians could be sold in Seattle by utilizing a video presentation. Bids could be taken in person in Seattle, at the cannery, over the telephone, and via the Internet.

Step 9. Hire an expert to conduct your sale.

The right expert can ensure that you get the highest possible dollar return. To choose the right expert, analyze your assets. Then, determine who -- an auctioneer, a dealer, a broker, etc. -- has expertise in each category of assets you want to sell. If you are not sure where to start, ask your banker, lawyer, and business associates for recommendations.

When deciding who to hire, obtain several proposals and consider the following:

Reputation: Who has a good reputation in your area? The last thing you want is to hire someone who is here today and gone tomorrow, possibly with your sale proceeds. A good reputation is also invaluable when it comes to negotiating with your creditors and attracting people to your sale.

Insurance Coverage and Bonding: Ask for proof of insurance coverage and bonding, or check with your state's licensing authorities.

Sale Facilities: If it is not possible to hold the sale on your original business site, select a professional with the facilities that you will need, such as a fenced yard or a warehouse.

Experience: Select a professional who knows how to prequalify potential buyers and has the staff to handle not only the sale, but the presale preparation, inspection, advertising, record-keeping, removal, and clean-up process as well.

Licenses: Be sure that the person you hire has all the licenses required to sell your property. For example, in order for an auctioneer to sell cars or trucks, most states require them to have a motor vehicle dealer's license as well as an auctioneer's license.

Sale Proposal: Read it carefully, paying special attention to the following:

Estimate of Sale Proceeds: Make sure it's realistic. A high estimate won't look as attractive when you're asked to pay the costs of the sale from your own pocket because the proceeds weren't sufficient to cover them.

Proposed Location of Sale: If the sale can not be held on your business premises, where will it be held and what will you be charged?

Compensation: Compensation is typically based on one of the following methods or a combination of them:

Commission - Usually a percentage of the total gross selling prices. The commission should be set out in a written contract prior to the sale.

Buyers' Premium - Typically a percentage of the accepted bid, usually 10%, added to the price the buyer pays. Be sure to examine any proposal that includes both a commission and a buyer's premium.

Guaranteed Minimum - A specific net return guaranteed by an auctioneer, who either keeps the excess proceeds or divides them according to a negotiated written agreement.

Moving & Storage: Are the costs reasonable?

Labor: Liquidation sales can be labor-intensive. Unless you provide the labor, you will probably be charged for sprucing up your assets, organizing and grouping them into lots, setting up for the sale, cashiering, supervising removal of the purchased items, clean-up, and so on.

Advertising: Adequate advertising is key to the success of your sale. Study the advertising plan and budget carefully.

Does it include a direct mailing campaign? If so, what will the brochure look like? Ask to see samples from previous sales. How much will it cost to prepare and print it? What mailing lists will be used? Are they appropriate and how much will they cost? What is the postage budget?

Does it include newspaper advertisements? If so, will they be classified ads or display ads? Will they be placed in newspapers read by the buyers that you want to reach? When will they run and how much will they cost?

Does it include advertisements in trade publications? If so, which ones and when will they appear?

Does it include television or radio advertisements? These can be pricey but effective under the right circumstances. If included, which stations will air them and when?

Contract: If not provided, make certain to request and review a copy of the contract you will be expected to sign. Read it carefully. If you are not comfortable with it, ask your attorney for help.

Step 10. Use a non-recourse bill of sale.

The professionals you've hired should take care of the paperwork required to transfer title to your assets. Nevertheless, double-check to make certain that each bill of sale states that the item was sold "As is, Where is." You are probably looking forward to retirement or starting a new business. Why risk entanglement in long, drawn-out disputes over implied warranties of merchantability or fitness?

Getting out of business successfully requires a well thought-out plan from start to finish. If you have chosen asset liquidation as your exit strategy, increase your chances for success by incorporating these ten steps in your plan:

1. Talk to your lawyer and accountant.
2. Scrutinize your assets: inventory, assess, and prepare each item for sale.
3. Secure your merchandise.
4. Establish the liquidation value of your assets.
5. Make certain that a sale is worthwhile.
6. Choose the best type of sale for your merchandise.
7. Select the best time for your sale.
8. Arrange to hold your sale at the most appropriate location.
9. Hire an expert to conduct your sale.
10. Use a non-recourse bill of sale.

Understanding these steps will not only help you recover as much money as possible, they will also help you achieve the freedom you need to pursue new endeavors.