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How to Liquidate After a Business Fails

Determine how much time and effort you want to devote. Then talk to your accountant and research which services or venues make sense

By [Karen E. Klein](#)

I have a small fabric importing business I would like to sell. It hasn't been profitable for many years, and it is time to move on. Do you have any suggestions for liquidating my inventory, which consists of indigenous fabrics imported from Africa, Peru, and Turkey?—J.W., Los Angeles

Most people find closing a business very difficult emotionally. "It's heartbreaking. We all start in business with a dream and a passion," says Julie Gordon White, owner of [BlueKey Business Brokerage M&A](#) in Berkeley, Calif., and former president of the California Association of Business Brokers. "But entrepreneurs fail, for whatever reason, and in this economy many people are failing through no fault of their own."

The psychological aspect is important because your liquidation options will vary according to how ready you are to cut your financial and emotional losses from the venture. "There is a tradeoff between the recovery rate and how quickly one wants to move on and get rid of problem inventory," says Jacques Stambouli, president of [Via Trading Corp.](#), a liquidator in Lynwood, Calif. "You want to recover whatever cash is possible, recover warehouse space, and stop throwing good money after bad," he says, "but the higher the recovery desired, the longer it is going to take to get rid of the inventory."

On one end of the spectrum, you could simply file an application to dissolve your business entity and donate your fabric to a good cause. On the other end, you could liquidate the inventory yourself at flea markets or Internet auction sites, generating the most possible cash but committing to substantial time and effort. In making the decision, don't forget to calculate "hidden costs," such as declining inventory value and the lost return on capital that could be freed up by disposing of aging, obsolete goods quickly, Stambouli says.

Here are some choices to consider, listed from least effort to most:

Ask your accountant to calculate the tax deduction you could take for donating the fabric to an art or design school or another nonprofit organization. “The tax benefits for you might create a win-win for everybody involved, and the school would probably even arrange to pick up the material, making it as easy as possible for you to move on,” says White.

Contact local competitors, antique shops, and import stores to see if they would consider selling your fabric on consignment. “It’s painful to give away your inventory for nothing up front,” White says, “but consignment makes it easy for your competition to say yes, since there’s no risk for them if it doesn’t sell.” Retailers who have customer databases they can tap into will have the best chance of selling your fabrics quickly. A typical consignment deal involves a 50-50 split on the proceeds from eventual sales.

Sell your inventory outright to a jobber who specializes in taking unwanted assets off business owners’ hands. Selling outright will bring a lower rate than you might expect, likely pennies on the dollar, but you’ll at least recoup some of your investment up front, Stambouli says. You can find directories of liquidators at such sites as the [Internet Marketing Association of Surplus Dealers](#), which allows you to send a free e-mail blast to the site’s database of liquidators.

Hold a liquidation sale on your own or using an asset liquidator. Running it yourself means you keep the proceeds minus expenses, but that involves hiring staff, sorting bulk goods, pricing, advertising, and securing space or cleaning and setting up existing space. An auctioneer or liquidator will handle all the details of your sale, either for a flat fee or a percentage of sales. “Find an asset liquidator who deals in the kind of inventory your business holds,” recommends Royce Stutzman, a CPA and business consultant with [Vicenti, Lloyd & Stutzman](#) in Glendora, Calif. “Search the Internet, interview the liquidator, and be prepared to answer questions about your total selling price, who your typical customer is by product category, and who your competitors are. Be sure you understand the costs of handling the deal, as liquidators may have different pricing structures for fees,” he says.

Take the inventory to street fairs and flea markets or list it on online auction sites, such as (EBAY)eBay or Craigslist. You can also have the items listed on liquidation websites such as Stambouli’s and [Liquidation.com](#). If you choose this option, establish a minimum yardage purchase requirement, White says, otherwise the process could be drawn out for years with customers buying one yard of fabric here and two there. Good luck!

[Karen E. Klein](#) is a Los Angeles-based writer who covers entrepreneurship and small-business issues.