Arthur Hamel

Business Seminars

Interview Series

How To Buy and Own A Business With No Money, Credit, Or Prior Business Experience!

Michael Senoff Interviews Arthur Hamel

Michael Senoff's HardToFindSeminars.com

Michael Senoff's
HardToFindSeminars.com

Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

Now, my challenge is to build the world's largest free resource for online, downloadable audio business interviews.

I knew that I needed a site that contained strategies, solutions, and inside information to help you operate more efficiently

I've learned a lot in the last five years, and today I'm going to show you the skills that you need to survive.

It is my mission, to assist those that are very busy with their careers

And to really make my site different from every other audio content site on the web,
I have decided to give you access to this information in a downloadable format.

Now, let's get going.

Michael Senoff

Michael Senoff

Founder & CEO: www.hardtofindseminars.com

Michael Senoff's HardToFindSeminars.com

Copyright Notices

Published by:

Michael Senoff
JS&M Sales & Marketing Inc.
4735 Claremont Sq. #361
San Diego, CA 92117
858-234-7851 Office
858-274-2579 Fax
Michael@michaelsenoff.com
http://www.hardtofindseminars.com

Don't Buy A Business Until You Hear This- Important Advice From This Art Hamel Student

This is a very informative two-part audio that students of Arthur Hamel will be very interested in listening to. It came about almost entirely by chance. A gentleman by the name of Dale had studied the Arthur Hamel course on business buying and was about to take the important step of meeting with the owners of the business he was interested in buying.

It was an imperative time for Dale to begin to be coached by Art personally. Since Dale's meeting was to be the very next day and Art was currently out of town, I thought that perhaps another student named Eric could advise Dale about how the meeting should be approached, information that Dale should request, as well as other important aspects of this first meeting.

By coincidence, Eric called me to give me an update about his own business buying deal. After hearing the details, I asked Eric if he would be willing to speak to Dale in Art's absence in an effort to make Dale's next day meeting as successful as possible. Eric agreed and we got Dale on a three-way call.

Eric is a very astute student of Arthur Hamel and you will hear him echo many of Art's methods. The difference between these audios and those you may have heard between Art and I is that Eric brings a different perspective to buying a business because he has had different life experiences and has experienced some up's and down's in buying his business that are not covered in the Arthur Hamel course – things that a person can only realize when he or she goes through a specific experience.

I believe that this is what makes these audios so unique and important to people who are thinking of buying a business.

Here are just some of the highlights of Eric's advice to Dale for the meeting and the business buying deal that are based on Eric's personal experience:

- Probably the most important things you need are the company's financials and its tax records. They basically tell the whole story of the company.
- Learn how to present yourself as the buyer of the business: What to say, how to conduct yourself, and what to expect the current owner's attitude toward you to be.
- Hear the importance of observing the business first hand. Attend as many internal meetings as possible and obtain as much written information as possible since this information will help you to complete your Due Diligence phase.
- See how getting a great attorney and a great CPA to assist you during the entire buying process is of the utmost importance.
- Learn the necessity of creating a "million dollar" business plan as soon as possible for your investors. Hire someone to write it if you are not sure of what it should contain.

- Make sure to get aging and payables information in writing from the current business owner. This information is of the utmost importance and should be addendums to your business plan.
- Research your business's competitors.
- Realize the need for a key management team which may include the business's current consultants.
- Hear just some of the negative things that can occur when you are trying to buy a business from Eric's personal experience.

Listening to how Eric has applied what he learned from the Art Hamel course is so interesting and so informative! You won't want to miss a minute of it.

You'll also hear me explain how I revamped the Art Hamel course and added a whole section about buying a business, bringing in marketing resources, and looking for hidden marketing assets. You'll learn how to use these additional resources to identify the hidden assets of your business prior to purchase so that you will have a better knowledge about how you can grow the business even more.

Since Dale is at the beginning of the process of buying his business, the three of us promised to play this out as a full audio case study after Dale's activities are complete – whatever the outcome. Additionally, I know that you will want to hear rest of Eric's story and the outcome of his business buying experience.

Stay tuned for the outcomes of both Eric's and Dale's business buying deals. Enjoy!

Hi, it's Michael Senoff with HardtoFindSeminars.com. Here's a fifty minute recording with Eric Briggs and a gentleman named Dale. Eric Briggs has worked personally with Art for almost six months. Dale had called me wanting to talk to Art, and Art was out of town and I though the next best thing was to get someone who has worked with Art to answer some questions for him. Dale was getting ready to go down to Florida to look at purchasing a multi-million dollar business, and in this fifty minute call, you'll here Eric and Dale go over advice, tips, techniques on what to do while Dale is down there looking at this business. It gives you some insight into Art's teaching, but coming from a different perspective, coming from the student, and that's Eric. So, I hope you find this helpful, this new perspective on the Art Hamel System. Enjoy!

Music

Eric: Hello.

Michael: Hey Eric, it's Mike Senoff out in San Diego.

Eric: Mike, how are you doing?

Michael: I'm doing good. How are you? You know what I was going to call you about? I have another guy who wants to talk to Art, and I knew Art was out of town, and this guy has a meeting tomorrow to go meet with a business owner, a pretty promising situation, and since Art wasn't there, I was like, well, let me give Eric a call and see if Eric would be willing to talk to him and just give him any advice. He goes, "Mike, do you have any advice on what I should do tomorrow." I can get him on right now. Hold on.

Hey, Dale, this is Michael Senoff, how are you?

Dale: Good, how are you?

Michael: I'm doing really good. Listen, I've got Eric on the line. Now, Eric was a student of Art Hamel's and the reason I've called Eric is Art was out of town, but Eric did tell me he just talked to Art and he is out of town, or was out of town, but I figured since you've got a meeting tomorrow, let's see if Eric could help you out and give you some advice based on what he's learned from Art. Would that be all right?

Dale: That would be fine.

Michael: I'm going to let you guys talk, and you can explain to Eric what's going on and he can give you his best advice. Would that be all right?

Dale: Yeah, that would be fine.

Michael: Okay, Eric, can you hear each other?

Eric: I'm fine. No problem at all.

Michael: Okay. Well, Dale, just tell Eric what the situation is and ask away.

Dale: Eric, I found this business, and I've spent a couple of months here trying to find one that's suitable. I've been looking for a manufacturing business, but I ended up with a distributorship of devise, and it's so profitable and I couldn't turn it down. So, I had to take that next step. I was just wondering if you could give me some insight into what I might be looking for, or what you do when you first go to the business.

Eric: First of all, Dale, you really want to get the financials, the basic financials. Was it through a website that you found it, a broker?

Dale: I used the Wall Street Journal.

Eric: Really, okay, and you did a direct contact and got the financials.

Dale: No, it's not a direct contact. It's through a broker, but this broker is probably the best broker I have seen. I've talked to probably a hundred brokers, and I've never found one to do a write-up and present things the way this woman has done.

Eric: You found a good one.

Dale: Yeah, the majority of them are mediocre at best.

Eric: Exactly. See, that's the whole thing that I found. I was fortunate because I got three business financial packages from three different businesses. One was for a chain of gyms – didn't work out. One was for a mining company. They dealt with foreign things like that. Again, it didn't work out. The financials really didn't tell the full story, the things that they presented.

Then, I find this company in Arizona, and it's a nutritional supplement business. This isn't something manufactured, but they actually have a huge direct mail company.

Well, what I did is I flew in, and I was able to convince the owner to meet with me although I didn't have near enough financial strength to pull the sale by myself. I said, "Listen, I'm working with a private equity group to be named later." I said, "There are millions of dollars that these people have to invest in a good opportunity. The management needs to be in place." So, they can't be both owners walking away. It can't be one of these situations where there's not some kind of management structure. I said, "My background goes hand in hand with your industry. The industry that I was in. It was like a brother-sister thing. So, I had an understanding of the business. I'd really like to meet and talk about it."

You know how it is, they always say, "Principles only" or "No intermediaries." I said, "Listen, if you want to sell this business, it will get sold if the business that you're presenting is as it should be. If it's the way I see it, yes." These people said, "You know what? We're going to give it a shot."

They had the mindset that I had the money in the bank, that I had that two million that I needed because this was a multi-million dollar business like yours, huge revenue. I just acted as if I had the money, and that I was the gate keeper to the money, and they asked me questions, almost what you would consider a job interview, which is probably what you're going to run into because it would seem even though we're talking about all cash purchases, the business owner still wants to have some kind of say in their mind about who takes over their business.

Although, at the end of the day they don't care who you are, as long as you have the money, but they have to make it seem as though they really care. It's all like smoke and mirrors to me.

So, I met with him, and we went back and forth and I gave him a due diligence list of things that I needed to be able to put the financials together.

Now, I didn't sign a letter of intent. This business owner did not want a letter of intent. He wanted a contract and a deposit to take the business off the market. You may run into that.

I was able to negotiate a completely refundable deposit.

Dale: How large?

Eric: You won't believe this, ten grand for a multi-million dollar business to take it off the market. So, that was cool.

Dale: About how big a business are we talking about?

Eric: The sales are in the teens and millions per year.

Dale: Okay.

Eric: It was five. It's heading towards triple that now. In fact, I would not be surprised if the business didn't bring in $13-$15 million this year. That's what is projected in sales with a very high net because so much of the upfront expense has been taken care of, and a lot of is not recurring. We're probably looking at a net between 20-22 percent, a very high net.

Michael: So, Eric, give him a step by step thing of what he should do when he goes down there. When you go down there, I guess the first thing you may want to do, I'm just thinking logically you want to maybe just observe the business. That's why you're down there right?

Eric: Right, and actually sit down in there. They were having a meeting coming up, and I injected myself into that meeting. They were talking about some stuff in the office, and they were going to have some people come down, and I said, "Well, I want to be here for that meeting."

What they did is they put me into that meeting, and they flew in their whole team. It was just that time of year when they were doing that. So, they flew their whole team in, and they let me sit in on the meeting and listen to thing and passed me their internal handouts, their internal documentations, the new product launches, and things like that, but when it came time for the truly confidential things where maybe they were talking about certain suppliers, certain things that I could use to adversely affect the business, they asked me to leave.

I was cool with that because at the time I felt like I had enough information with my background anyway. That's one of the things I do know coupled with the information they gave me, I knew that it looked good. I was going to of course do the due diligence, but I felt confident that from there to say, "Okay, I can sign the contract." Knowing that my lawyer has got all the weasel clauses that all come in front of them.

Michael: Were you able to sit in on that meeting before you had your contract with the refundable deposit, or was that after?

Eric: Actually, that was a day or two after. It was within a week, but the thing was I knew we were going back and forth, back and forth, and I was getting pieces of information, and I was getting information here and there. So, I felt good about it especially with the way my lawyer – see, it's all in the way the lawyer does it.

If you've got a good lawyer that can write it up, almost like a real estate contract, you can tie up property all over the place, and pretty much as a buyer be able to back out if your partner agrees to it, and your partner's a goldfish. Do you know what I mean? You don't actually have to have a partner. It could be your wife or a friend, that says, "I don't want it." Well, see, that's enough to kill the deal.

So, you just have to structure it to where you have these estate clauses. I just thought of it like a big real estate transaction because I had been a real estate investor in the past. So, I had him close it that way.

Then, what happens from there once I got there, I gave them the refundable deposit. It was put in an escrow account which is very important. It was not written out to the business. It was written out to the escrow corporation, the third party. So, they couldn't disperse the funds without certain conditions being met. So, that was a protection.

You do need a barracuda of a lawyer, and you do need a lawyer that will ride with you. I don't know if you trust a lawyer so far. So, you need a lawyer that's going to say, "Hey, I've done this kind of stuff before. I'm interested in riding with you. I can see the potential for a sale here." My lawyer said, "Listen, I know where you live, and I'm a good lawyer. I know how to get money from people. So, I'm not worried about it. This looks like something that could work, and I'll ride with you on it." So, he didn't charge me upfront.

Art Hamel talks about that, but that's not very easy to find. The Arizona attorney that I'm talking to right now, we're talking about a greatly reduced retainer because I need an Arizona attorney and a New Mexico attorney because I'm in New Mexico. The business is in Arizona. So, I needed people who were licensed in those states.

Michael: Eric, what did you say to the attorney to try to get him to ride with you?

Eric: I just said, "Listen, I've got some basic financials on this business. I'm part of a private equity group." Pretty much the same pitch I gave to the business owners. I said, "This private equity group is interested in joining with me. These are the things I need to fulfill in order for them to go through with this."

Now, remember I had the contract already faxed over from the company that I was trying to buy. So, the basic contract was already there, and I said, "I want you to review this and tell me what you think. Tell me if you'd be interested in something like this."

Well, he saw the zeros and said, "You know what? I'm willing to take this." Because some people will want you to do a letter of intent which is cool, but other people like this will want a contract. There's a difference in opinion on the way the write it up, and one's different from another. A contract didn't bother me. I think that's not always the better way to go, but the contract did not bother me because of the way I could get out of it. I can't emphasize that enough. That's a big deal.

Another thing, when I got with him and I asked him to sign the contract, some of the things that I did to make it move along, because that's one thing – I don't know how you set this up. They want action. They want now. They do big deals all the time.

So, what I did was I said part of the contract was within five days of the signature of this contract, I wanted the documents. So, you need a full due diligence list. Have you heard of those books?

Dale: I bought them.

Eric: You've got them? Well, do you remember that one, "How to Buy and Sell a Business?"

Dale: I don't have that one.

Eric: Well, it says you're going to want a list. In the back, there's a whole to-do check list, and it's a good one. So, you might want to just go to the book and buy it because what I did was I sent a sheet of breaking down business information, operations, sales, personnel, information with companies, business facilities, computer systems, financial and related data and state and federal laws and regulations. I wanted all those disclosures.

Of course, they'll come back and say, "Well, I'll give you this and I'll give you this right now." But, at least I had a template of all the things that I needed them to give me, and then I could start my due diligence.

Another thing, when I asked them for things, like Art said, I asked them for the aging of their payables. Of course, in this business, they don't own anybody. It's all cash. It's incredible. They've got hoards of money in the bank.

Now, when I went to the investors, I made sure that when the person's I was talking to was working the requirements. I wanted to get that out of the way. Like I said, you've got all this money in the bank. When I buy a business, it's leaving the bank account. So, I need to find out. I'll be looking at the due diligence, the paperwork, and everything, but what kind of money do you need.

What's your scenario? Do you have money for working capital, just day to day operations, inventories, and things like that? I got that information. I built that into the cash that I needed, not only the purchase price of the business, but also working capital requirement.

Then, I also did this, I built in for the CPA and the lawyer. I shot high. So, I figured, "Let me just say $200,000." He had another bumped it another, in that case I think it was like half a million, $600,000.

Michael: How much did you work in for the CPA and the attorney?

Eric: I think it was a hundred and two hundred thousand dollars.

Michael: Each or split?

Eric: Total.

Michael: Total that they would split for their fees and helping you do this.

Eric: Right. The thing was just based on well I thought it was going to be an ongoing conversation, it's important. I didn't want to cap it. So, I said I'm going to throw in $200,000 on top of the working capital requirement or on top of the money I need to buy the business to get a nice lump of cash so that I don't need to go back to the investors, and look stupid.

It's all about credibility and because of the fact I didn't have the financial capability, I really had to talk like I knew what I was talking about, and I think it was really just the confidence when I went in. That's what I think really got me the information I needed.

Dale: I learned through other things I've done, it's all about posture.

Eric: Oh, yeah.

Dale: You have to posture yourself in anything you do.

Eric: I'm 38. I look like I'm 26, like a young kid. So, that was working against me. I have to project my agenda that much more, looking in the eye, and all those things like you do on a job interview for the biggest job of your life, the biggest career opportunity of your life, and I treated it like that.

It was funny because when I got with them, I felt like they were a girl I had to court. Anybody in something like this, they want to court their potential buyer anyway. They will wine you and dine you, but I was trying to stay dispassionate about the business. It was not easy.

It's just like when you go to buy a car, and you want the car. You don't want the salesman to know it because then they know you're emotionally attached to it, and they have so much more leverage, and they can jerk you around that much more.

I think I did a reasonably good job about that, and I like to think I could do it a little bit better because again, if you go from where we are, middle class people to multi-millionaire asset wise and a paycheck of half a million dollars a year or a million or whatever, that's crazy money for us. It's life changing. It's hard not getting excited about it. It's a struggle. Any more ideas you want to talk to me about?

Dale: Yes, I'd like you to talk to me about when you went to raise the money.

Eric: One thing I will tell is if you can get someone on board with you to write a business plan for you, get them on board. I know there's a website.

Dale: Here's my situation. I'm talking the business broker into doing the majority of it because she did such a great job on doing the write up of just the business. I'm working at it, but I'm trying to convince her to do the majority of it even if she doesn't know it I'll make her do it.

Eric: Okay, now let me ask you this. If there's a venture capital place in town, see if you can go down to their office. If you can get with somebody where you can see business plans through business ventures such as this, it will do you a big favor because then you know when you're not getting what you need.

If there's something missing, you and I, we're not in the mergers and acquisitions and all that stuff. I don't know, maybe you have been, but I haven't. So, it's like, I'm looking at something and thinking it looks great, and the last person I shared it with was like, "What is this crap?"

So, keep it in your mind. There are basic business plan templates that are out there, but what's so important is the aging of payables and receivables pro forma for three years of financial information, as much as you can get.

Dale: I got it.

Eric: Those things right there. I mean those are so important. Another thing that's a big is non-compete, the longer the better. I know that it's pretty hard to get over four or five years for a non-compete in the industry, but try to get over three years. Four or five is phenomenal because the investors want to be out in four to five years. They're usually doing an exit.

The can change mind, but that's the exit that they usually have in mind. So, you almost have to have some kind of exit strategy for them on how you will take possession of the company or at least get them out of the company if you decide to keep with it.

Think about that, and lay that out with the business broker and whoever else you deal with.

People ask me about the business structure, when I signed the contract I said "Structure to be determined." Because I didn't want to tie myself to the type of structure that would not ultimately be the kind I wanted to run the business under. If you can get a CPA to ride along with you, you're going to be so much better because you can consult with them.

Dale: Did you buy stock or assets?

Eric: Asset sales.

Dale: My seller would like to do a stock sale.

Eric: Oh, they definitely would.

Dale: But, my CPA said that it wasn't a big deal as far as his advantages.

Eric: Liability.

Dale: Yeah.

Eric: Right, ten minutes after you sign the contract, the closing, you get slapped with some kind of lawsuit down the road, and I would really try to do asset only, and I guess there's way the CPAs know how to get around that. You form a corporation in closing, and that corporation takes over the new corporation, something like that.

I mean, again, I know Art was big on asset sales.

Michael: So, what's your view and your opinion the advantage or disadvantage of either or both?

Eric: Well, basically you're just taking any and all liabilities. The ownership passed from one person to the other person, but it's almost like the individual is the same. It's almost like the same individual.

Michael: So, you don't want to do a stock sale?

Eric: That's the thing. It's not always bad to have a stock sale. It just depends on the situation. That's why a good CPA and lawyer is so important. The worse thing you can do is give it to a person and you think they're good and they're one size fits all CPA or lawyer. "You need an LLC." Or "You need an S-Corporation." Why?

That's why I love those books because it talks about getting somebody, making sure that you talk to somebody and find out what your strategies are, what your desire for the business is, how your goals are going to be, all those things, and then they can help you determine what the best form of ownership to take would be because most of the books say that you can switch from this entity to that entity at any point with very little problems.

In many cases, that's not necessarily true. They always make it seem easy, but undoing things that have attached when you're a multi-million dollar company, you can imagine it could be millions of dollars.

What it is, is they say start out right. Get your foundation set right. Your entities and everything set up from the beginning, and the thing is for people like us, if we get the people to ride along with us and then we pan out at the end, then we can get that type of service that allows us to do that, where normally people would try to cut corners and save some money and just get the business going.

We could afford to say, "Okay, I want this done right. This is the way I want it done" according to what you said, "I know it's going to cost me $25,000 but by the time I'm all done, but it's going to be set up right." Not, "Just let's put a band-aid on it and get bought it, and then deal with the mess afterwards."

Michael: Dale, do you have a CPA and an attorney to ride along with you?

Dale: Yes and no. I have an attorney here in New York. Now, CPA can handle that, but my attorney, I've got to find another one in Florida. I do have a friend who's a state senator down there that I'm talking to, and he's an old attorney.

Eric: Can I speak to that?

Dale: Sure.

Eric: What you just said is huge. Now, I read this and I don't know where, but it's so true. The attorney that's interested, the attorney is involved in the business, they want their money, but they also don't want to look bad. They don't want to be seen as beat-up because the attorney is the one who's going to take the abuse. If you look bad, who looks bad? The attorney.

You've got a friend who's an attorney. Just keep that in mind because the attorneys are the ones who kill the most deals. They're the deal killers. They're the ones because they're afraid of the liability to them, not necessarily your best interest, but the liability that they're going to get by the decisions that are made, and it's true. I've seen it just in a little way already.

I just want to say that because there's a friendship you want to keep.

Michael: What are you saying in that sense?

Eric: Where you live can't be where you do other things. Do you know what I mean?

Dale: Yes.

Eric: It's almost like, be careful mixing the two. Even though you can have a high-powered attorney, relative or whoever it is, that's phenomenal, but that link could be the link that undoes because there's another layer to the relationship.

Michael: So, would you advise to get another attorney who's not your friend?

Eric: As weird as it may seem, yes. It's a deal killer, and if you have a friend that kills the deal that you think would've take care of you and made you a ton of money, you may have a hard time with that friend.

Dale: Yeah, I know you're right because I've had a lot of real estate projects that I've done, and they were tough deals to do, and I've had attorneys that killed the deal. You've got to search out the right ones. There's no doubt about it.

Eric: You've got to manage them because see, remember, they are the ones that going to be able to brag when the deals goes the through and it builds their practice and their reputation, but the fact of the matter is it becomes and ego thing where it's like, "Look, I want this deal. I want this."

It's like it can quickly become what they want and not what you want. Attorneys are notorious for that.

Dale: Let me just back up a little bit and talk about the money. Tell me your situation when you started out. You had a business that you wanted to buy and now you didn't have enough money. Bring me into your world about that what you went through.

Eric: Well, first of all, the first thing that I found was that no one necessarily wanted to say, "Okay, yes, here, you can say, 'I'm working with so-and-so, and they have the money. They're backing me. Let's do a deal.'"

It was more like, "This is what you have to say. You have to say that I'm part of a private equity group that raises millions of dollars for all cash acquisitions."

Now, obviously, I'm the buyer. You're the seller. If you want to sell this business, I'll sign what you need signed. Let me do the due diligence, and I'll let you know in a very quick manner, without wasting your time, whether or not we can do a deal.

I had to do that because of the fact that I had no money. You can print cards up that say you're in business. I didn't even do that. I just walked in and honestly, I was told was that might even be better, just to walk in as a private citizen that wants to buy a business.

Again, if you've been in real estate, you know. It's almost like, don't be a broker. People get their broker's license to buy up houses.

Dale: It's a stupid thing to do.

Eric: It's a stupid thing to do because you just walk in, everybody's all happy, right, and about seven months later, you get a letter suing you because you used your knowledge to an unfair advantage, and you're like, "What?"

So, it's the same thing. You want to be a shmuck in a way, not in a way where they think this isn't going to happen, but you don't want to be somebody that they think is going to get an unfair advantage over them and do all these things to them and convolute it.

So, it's like, "I'm a private citizen that has the access to unlimited funds through this private equity group I'm involved in, and depending on the type of deal it is, then the private equity group, certain members are put together to make it happen. There are certain investors that invest in certain opportunities certain industries."

So, it may not necessarily be the same individuals on every investment, and I just talk to them about that. Early in the due diligence period, we're going to know whether or not we have a deal. I'm not about to sit here and try to waste time. I would like this thing to happen, to close within three months.

Now, three months to a seller, that's pretty quick. Some of these large businesses, because I know a couple of business that I was doing before they had stock purchases and they were trying to do filings and all these crazy things that were taking nine months just to set up – venture capitalists and merger and acquisition companies.

So, when I came out and said, "Listen, we want a cash deal, three months or less, let's just do this. Let's see what we've got." That appeals to the person's desire to get the heck out of the business. I didn't complicate it.

Dale: What about talking to your investors?

Eric: When I talked to Art, Art said, "This is what I need." I came to find out more and more that what he said upfront wasn't necessarily everything that he needed, and learned about trial and error, but basically it was, and this is the thing – get the business plan done as soon as possible. They want to see something as soon as possible in writing.

That's the number one thing from an investment standpoint because once there's a business plan, then they'll be receiving everything. It's not a problem.

Number two though, and I'm going to say number two is number one for you, number two for you – all the things we talked about, the business plan's one thing, but getting all the financials and knowing what to ask for because you have the business plan, but you also have attachments to the business plan like something about the revenue, federal and states taxes, making sure that they're paying their taxes and they're paying their employment taxes and all that stuff. You've got to really get all that, all that stuff quick.

Dale: This business happens to be being audited right now by the IRS.

Eric: Oh, really?

Dale: Yeah, they're willing to give me the IRS agent's name and phone number.

Eric: Really? That's not bad because now remember Art was talking about financial audited, financials and all the different levels, financials underneath that and they all need to be crafted. You know it's true. People can do whatever they want on QuickBooks Pro, but I needed the banking records. I went to them and said, "Listen, I want your banking records. I want your CPA to give me the information not that you printed up, that you printed up on QuickBooks

Pro. I need something from the bank." That's the stuff that really galvanizes whether or not the company is really doing what it says it's doing.

You need stuff like – all the company records you can get. I mean, when I was talking about intellectual property, find out about their owner, that they own, trade secrets, copyrights, trademarks, patents, domain names, all the websites that they own, licensing agreements they have with other companies, the kind of policy they have as far as insurance like liability insurance. Do they have insurance? All these different insurances so that you're protecting the investors.

If you go to your investors and say, "Hey, look, I've got key man insurance so if something happened to me, the investors get five million dollars." Really cheap insurance, but it's the person that – see, remember, you'll be the CEO, but one thing is you have what's called the voting stock to a large degree. You may not own very much of the preferred stock which is actually the cash flow. Do you know what I mean?

So, you may end up owning a hundred percent or fifty or sixty percent, make sure you own at least 51 percent of the voting stock where you make the decisions in the business, but as far as a preferred stock where the money gets dispersed, you may only end up with ten or twenty percent that you have to buy them out and gain more equity.

So, let's say the business does two million dollars, if you own twenty percent of the business, you're going to get $400,000 plus if you have a salary that you take. Do you know what I mean?

Dale: Yes.

Eric: So, that's a sum of money, but you have the ability to get your equity and grow it by building up the revenue in the business and whatever other ways that you can do that.

So, you need to kind of give them that message. Also, every agreement that you get from them, every agreement, anything that they sign, you need it in your hand.

As a matter of fact, Dale, I have the two sheets due diligence thing. When we're done, give me your number – I was going to say when we're done maybe I'll give you that. I don't know if you want to put it on the recording, but, when we're done, maybe we can conference and I can give you my number and you can give me yours and I can fax you this list. So, you don't have to go digging this out, okay?

Dale: Okay.

Eric: This is a great list and I love it, but the competition, the competitors. You need to find out about those. The business broker may be able to help you with that, but also you can go on Alexa where if people visit this site, they also visit sites. There are certain websites you can go to, and you'll find out if the person – okay, this is the web address that they have. Who are their competition? People who were hitting this website are also hitting these websites. That kind of information is very, very key because those kinds of things will help you sit up your strategies for the future.

Maybe you can attack a segment that hasn't been attacked yet that the competitors are involved in. This is more stuff for you.

Also make sure the way they're taking their – if they get bonuses and they're doing salaries and dividends and all that kind of stuff, the CPA will help you wade through that to find out what the people are really making. Remember when you read the thing that Art talked about add back? Add back certain things to arrive at really what the company's really making.

Dale: Oh, yeah, yeah.

Eric: Make real sure to compare all that information and have the CPA really dig into what – because see the company sometimes will find a way to try to add back some things that really aren't added back. I mean, if they say, "Consultants Pay" add that. You want those consultants to continue with you. That's not add back. It's a continuing recurring expense.

Dale: Sure.

Eric: You want to keep as it intact as possible. You don't want it to be a big old huge shake-up and everybody's leaving that's really running the show, and you're sitting here trying to rebuild all these relationships. You want people in place that have these relationships in place that report to you. You want to be as seamless as possible.

So, when Art says it's one on more – if there's two owners in that business and they both leave, and there's no management, no key management in place, you're over because you're starting over, and usually the success rate is very low.

You need a management team in place, and the business that you're talking about, they must have a nice management team. Do they have a nice management team, managers and things like that?

Dale: Generally, that's probably one of the problems of the business is that the owner is too hands on. He does have key people in there which can take over, but I'm looking to hire a couple key people, one of them being a controller.

Eric: Beautiful. You've got to have that controller, thinking about that. Art would be about that because what he does is he interviews people and they might get some kind of stock option or at some point, they might, who knows? The different packages because businesses the size that you and I are buying, people make six figures running them, and like Art said, they don't want to be bothered by you and I. We want somebody who looks at us and goes, "I don't need any help. I know everything."

Of course, there has to be some respect there, but you don't want to be in a situation where you have somebody that's calling you all the time.

Dale: Right.

Eric: You want a high caliber person that can run it until something happens. Remember what Art says, if something happens, you want that person, if they have to call, they call you. You call the investor because remember, it's their money. They're going to protect you.

Dale: Sure.

Eric: So, what we're doing, the way you and I are doing it is smart because we're really removing ourselves from the daily operations and the real worry of the thing. One thing I decided I was going to do that has – I'm going to be running it for probably at least the first three to six months, pretty much be in there in conjunction with the general managers that I'm hiring, but what I want to do is – I checked out something called Oracle, the company.

Dale: Yeah.

Eric: Database management systems – they have a suite that you can get it online. There are different packages, but I'm probably going to get the more expensive ones. You probably would, too. But, it basically gives you a window on the operations of the business. You can go into the computer and see what's going on in real-time in the different segments of your business, and put them all together. It's incredible.

But, there's so many tools that we can use. I know Michael talks about them all the time, that we can use to make it to where we can manage it without actually having to be there, and we can know that we're not getting ripped off. Do you know what I mean?

So, that's kind of cool. I've been doing research on that.

Dale: The only thing is I guess where I have a little concern is when I present this to the investors, and that's how I feel, the money is always a concern. When I present it to the investors, what am I to expect and how hard was it for you to – once you get the business plan and everything, all this stuff's in order, how hard was it for you to really raise the money?

Eric: Well, let me tell you, I'm going to share this with you and this is not public, but I'll tell you this deal. Thanks Michael, I'll share this with Dale. What happened is we got down to the nitty gritty, and the people waffled. They messed up. So, we're going at it from a different angle. It's unfortunate, but we're actually having to take some action.

So, what ended up happening was from the investor's standpoint that they're going to make money irregardless because see, I have a contract that's airtight, and I have all this proof that they did not do what they were supposed to do. They didn't release the documents that I needed and things like that.

So, I did everything right and just ran into a brick wall. Well, the company tried to resell the sale to somebody else for a much higher price, and then they did it to them, and now the word on the street is they're trying to sell it for three times what my contract price was.

Dale: Oh my gosh.

Eric: So, can you imagine? So, basically, I should be fine. I'm going to make money regardless. Do you see what I mean?

Dale: Yes.

Eric: If I take over the business with my background, I'm going to make a ton of money. I'm going to plug something and it's going to really explode. If I decide to flip it to the other investor who's dying for it, if he can keep the spread, I'll do that.

Or, if I just say, "Hey, pay me money. I'm suing you for this." I have three different ways I can make money on this deal. So, I'm not worried either way, but, basically everything I'm telling you I did correct, but they reneged because they want more money. See what I mean?

I have two attorneys and a CPA, so obviously I'm in good shape. I'm just telling you what could happen. Sometimes when you go through the process, you reacquaint people with their own business, and they think, "Wait a second. Wait a second. Why did I sell it for this price?" "Why did I sell it for this price?"

The only problem is he's got a contract.

Dale: Seller's remorse.

Eric: Right.

Michael: Eric, do you think you reacquainted and let that owner know more of the value he really had? Did you give away too much? Do you think that had anything to do with it?

Eric: No, but you know what I think it was? Honestly, Michael, that's a great question. What it was the owner, he enjoyed building the business. He doesn't necessarily enjoy running them. Okay, but he has a system in place.

I think what I did is that in purchasing this business and the way I went about it, I did it in a very high level, the way that Art says to do it. I think the prior owner of it was a lot less sophisticated in the way he went about it. The way I did it step by step from Art's perspective, it really raises the awareness of the owner. The owner is brilliant. The man who started the business is brilliant at started business. He has a certain type of genius. He's just not a total businessman.

Well, I raised his awareness of things in a way, I guess. Do you know what I mean? Through this process, and it kind of opened his eyes as to what he had and the potential that he had, and it was nothing that I really could do not to because the things I asked for, and the processes I went about, gave him time to think about things.

But, it is interesting. You're going to find people who lack integrity no matter how much money they make, right? We've seen that within a lot of them.

I just – middle class me learns the hard way about that. I'm getting some training in character development through people here, helping them out with their character at my expense, but the good thing was I'm not really paying the price because my partners, the people that are partnering with me, they're absorbing it knowing they're going to get a pay out.

Michael: Dale, what's your plan? You're going to be going down tomorrow, right?

Dale: Right.

Michael: What is your game plan so far?

Dale: Well, this is probably – I didn't know what I was getting – going to run into, but it sounds like this is my interview for the job, and I've already gotten the financials on it, the income tax statements. So, what I'd like to see if that checklist, and my objective is – I don't know if you've ever read the book, "Socratic Selling", but it's Socrates was a great questioner, and that's what that's about, and so my position, I believe, is to ask questions.

Michael: I've revamped the entire course and actually, Dale, you don't even have this because I'm just now getting a lot of the materials back from my CD duplicator, and Dale I don't mind sending you this, but we have all – I have about thirty different CDs now. So, I have all the mp3 files on CD ROMs where you can put them in the CD player, but I've added a whole section to the Hamel course.

Now, Hamel's great at buying businesses, already profitable businesses, by looking at the value of them, but one thing he is not, and that's he is not a marketer. At least, I don't believe he is, and it's a whole different aspect.

Once you buy a business that's making good money and you can get the investors to buy it, then if you bring in the marketing and look for the hidden marketing assets within the businesses, that's like dynamite putting those two together.

So, I've got a lot of my material that comes from my HMA system which is the Hidden Marketing Assets system, and there's a questionnaire I'll send to you Dale, and I don't know if you've ever seen it or heard one of the recordings where I've done one of those?

Dale: I'm not sure.

Michael: Well, it's where you – it's a series of questions and it's been proven and I've got it all mapped out for you in a PDF file, and it's a series of questions that you may want to go down there with after you do your initial investigation maybe at another time, and it's for you to identify the hidden assets within the business, not necessarily the financials and stuff, the intangible hidden assets within the business to really give yourself kind of like an x-ray view of even where they're leaving more money on the table, or if you end up owning this thing how you could really grow the business without any additional forms of advertising.

I'll email you a sample. It's a one hour recording of me taking someone through this process, an accountant actually out of Australia, and you'll see all the stuff we uncover in his business that's just waiting there for them that he didn't know he had, and then in that recording there'll be a PDF file you can download. It's called the Opportunity Analysis, and my HMA consultants use this when they question a business to identify where the assets are in a business before they do consulting for them because a consultant wants to go into a business that has hidden assets where he can uncover them and negotiate a piece of the action on the growth of the business.

So, that may be nice and when you talk about Socrates, I mean it's all questions.

Eric: I have to tell you, I'm just that type of person and I was doing that to a degree anyway because I'm a salesman my whole life. So, I was asking a lot of questions and what was interesting is that's another reason why I think they deal went so smoothly because they liked me because I was interested in them. Do you know what I mean?

Dale: Yeah.

Eric: Like we talked about, and we thought that we were sharing things, and books we read and things like that, and we had a lot in common. He's a majority owner. The minority owner was the one that caused the problem, and I think he got to him because the minority was trying to get a bigger percentage of the business and was negotiating that while they were trying to sell the business. That's why he didn't want me to buy the business. He said, "I'm trying to get another few percent of the business. Can you just walk away?" I'm like, "I have a contract with you, man. Why didn't you bring that up before?"

So, that was part of the reason why the business flopped, but they had a contract. I did talk to him at length and we hit it off. We were aligned with each other and we talked about some things, and he liked that because he likes talking about himself.

Michael: Yeah, so when you go down there, Dale, that's going to be number one. Talk, Dale, this is this guy's baby, his passion. He's probably lived with I for many years, and just ask him lots of questions about how he got started. Let him just keep talking.

I know when I do my interviews, it's really the key. You're building such rapport by just being a good listener, and he'll tell you things that you won't have to think of questions. If you just listen and keep probing and let him talk and make him feel comfortable and be really interested, he'll tell you everything you want to know.

Dale: Sure.

Michael: And, you also want to find out his really motivations why he wants to sell. What's the real reason? And, then another thing to think about, if you for whatever reason can't come up with the money and you find his real motivations, his real reasons for selling, you may be able to negotiate something else. There's no rules. You may be able to negotiate. An idea that we teach the consultants is you can go in and depending on the hidden assets that he has and how much potential for growth and Eric and I have talked about this, you may be able to negotiate ownership of the business by growing the business.

So, you can say to him, "If I can grow the business this much, and in that growth we pull that money out, money that you would have never had, and we put that towards the purchase price, would you then turn ownership over to me?"

Eric: That's a good one.

Dale: Great.

Michael: So, you've just got to find out what his really reasons for selling are, what his situation is. Everyone has a situation. He may be sick. Do you know what the deal is, the real reason?

Dale: He says he wants to get out from underneath the day to day management, and I said to the broker that I asked the same question, and she says, he wants the money. Now, that tells me there's something else I don't know because he wants the money. Why does he want the money?

Eric: Call Dun and Bradstreet, get on their website. I'd talk to Dun and Bradstreet, okay, and they charge you for a report on there like the credit and stuff like that, but the young lady was very nice and we hit it off. She said, "Eric I don't want to charge you for this." She goes, "What I'm finding is this company is so strong financially, they don't owe anybody anything. Their credit is excellent. Don't buy the report. I'll tell you right now, they're in great shape." So, I didn't have to pay to find out if this company was shaky.

That will put you on a different plain with them, but also they'll know they can't jack you around. The more you know about them, the less they can jack you around. They'll be like, "This guys knows us." That's why I talk about the aging of the receivables, the payables that Art talks about, that's powerful because how many people that buy businesses even know about that stuff? Hey, this is my business making sales of a million dollars a year or sixteen million a year in sales, and it make four million but do they not pay the bills? Are they telling sales that they just pushed on customers and told them that they have three years to pay for it?

Aging is really important.

Dale: One thing that is going for this business is it's a cash business, cash accrual. Well, they do have a receivables, and what it is is collecting from insurance companies, they way it works.

Eric: Do they use factoring?

Dale: No, they don't use factoring. They do have – it's a six million dollars in sales and makes about a million and a half, and they have $700,000 in accounts receivable which come with the business, all the accounts payable are going to be paid.

Eric: I heard that, but you know what? Don't let them do that if you can. If you can do it, if they want to leave the receivables, that's fine. That's fine. Leave the receivables. You know what? I want the payables because remember what Art said. There's more money in payables sometimes than receivables.

Dale: Oh yeah.

Eric: Before that owner walks away, try to get that owner to call his people and say because a lot of owners say these terms and they don't use them. A lot of people, even on the businesses I've done in the past, or worked with, they'll have like ninety day terms with somebody, and as soon as the bill comes in, they pay it, and they have to wait sixty days for their customers to pay them.

Michael: So, Eric, are you suggesting take the receivables off of the purchase price and let him deal with them?

Eric: Like Art said, and of course what you might find though is that the guy doesn't have faith in his receivables, and whatever you can get, get, and just split them with me.

Dale: He did say he'd guarantee the receivables.

Eric: Okay, remember to watch out for this because like Art says the guy maybe substantially wealthy when you buy the business from him for the purchase price, but he might not be able to indemnify that.

Dale: Yeah.

Eric: Or, he might just take off, and you're stuck.

Dale: But, the way he's willing to hold two million dollars of the purchase price.

Eric: Yeah, but again, while that's strong, remember, you're talking about the stock purchase price. He's trying to sell you stock.

Dale: Right.

Eric: Who knows what lien is going to be slapped against him?

Dale: You're right.

Eric: It's like there are a few layers to this system, certainly. There's a few red flags that go up in my mind from what I've learned, and I was going to say if he wants you to take the receivables, then I would say, "Listen, I will make your life easier. I will take the payables." Like I said, he may be paying cash on the barrel head. You're going to say, "Listen, I'm buying the company. We're going to go forward with this. I want you to negotiate the credit terms possible to your suppliers."

Have him do it before he leaves. Leave you that legacy so that when you get products, you don't have to pay for them for a considerable period of time. So, you can work with supplier money, right?

Dale: I don't think that's a big deal because in six million dollars sales, the inventory is only $55,000.

Eric: True, okay, and what are his receivables? How much are those?

Dale: $700,000.

Eric: Okay, the thing with $700,000, now, standard amount, is it usually around that range, and he has receivables around that every thirty days or sixty days. I don't know how it is. How often is it?

Dale: It's constant, I think. I've got to check on that.

Eric: Find out about that. Find out about – remember the thing about exceptional year. Find out if he's had a spike in sales this year. How long has this been around?

Dale: Since '98.

Eric: Five years.

Dale: He had a 37 percent growth for the last three years for each year.

Eric: They're ramping. So, you're not going to see some spike where they did something one time and it's never going to happen again. So, it's the value of that client or whatever.

Dale: Right, no, it's been growing up and there's no large clients. They're all about the same size.

Eric: Is there anybody getting more than a quarter of their business or anything like that?

Dale: No, nothing.

Eric: I'm going to say that, Dale, and I'm just saying it – we're like a brother hood here. We've got to try and get things done. I'm going to harp on you on this. I'm going to say it one more time, check into what his credit is like. He may not be using it. Remember, home builders, remember this came out, home builders borrow money short term for like fifteen to eighteen percent. Remember?

Dale: Yes.

Eric: If you work your payables right and you don't owe money for months, you've got hundreds of thousands of dollars in the banks, you can make hundreds of thousands of dollars off of that money. You're getting more interest than you're paying. That's two percent interest, one percent.

Like receivables, you can really turn that into some other things. You can use that to be able to do some things that maybe – like buy into other business and other things.

When you have a ton of money, there's a great deal of stuff you can do with it, and so keep that in mind. Payables is big. Art talks about it, and he touches on it and other things and that's a huge field.

Dale: I think the biggest – see, there's manufacturer reps involved in this, and I think the greatest part of expenses is their commissions. I don't know how to change that.

Eric: You need to explain the structure of that though. Remember the hidden assets?

Dale: Yes.

Eric: The stuff Michael's talking about. That's a hidden asset right there. People like to get paid, and remember if this business is sold, does that mean the arrangement with the reps is going to stay the same or you're not going to go do business with somebody else? How do they know that you don't have somebody else lined up? You need to use that.

I was reading about a guy that went to buy a liquor distributor, a large liquor store, and he went to the distributor for the store he went to buy. He explained to them – the distributors do not share information with each other. It's like a war. It's like Pepsi and Coke, and a lot of industries are like that. They don't share information together. They don't really know indepth what each other is doing, and so you play them against each other.

So, it's like you go and you say, "Hey, I really want to do business with you." Make sure you know who the reps that are involved, and find out what other reps there are that do the same thing. So, you can have an ace in the hole and say, "Look, I'd like to continue to do business with you, but this is the way that I am used to doing this or that, and these are the things that this company is willing to give me." You need to be in the same playing field.

If they want to cut their nose off to spite their face, I don't think so. It's like brokers commissions. You want to pay people what they're due, but the fact of the matter is if a business gets sold, that's great. Then the broker makes a commission. If the business doesn't get sold, the broker doesn't get jack.

So, it's in the broker's best interest to sell the business to make the money whether he gets paid out in one lump sum, or just paid out over a year's time or whatever. They're still getting money they wouldn't have got. So, it's like all those relationships that he has, he has them, but that doesn't mean that they're the best ones. Do you know what I mean?

Dale: Yes

Eric: He might just be doing business – just like someone with your real estate. I can come across opportunities, and the person has a big apartment building and he hasn't raised the rent for fifteen years because he's friends with half the people. Now, does that mean – does he have a profitable way to do business? Yeah, they're making money. Are they doing it right? No. Are they caught up in the friendship thing? Yes. Are you? No, you don't know those people. You don't know anybody. You're going in clean. You're a big time investor. You've got money and you're here to make money, and you're here to have a business relationship and it may not different if they're not willing to work with you and show good faith.

So, it is all those things are going to add real value to that company and put real money in your pocket. The reason I'm saying that – this is what I'm telling you, this will give you the mental leverage, the mental confidence to go in there and talk shop with these people and let them know you're not somebody to be played with without being adversarial. You're just bringing things up and you're asking questions like that and making the person think, "Wow, this person is – this is a substantial person. This business won't close."

I mean, it's interesting. It's really psychological. I really enjoy it. It's been such a big education. I've learned so much. I never knew any deal with business. I thought I knew business. I know jack. I mean I know how to be a good employee, but this is a shift for us being the owner and that's a whole nother skill set there that most people just do not have. How much do you know? I didn't go to college. I graduated as a junior from high school.

Michael: I'd love if we could continue and play this out because Dale if you go down there and it looks really promising and things look like it works out, and we could take this and do an audio case study all the way to your ownership. That would be awesome.

Dale: Yeah, I'd love to.

Michael: Okay, guys, well, this has been wonderful. Talk to you guys later. Bye

That's the end of this recording with Eric and Dale and I hope this has given you a new perspective on Art's system. If you need anything at all, please don't hesitate to call 858-274-7851 or email me at Michael@MichaelSenoff.com.

There's an interview in this section of the audio recordings at HardtoFindSeminars.com. It's with a business buying expert. His name is Art Hamel. If you go back to my site, HardtoFindSeminars.com and go to the products section along the left side in light blue, you will see a list of topics. Look for the one that it says, "Business Buying." Click on that link and you'll be taken to about seven hours of exclusive interviews with Arthur Hamel. Arthur Hamel has purchased multi-million dollar businesses, over 200 of them in his lifetime, and he will tell you how to do the same thing. It's some fascinating content and I wanted you to know about it.