Arthur Hamel

Business Seminars

Bonus Interview Transcripts

Michael Senoff's HardToFindSeminars.com

JS&M Sales & Marketing Inc. | (858) 274-7851 | San Diego, CA 92117 |

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

The Complete Do-It-Yourself Guide To Buying And Owning A Winning Business:

A Teleseminar With Art Hamel

.

Believe it or not, anyone can buy a business – even in today's economy. In fact, business-buying expert Art Hamel says he likes to buy businesses during recessions because owners are more motivated to sell, which could mean easier and more profitable deals for you. And in this teleseminar, you'll hear exactly how to make the recession work for you.

According to Art, one of the biggest mistakes you can make when buying a business is complicating the process. If you follow his plan, you won't need extensive knowledge, fancy concepts or even research about your market.

So in this teleseminar you'll hear an outline of the entire process, from selecting a successful business to choosing an exit strategy. But because there's an extensive amount of information, the teleseminar runs slightly more than five hours long. So I've broken it into seven easily digestible sections and here's a rundown of each.

Part One: How To Get Started… Even If You Don't Have Any Money Or Connections

It seems like everyone is talking about the economy, and Art is no exception, except he's saying you don't need to worry about it. And in the beginning of Part One, you'll hear why. He addresses all the questions and worries about how the economy has affected business buying.

And he should know. Art has been buying businesses for more than 50 years and has also helped countless others to buy them too. According to him, the number one thing you need to succeed is confidence – everything else is easy. In fact, he says if you start the right way and stick with the basic rules, you'll be just fine. And in Part One, you'll hear the right way to get started along with…

- Exactly what to look for in a business to buy and where to start looking
- What a "reverse earn out" is and how to use one when negotiating for businesses during the recession
- Why you'll want to avoid private equity companies and business brokers – and what to do instead
- Two businesses you'll never want to get involved with and why
- How to contact the owners of prospective companies – just like the brokers do

Part Two: The Best Types Of Businesses To Buy And How To Find Them

According to Art, you never want to be known as the "turnaround guy" because it's just not worth it to fix up a business and turn it around – and it's certainly not worth the headaches. It's much better to find a business that's already doing well. So in Part Two, you'll hear all about the ideal business to buy and also…

- How to contact the owners of businesses and ways to make sure you get taken seriously
- How to use your local library to find businesses to buy
- What kinds of questions to ask when you're buying a business
- The 3 best characteristics of a business to buy and what types do best during a recession

Part Three: Evaluating And Determining The Value Of A Business

Art says one of the worst things you can do when evaluating a business is to go in there with a Pollyanna attitude. You need to assume there are problems and look for them. Remember, it's "buyer beware," so quit worrying about impressing the owner and worry more about your research.

If this is your first business sale, you've got a lot to learn. Fortunately, according to Art, none of it requires a background in rocket science. And in Part Three, he's going to tell you how to make sure you don't get ripped off. You'll also hear…

- How to use a profit and loss balance sheet to help determine your maximum bid for a business

- How to evaluate a business's financial record and judge its future viability
- All about due diligence and how to put together questions that will let the seller know you're not a pushover
- Why you'll need a CPA and accountant when you first start out
- The best way to cash out investors after their five-year run

Part Four: Obtaining Investors Or Bank Loans

According to Art, if your deal makes sound economic sense, you'll find financial backing, no problem. But finding investors might be difficult if you're a new business buyer with no track record. Fortunately, there are other routes you can take like leverage buyouts and owner financing. And in Part Four, you'll hear all about them.

You'll Also Hear…

- Why owner financing should only be 30% to 40% of the deal, how to get it, and how to make up the rest
- Why you won't want a private equity company to finance the deal – and where to go instead
- How to prospect for investors
- How deals are usually structured – when investors get paid, how long they stay, and if you need to buy them out
- All about the "preferred position" – what it means, how it's arranged, who gets it and why

Part Five: Negotiating The Deal

If you're like most people, you worry about going into an important meeting and negotiating a big deal. Art says he's been there too, but owners are never as horrible to work with as you think, and the meeting always goes pretty smoothly. But there are some things you're going to want to look out for, and in Part Five you'll hear how to make sure every "T" gets crossed.

You'll Also Hear…

- What issues to look out for when dealing with multiple partners
- How to sell the owner on seller financing
- How to look over the business and meet with the owners when you're working a 9 to 5 job – and whether or not you should even disclose that

Part Six: Running The Business

With Art's system, he suggests you go the absentee owner route and stay as far away from the business as possible. But even if you choose to be a little closer, you should never go into the business and make a lot of changes right away. And in Part Six, you'll hear how to keep your management team happy while maintaining your finger on the pulse of the company.

You'll Also Hear…

- All about incentive programs – what to use, what to avoid, and what happens if the owner wants to stay on and manage – does he get an incentive too?
- How Art keeps track of all of his businesses, how he easily spots problems that arise, and how he maintains control – even when he's far, far away
- All about exit strategies and "going public" with a company
- What you can expect if you're considering a business far from your home – or even outside your country
- Why you may want to think twice before you buy a C Corp

Part Seven: Working With Art

Art's been teaching people to buy businesses for 47 years, and his program is so simple he's never met a person who couldn't get it. You may have to go through the information more than once. But if you put the time in, you'll have a net profit that could easily set you for life. And in Part Seven, you'll hear about his home study course along with…

- The referral fees Art pays for students who bring him businesses
- Information about buying online businesses – does his course cover that?
- Other books and training Art recommends for buying businesses
- The preferred way to draw income from a company
- The most effective way to build a team that will have the business knowledge you need

There are hundreds of ways to buy a business. You could really complicate the process if you wanted to, but why? Art has been buying businesses for a long time and has it down to a tried-and-true, simplified science. So if you're looking for difficult theories, you won't get them here. Art gives you what works in practice, out in the real world, exactly where you need it.

Hi, it's Michael Senoff with HardToFindSeminars.com. Here is the first part of our six part teleseminar series with master business buyer and expert, Arthur Hamel. We cover about thirty questions in this first segment. I hope you enjoy it. Now, let's get going.

Michael: First question, Art, what is the single biggest reason that makes the current economic environment a great time to buy a business?

Art: Well, one of the reasons I always like to buy during these times is the fact that owners are more motivated to sell. Again, the only problem we run into is a lot of times they'll say, "The economy is bad. I don't want to sell my business now."

So, we have done last year – again, I don't want to make this too complicated – but we have what we call is a reverse earnout. An earnout in business is a term that applies to myself if I'm trying to buy a company from you. It's called an earnout. So, we disagree on price.

I want to buy it based on what it's doing this year. You're talking about the business it's going to do in the next couple of years. So, what I do is buy the company at a price based on what you did last year, 2008, and then what we do is we set up an earnout. In other words, you get a percent of the increased profits over the next three, four, five years, but you give a middle ground.

Now, what we've been doing, and I started doing this with a modular housing company in Pennsylvania. We did the same thing, and I said to the owner, "I know your business is off. You did three or four million dollars last couple of years. Last year, you did only about a million or a little over a million. I'm going to pay you the price based on 2008 buying this company, and then what I'm going to do is I'm going to give you an earnout in reverse. What I'm going to do is I'm going to give you additional profit based on additional profit over the next few years, add to earn back as much as you can of the sales and profit you had in the last couple of years."

So, in other words, I'm going to let you earnout or get more back based on what you had made in the last couple of years.

Michael: Is that something new or has it been around a while? It sounds perfect because if the guy claims and believes his business is going to do that much greater, why would he say no, if he wasn't serious?

Art: I've only experienced this with one. I have never heard of this before. I've told other people about it, and they looked at me sort of strange. Over all the years I've done this, I've always come up with approaches or formulas, whatever you want to call it, in buying companies based on the problem at that time. So, since we had this problem a lot this last year, I was sitting there thinking, "Hey, why don't we do this? It doesn't make any difference whether I'm doing it in the next year or based on the last year."

What we're doing is we're solving a problem or a couple of problems, and it works very well.

Michael: Art, with credit so tight, and the equity market in shambles now, is it a good time to try and buy a company?

Art: When you're talking about equity companies, the equity companies are usually going after the multi, multi-million dollar companies. Most of the time, we do not get involved with private equity companies.

Also, private equity companies, a lot of people go to a private equity company thinking they can go to them and borrow money to buy a business or something like that, and you really can't.

The private equity companies are in the business of buying companies for themselves. So, if you go to them and you try to work an arrangement where they give you part of ownership, it's not going to happen because that's against what their purpose really is.

Now, the other thing is as far as the finance market are being able to get loans, you can start with the Small Business Administration as an example. There's been all sorts of crap out there for the last couple of years about the SBA not doing certain things.

The main thing the SBA has done, basically is it's made it tougher to get these loans. They have it set up now that you have to have knowledge of that type business, or they won't provide the SBA guarantee. They want the seller of the business to keep ten, twenty, thirty percent of the company, which is again something that – and right now, there's a lot of people out there in the SBA market that are feeling that Obama is trying to kill the SBA business, SBA guarantee business.

So, who knows? But, keep in mind, when Ronald Reagan was our president, he spent a lot of his eight years trying to kill the Small Business Administration because he considered it a waste of time.

Michael: Is the economic environment altered any of your business buying strategies other than the loanout?

Art: No, not really. I hear about this all the time, but I'm one of those persons that lets it bounce of my back. In other words, I go out there. Are there any opportunities out there? Most of the businesses that I go after are businesses that don't have peaks and valleys or don't have large peaks and valleys.

I go to banks, and a lot of times, we're getting lines of credit from a bank. People tell me you can't get those. I say, "Well, I just got one." What I try to do is not listen to what the public is saying or what I'm reading because it's always discouraging every so many years. So, I don't think about it. I don't honor it. I just go around it.

Michael: What if anything should I pay particular attention under current economic and market conditions that would be much less important under normal conditions?

Art: Whether it's normal conditions or the conditions you have today, what you have to do is you have to go after businesses that are not in the area that have peaks and valleys like real estate businesses have lots of peaks and valleys. The finance businesses have peaks and valleys.

What you have to do is stay away from those areas because they're going to kill you.

The other thing is you have to always keep in mind one thing. You want to buy a business that has had at least three years of continuous increased profit and sales, three years up.

Now, if you could have one big year where it's been down, you can't buy that company because what's going to happen especially if you're bringing an investor in, normally, your business will fall off so much that you will not be able to pay your investor much less feed your family.

So you can't go after those. You have to say, "I'm not going to buy those. They're great opportunities right now because business is off." So, what you do is again, go after three years of straight up profit and loss.

The other thing is you're also looking for businesses that don't require a rocket scientist. What I'm saying about that is if you're leaving somebody else in there as a manager, what you have to do is you don't want a manager that you can't replace easily because of the – not the licensing so much, but the technique. Maybe you have to have a manufacturing engineer or a rocket scientist to run your company. That person is going to be very valuable, and the problem is if you have problems with him, you're going to find yourself in a position where you don't really have control over your company.

Michael: Okay, so the people listening to the news and experiencing the so-called depression believe that every single business in the world is down. That's simply not true. There are still businesses that are thriving in this economic climate.

Art: All I can say is I live in a different world than a lot of people do because I'm always going out after the better businesses. So, all I can tell you is this year, last year, and every year in the last 53 years I've been doing this, most of the businesses have been doing well.

Again, this is just based on my casual observation. I say, "Okay, I've run into four businesses this year that were really down out of maybe twenty." I don't know what the number is. I don't really think about it, but the thing is if you go out there and look at the businesses just at random, you're going to find there's very few of them that are really in trouble.

The government's in trouble. The government in the United States especially has screwed everything up. What happened is they let the economy get out of control. It's going to be so many years. They usually pull the pin on real estate. Real estate normally is not as bad as it is this time, but in the past, if you go back every so many years, it's real estate that was taking off.

The government then came up with some technique to screw it up, to dump the country back.

Michael: Being in business over fifty years, what do you think is going to happen over the next several years with the economy and the market and all that? Just your gut feeling.

Art: My gut feeling is even if Obama continues to screw up our economy, it's going to come back. It just does. Even if they did nothing, they would come back. It may take longer. Some of those persons have to leave. If you have an economy problem, you should correct it by tax ramifications because in the past, in the US especially, everytime they've done something to bring the taxes out for people – say capital gains or things like that.

It brings the economy back because people then will go out and sell their stock whatever it happens to be. When they sell their stock, they're taxable. They do a lot of taxable things. They sell their businesses, and what happens is that money comes in and they have more money coming in than they ever had before.

Michael: If you're following Obama and the new administration have you learned of any potential changes that would affect buying a business over the next couple of years, anything that he's doing?

Art: Let's put it this way. If you're one of those persons that thinks that Congress is going to protect you on this stimulus bills of X number of billion dollars, the people that are in Congress didn't even get to read it. They just signed off on it without reading a damn thing, which I've never heard of before.

So, who knows? Again, I haven't seen the stimulus bill. I just hear some things about it, and the pieces I have seen which his opponents bring up, just seem to be a transfer of wealth, not something that's going to help our country turn around.

Michael: This next section of questions is all based on how do I get started. The first one is, "Art, what is the best and fastest way to buy and own a winning business?" I know it's a general question, but you can just, maybe the first thing that comes off in your mind.

Art: Well, the first thing I would tell people is the world is going to tell you – I don't care where you are in the world – the easiest thing to do is go out and start a business when you don't have a lot of money and don't have a lot of skill, and what's going to happen is just absolutely backwards from what you should be doing.

When you go out to buy a business, you're going to find that if you find a business that's making money. There are a number of ways you can finance this, which means you get into a business and you take over on Monday, and that Friday when payroll comes up, you can actually make the payroll.

When you start a business, you hire so many people. The problem you have every Friday, if you're paying every Friday which most people around the world do, what's going to happen is you're not going to have the money to make payroll. You're going to have problems. You're going to have headaches.

I started a lot of businesses. I purchased more existing businesses that I have started, and all I can tell you is my life changed tremendously when I quit starting these things. It's a terrible thing, but the world is always telling you you can do it cheaper. You don't have to have experience.

Well, think about it. Let's say you go into a business and you don't have any experience. Supposing you buy an existing business, and the manager stays with, which they do most of the time. Well, if they stay, doesn't that person have a lot of experience? Yes, they do.

You may not have any experience. You may not be able to read and write. It doesn't make any difference. Why? Let the person run the company.

I always tell people, when you're buying an existing company, if you go in there and start making changes or telling the existing manager what to do, he's going to get very upset with you because that's the thing that every manager of a company worries about when a buyer comes in.

I always tell people, we're going to close escrow at ten o'clock in the morning. I want you to meet me for lunch, you and your wife. Before you get there, I want you to purchase two first class tickets to Tahiti.

When you meet me for lunch, we're going to talk, and what I'm going to tell you is we're going to Tahiti.

Now, I've set it up down there. You're going to pay for this, but I set it up at the fanciest resort you can get into. So, you and your wife are going to fly down first class. You're going to stay in this great resort, and the key is there are no telephones in that whole area, not for a hundred square miles.

The buyer always says, "My god, the business is going to fail." I say, "No, it isn't. The only thing that screws up new businesses is when the new owner comes in and starts to make changes. The person that's been running it has been running it for five or ten years successfully, and if you go in there and start screwing around with it you're going to goof up the business. You're also going to get everybody irritated with you. So, stay in Tahiti.

You're listening to an exclusive interview found on Michael Senoff's HardToFindseminars.com.

Michael: Good answer, and this comes into this next question. What kind of experience do you need to buy a company?

Art: Again, as I was just saying on the Small Business Administration, this is the first time I've ever heard of them coming to the point where the person has to have experience in that business.

Now, in addition to the SBA, I have heard of a couple of banks that are doing the same thing right now in saying you have to have experience to go into that business.

Is that smart? Of course it is because one of the reasons that people fail is they don't know anything about business, period. They don't know anything about the business they're buying. So, over all the years that I've been out there teaching – say the last forty years – I've always taught one thing, and that is you work as an absentee owner.

Now, this doesn't mean you're going to be out playing golf everyday. You're not going to oversee your business, but what you're going to do is you're going to have a business where you'll leave the management in place or if the manager is leaving, over the next couple of months, you're going to replace that manager with another manager that has experience in that business.

If you do that, even if you're an idiot, you will not fail. Again, I've had a lot of people I work with buying businesses that really don't have the ability at this time to run that company. They will later. They don't have that ability.

So, what I always do to protect myself and protect the investors is I make sure that they do not take over and start running that company. That's the main reason why I do that.

Michael: How do you go about acquiring a profitable franchise?

Art: That's probably the easiest thing to do. I don't care where you are in the world, just go on let's say Biz Buy Sell. They have an area just for franchises, existing ones and also new ones.

Don't be intimated when you go on some of these sites, or you can go on a site like McDonalds. If you want to own a McDonalds franchise, or if you know the name of the franchise, go on the internet. You're going to find all sorts of opportunities on there.

First of all, they're going to try to sell you an existing one. Secondly, they're going to try to sell you one that somebody failed in and they had to take back. Thirdly, you're going to find one that's for sale that's making money and the person is just tired of running that franchise.

So, it runs one, two, three in reverse order, but don't be discouraged. There's enough of them out there in every category because there's – I was going to say tens of thousands of franchises in just the US. There's hundreds of thousands of them in the United States, and they're also all over the world, wherever you happen to be.

Now, as I talk about these things, I don't care where you are in the world, every thing I'm talking about now applies in every country, even if we talked about the United States and the financing problems here. The same thing I find is true all over the world, but don't get discouraged.

Michael: How about participating in such a business from outside the US? Let's say you live in the US, and you're looking at businesses in other countries. What should I be looking for? Is that something that can be done?

Art: Yes, nothing changes. Thirty-five years ago, and I hate to keep using these old days, but thirty-five years ago, I had an opportunity. First of all, I got involved in two manufacturing companies in Mexico. From that, they came to me and asked me if I'd like to buy a company in Guadalajara. It was actually in the ceramics business. I don't even know how to spell ceramics, but it was an existing business and we worked this thing backwards.

In other words, they didn't have enough business going. They were losing money. So, what I did is I went to the US market, and actually I went to the international manufacturers' show that they have in Chicago every January where manufacturing people come in from all over the world.

I just walked through the thing, and when they people weren't busy, I would talk to them and ask them where they were having their ceramics manufactured. They'd say, "Well, we're manufactured in Germany." "We're manufacturing in Portugal," which was the biggest one we got, which was the red clay cooking pots, Romatov (SP?). I don't know if anybody's heard of it. That was Germany. They're very big all over the world.

It took me two years to put this together, but I actually got the people in New York that control the sales franchise for North and South America, and the owners of the company in Germany, to transfer part of the product to Mexico.

When we did that, the problem we had was first of all, the Germans at that time did not believe the people in Mexico could build anything. This was 35 years ago.

I convinced them. They met them. These people, two of them who were running this plant, were graduates of MIT in engineering, also one of the brothers had a master's degree in ceramic. He had a perfect operation.

In fact, after about a year or two of us manufacturing for them, just on a limited basis, they turned the production over to this company in Mexico for the whole world. They turned it over.

Don't be afraid of it. What happens is if you go into another country, there may be a language problem. Just keep in mind, I owned a number of companies in Mexico, and I did not have problems. I mean, I had high school Spanish for a year or two, and I don't remember doing very well.

I was down there in business for fifteen years, and I got by. I was able to feed myself, and the only problem I had, we owned a number of companies and they delighted in playing games with me. So, I'd always go in and say, "Good morning," in Spanish, and they'd return in English. I'd say, "How am I going to practice if you guys don't let me?" They said, "We don't want you practicing. We want you to bring more businesses."

Michael: That's funny. Is that business still going?

Art: Every business that we had in Mexico is still going.

Michael: Did you sell out of it, or do you still have part ownership in it?

Art: I sold out of the ones I had. I was down there in business for fifteen years, and anybody who wants to check on me will find out. If they go on your website, as a matter of fact, they'd find out how many companies I've owned down there.

Since they'll probably do that because of this, over a fifteen year period, we ended up owning seventeen companies, and none of them failed.

Keep in mind what I did is I took all the production that we had where they were selling to Central and South America, and I converted that to the US market. In other words, I went to the US and got jobs where I had our sales people.

Over the years, what we did is we converted everything over to the US. So, we were paying our bills in pesos in Mexico. We were being paid for our production from the US in dollars, and everytime the peso would be devalued, we'd make even more money.

In fact, I was down in Mexico in business. We had a number of them at that time. When they devalued the peso, I mean they cut the value in half, which means all of our expenses were cut in half. Right now, I think the dollar is having the same problem.

Michael: Here's a question, and you probably hear it a lot. How do you establish credibility especially when new in the United States?

Art: You're new in the United States. First of all, you have to believe in yourself. I always tell people two things, and when I do this they always look at me very strangely, "What are you talking about?"

I say, "First of all, are you married?" They say, "Yes." I say, "I want you to go into the mirror in your house. What I want you to do is talk to that mirror and say, 'I have extensive experience in the electronics business. I have extensive experience in the electronics business." Again, it's not that we're trying to misrepresent to the sellers. It's just that we don't want you to get into a situation when you're in there negotiating to buy that business and the broker or the mergers and acquisitions person or the sellers ask you a question and say, "How long have you been in the business?" You're going to go, "Duh, uh, uh," and stammer and stutter.

You have to get to the point where you believe in yourself, and although this mirror thing seems ridiculous, it does work. What happens is you keep looking at the mirror, practicing, and then turn to your spouse and say, "Hi, I have a lot of experience in manufacturing electronics," or whatever it is. If your wife doesn't believe you, you continue on.

Now, if you don't believe this and don't want to do it this way, fine. You'll go out and you'll screw up the first five or ten business deals because you didn't do this because you'll end up stammering and stuttering, and finally, after doing it five or six times, seven times, it'll finally dawn on you, "Hey, I have to get more knowledge on this thing, " and then come back in and be knowledgeable, have the appearance.

The second thing has to do with money. Now, what happens is, I don't care where you are in the world, every agent representing a seller is always worried about the fact that you don't have enough money to buy a company. You don't have the wherewithal.

Again, go to the mirror and convince yourself because what's going to happen is they're going to bring it up and they're going to turn to you and say, "Do you have X number of dollars to buy this company?"

Well, you can say, "Well, golly, I only have a dollar down. I'm going to finance the rest." That will kill it with most people because most people are looking for somebody coming in that has all the money to buy all the company with all cash. Even if you have a lot of techniques for going out and finding this thing, if you don't convince them in the meetings that you can bring all the cash to the table, they're not going to let you buy the company. They're going to quit doing business with you.

So, you have to convince yourself, but again, are you lying? No, but what you have to do is one of those things where I don't want you to panic. I want you to sit there and ask you the questions and say, "Yes, I have the money to buy the company."

Michael: Do you think they're going to push you and make you show financials and what if they want proof?

Art: Okay, first of all, on the financial part of it, most of that comes up before you get there. Now, there's two ways you can buy a company. The easiest way is to go on the internet – see, you can do that in any country as you know – go on the internet, and the problem is today, you're going to have brokers that are going to be on there. Very seldom will you find a seller of a company.

So, what you're going to do is work with brokers. Now, the brokers have gotten listings all over the world, the same way. How do they get them? They get them by promising the seller they're going to get them all cash. They say, "Why should I list with you? I can sell it myself." They'll say, "I know, but a lot of people are going to come in without any money. I qualify them."

So, since they qualify them, if a buyer comes into these brokers after the fact, they always give them a hard time. How do I know this? I get thousands of phone calls every year from people I'm working with, thousands of them, and of the calls I get with problems in business, that represents 99.999% of problems people have when I buy a business.

The average broker, now, I might as well tell you the truth, is an incompetent person. Also, they do too good of a job of trying to kill a deal.

The other thing is they're also promising them that they're going to bring a person to the table that has a lot of experience. They're going to promise them a lot of different things to get this listing. So, what you have to realize is as they go that way, you better prepare yourself for this or what they're going to do is again, when you first get there, again, those are the steps.

Some of the brokers will let you through. They're usually the new ones or the ones that haven't been selling many businesses, and the average business broker does not sell many businesses every year, as you'll find out.

Again, as you work with them, you'll understand why they don't sell that many. So, what happens is the ones that aren't doing well may let you through the gauntlet.

Second one, he's going to say to you, "Okay, I sent you a packet." Say you do it on the internet. He's going to say, "I'm going to send you a package of information on this business. I want you to sign a non-disclosure document, and then I'll send it."

Then, the second group will actually send you the package, but then they'll tell you you can go any further without the financial statements. As you go along, they're going to keep holding you back unless you get a financial statement. In the old days, it used to be they wanted bank guarantees, and then the banks got in trouble. I don't mean this time. I mean years ago.

They got away from that bringing that up. So, what you have to do is if you go that way, you have to prepare yourself for what you're going to run into, and you're going to have to be strong to get by them. Again, the mirror trick works. You don't want to do that, do it the way the easiest which is you send documents.

Again, I don't care where you are in the world. There are books in your library that basically have information on all these different companies in your country, or you go to Dun & Bradstreet or another type reporting service, whatever you have in your country.

What will happen is they will give you a printout of all businesses making $50,000 a year, all businesses making $100,000 a year, whatever it happens to be, and they give this to you.

What we do then is we then suggest that you write to or contact in some manner the people on this lists. Again, we're normally writing because just calling in is fairly difficult because of what we call the gatekeeper. That is the person that's answering the phone. They've been told by the seller that he doesn't want to get calls or she doesn't want to get calls on just anything.

This is based on my 53 years. You're going to find that you don't have to call a person like me and complain about the fact that the brokers were nasty to you. You're going to find you went directly to the sellers. You worked with them. Do they ever ask you for financials? Very seldom. Should they? Yes.

Now, if I were recommending, if I were a friend to these sellers – again, not the broker, but the sellers – I would be training them to qualify you coming in so they don't waste their time, but since we're usually coming in from the buyer's side and since they don't check, you get in there a lot easier. Take advantage of it.

Now, for those of you that don't believe in writing or contacting sellers works, how do you think the brokers and mergers and acquisition people across the planet gets a listing? How do you think the private equity companies find out about businesses?

Well, they call people like me, but these companies, all of them, and people like you, if you want to listen to me, all do the same thing. You write the letters, contact them. Now, the private equity companies and brokers will send them post cards, send them emails, call them up on the phone at home – whatever it takes. The people that I work with that are coming in like yourself as a buyer, we don't do that. We just send letters to them.

Michael: You do what the brokers do. The brokers have to get the listings, and they call them and contact them and there's no reason you can't do the exact same thing.

Art: Well, just keep in mind for those of you around the world, if you go back to me to what I started teaching 47 years ago, very few business brokers are merger and acquisition people on this planet. They didn't exist. Where did most of them come from? I hate to tell you, my seminar.

I had people in every seminar that I taught in every part of the country that said they wanted to be the first in St. Louis. They wanted to be the first in New York. When I heard this, I thought, "Huh?" I didn't believe it.

So, what I'm telling you how they get the listings, and the reason they did it this way is that's what I trained the people to do whether they were buyers or brokers or bankers. It was the easiest way to do it.

Michael: When you first started, where there a business brokers, or didn't you start one of the very first organizations?

Art: Okay, years ago, I had five business brokers' offices. I had one in Seattle, one in Portland, one in San Jose, California.

Michael: Were there other broker offices around at that time?

Art: Not very many. Okay, but you see, this is after I started teaching, but when I first started 47 years ago, I didn't know where they were. I did not know about this.

Michael: You didn't know that there were people who broker business transactions.

Art: I'll tell you how dumb I was. Before I got into Mexico and stuff, fifty years ago, I was in the restaurant business, talking about being stupid. After I had been in that business a couple of years, I ran into a friend of mine who was in real estate and I said, "How do I sell these businesses?" He said, "You have to find a broker." I said, "You mean a business broker?" He said, "No, there are no business brokers around. You get a real estate license and then you'll run into real estate brokers that sell businesses."

Well, I ended up teaching these people later this program, and also the first professional designation for business brokers and mergers and acquisition people is a thing called certified business counselors. From this, came out all sorts of organizations across the United States and across the world that all were based on the company that I put together.

Why did I do it? Not because I was trying the brokers field. I was trying to get them to clean up their act. I was trying to get them to be ethical. I was trying to get them to share listings with each other so it would be easier to sell the businesses.

Michael: These business brokers remind me of all the mortgage brokers. The mortgage brokers would sell any one of these funky loans because they just want their commission. Isn't it kind of like the same thing?

Art: With business brokers, it's even worse, and the reason it is selling a business is a lot more difficult than getting somebody to sign up for a mortgage or buy real estate. It's more difficult. It's more difficult to make a living. The reason I'm probably making excuses for them right now, but it's the only thing I've been able to figure out is that because of the difficulty and them trying to survive, they end up doing this.

I've seen a lot of them when they started, and I see them a couple of years later, and I can see the change in them. Incidentally, even on the internet, I don't know if most of you realize it, but on the internet in the beginning, they had a lot of websites on there for businesses for sales, but they were all buyers.

Then, what happens is the brokerage offices – again, the brokerage offices I have, everytime we had a meeting, we would say, "Okay, go to the internet and try to get five listings in the next week." What they'd do is they'd go on the internet, and they find out which buyers had which businesses, and then they'd badger the hell out of them until they got a listing, probably worse than badgering.

Michael: Here's a question. Is cash flow the number one reason one should consider when buying a business?

Art: Yes.

Michael: Explain, what is cash flow?

Art: Okay, it's a lot of different things. Some people call it EBITA, EBIT. There's all sorts of designations. Again, I try to keep it as simple as possible. When I'm working with a buyer, working with a seller, even the sellers don't understand all of the different ramification of cash flow, but we're usually talking about how much money does the seller have after he pays all his expenses. In other words, how much money do you put in your pocket?

Keep it as simple as that, and when you get in there and somebody's talking about EBITA and all this other, you're going to have to ask them what they mean by that.

Again, brokers and stuff are using a technique like that so they can communicate. When you're out in the real world working with sellers and buyers, if you use those terms, they wouldn't know what you were talking about.

Michael: So, cash flow is what the business is making every month in essence.

Art: Usually every year.

Michael: Every year. If there's no cash flow, there's no reason to buy the business.

Art: Well, if there's not enough cash flow. Here's the thing. I used to tell people years ago when they were selling these small businesses. What you had to do in order to put a deal together is work it backwards.

In other words, you had to set the thing up, say the seller carried back financing. Let's say it was $100,000 deal. Let's say the owner was carrying back $50,000 in financing. I don't mean the amount. I mean the amount of the payments on the financing, $50,000 a year. That left $50,000 for the business.

Now, you had to find out from the buyer how much money he and his family needed to live on if he was going to run the company. I don't mean something where you bring a manager in. You can't on something this small.

On those, what we're doing is phasing in. In other words, could you live $50,000 a year? If you put a deal together where you have $50,000 in financing, and the company is doing seventy, it's not going to work, even if you convince the buyer to do that. The problem is they're not going to be able to survive on the money they have left.

So, we basically – it's simple. Just work it backwards on the smaller ones. Once you get up usually over $250,000 net, we're not doing it that way. What we're doing is looking at pure cash flow on something like that.

In other words, I want to know if this company's making $250,000 after everything including paying manager. You can put back in all these expenses for the seller. That's fine, but then when you have to subtract out what it's going to cost for a manager, because I want to know how much money do I put in my pocket, how much cash flow will I have?

Michael: We're in the next section of questions, and the subject is how can I buy a business with little or no money, no experience, bad credit, unemployment, etc. First one, is Mr. Hamel, is it possible to really buy a business with little or no money? How about if you have bad credit because of a sizeable debt, and how about if you're unemployed?

Art: Okay, first of all, let's take the bad credit. Let's say you just filed bankruptcy. If you go into a deal and you have a broker, there's a slight chance that the broker is going to go out and run a check on you, or convince the seller to do this.

If you're going directly in and you're just working with a seller on the thing, I have never had one of them ever run a check on myself or anybody else I've been working with, zero, fifty some years.

So, that is not a problem unless you're working with a broker. Again, only part of the time with that. Now, as far as being unemployed, when you go in there, from my standpoint, it's actually none of their businesses. You're going to say, "Well, why shouldn't I tell them and be honest with them?" They're going to think they have an advantage of you. Why don't you also tell them you also have club foot, or you have bad ears?

I said it's not important to go in there and tell them your life story. Say you lost your job. Well, a lot of people do that all the time, and that's why a lot of people are buying businesses. You don't have to say, "The reason I'm here is I was fired from my job."

What you want to do is keep it positive. It's just like they tell you. When you go out to get another job, if you're in there and you're telling the agents, say there's an agent representing you to find a job or maybe the person owning the business. If you go in there and start talking about the fact that you lost your job and all this, and you're basically whining even though you don't realize it, you're not going to get the job because you're going to turn off the people you're talking to.

You can't go in there and do something like that. You have to go in there with good spirits, and you're going to put this deal together. I don't have any problems. Are you going to say, "My daughter also feel off her bicycle?" Who cares?

What you have to do is again, as you get to know them later if you want to talk about your daughter falling off the bicycle, that's fine. While you're in there in the beginning and you're trying to establish credibility to try to make them feel good about you that you can put the deal together and you're a real good person, you keep that to yourself. Why would you bring that up other than you want to bring that up?

Also, in all the years that I was teaching, we were always running up against other seminars in the United States in real estate that were teaching nothing down. In other words, you could get in on this real estate, they'd always say to me, "You're one of those nothing down persons, Hamel." I said, "No, I'm not. You have never heard me say nothing down."

I said, "The chance of you finding a business that you can buy with nothing down is zero." They're going to say, "Well, how do we buy a business if we don't have money." I said," That's a different thing. What we're saying is nothing down means you're not going to give the seller any money. You're not going to give them anything." In our transactions, what we're doing is we're doing 100% financing or close to it.

On something like that, what you're going to find on the average, say a manufacturing company. We recommend a lot of times manufacturing company because they have the most assets available to finance. They have the equipment. They have the accounts receivable. They have the inventory, plus other techniques also that you can get through Michael's program.

So, there's a lot of different ways to go especially in manufacturing. So, with that, what's going to happen is we go in, and a lot of times you can get owner financing. All you do is spend enough time, in other words, instead of spending an hour or an hour and a half talking to the seller, we recommend that you spend four or five hours.

You're going to say, "My god, I'll never be able to do that." Yes you will because you're going to keep asking the seller questions like, "Tell me how you go started in this business." You don't ask questions that have yes or no responses. By the time you get to the third hour, the owner is going to know you pretty well.

At that time, you can bring up, "Would you consider financing?" You don't hit him with it in the first hour because they don't know who you are, and even if they told the broker or somebody else that they would provide financing, they really don't want to.

So, we wait until the third hour, fourth hour, whatever it happens to be. We have owner financing. We usually try to go after owner financing say thirty to forty percent of the company, sometimes fifty.

The problem is once you get above fifty, the average person, no matter where you are on the planet, will want outside collateral. They'll want real estate for collateral. They'll want a bank guarantee for collateral. If you stay below fifty percent, that does not come up.

Now, once you get the owner financing in place, you're going to find in the average business with the normal pricing, again, it's the same pricing type we have year in and year out. You're going to find that you'll be able to finance 100% of that company, and still have fifty percent of the cash flow left.

Now, our rule has always been fifty percent. Michael will tell you I'm working with the investors that we have. Our deal with investors, our deal with financing has been fifty percent. In other words, if you the buyer don't have fifty percent left after you either brought investors in or you financed assets and you got owner financing, if you don't have fifty percent left – and again, that could be plus or minus a couple of percent, but if you're off that by a lot, you did something wrong.

The business isn't priced right, arithmetic wise. This is not rocket science. I can tell you arithmetic wise, it doesn't make sense. If you were to come back to me or back to my office, we would talk to you out of it every time, and have we? I think so, if you make a mistake.

So, when you start to think about bankruptcy, don't have down payment, blah, blah, blah, these are excuses people make to themselves so they can't succeed in business.

I used to teach all the time. The first thing that I'd always do, the first morning I'd say, "Okay, everybody take out a yellow sheet of paper, whatever color the paper is I don't care what color, it could be green. Take out a sheet of paper. Once you take it out, I want you to write down all the reasons that you've heard of, or all the reasons your family told you that nobody can succeed in business or why you can't get in business, whatever the excuse is."

"You read in the paper about some person that failed, so you know that's the reason. What I want you do is write down every one of these things on a sheet of paper. Start now." So, they'd go through this. When they were done, I'd say, "Okay, everyone of you I want you to fold up that piece of paper and put it in your pocket. When you get home I want you to put it in your desk drawer, or if you have a safe deposit box, put it in your safe deposit box."

"I don't want you to take it out again until after you close on your business. Once you buy your first business, and you've closed, you've taken over, you are now in control, you take out that sheet of paper and read it. You're going to find that none of these things, zero, none of these things came true." How do I know? Because some thousand people go through our seminar and I talk to tens of thousands of people since then.

I always tell them this story and set this rule up. Do you know how many people have come back over all the years? None, why? It's a fantasy. Everybody should be in business, the hell with working for somebody else.

All I'm saying is try this yourself as you're buying a business, and you'll see by the time you get there, none of these things came true. Now, if you listen to me and believe in me, then I can tell you right now as you're looking into my eyes, all the things that you have, we have to take you to a hypnotist and we're going to have him remove all these thoughts from your mind, and then you'll succeed.

So, as these things come up, close your eyes, bite your tongue, bit your lip, and say, "It's not going to happen. It's not true. It's something I read that's garbage."

For more exclusive interviews on business, marketing, advertising and copywriting, go to Michael Senoff's [HardToFindSeminars.com](http://www.HardToFindSeminars.com).

Michael: There's a seminar promoter who I think was around during your time, Gordon Bazaar, and he has some creative financing that seems like it may be a good way to go in today's economic climate. How do sellers and banks react to these creative financing Bazaar techniques?

Art: I've known Gordon for many years. He's a good friend. I don't remember al the techniques, but again, what you're going to find, you're not going to tell them you're using a creative technique whether it's real estate or business. What you're doing is you're using it as a technique to buy the business.

You don't talk about it, so when you get in there, the technique you're using is not going to be obvious. It's not going to be something that is going to scare the banker or do anything because we're not going to describe to them what we're doing.

In other words, we're coming in and we're trying to finance something, and we're trying to do something creative on the thing. The average person including the bankers are not going to recognize what you're doing.

The same thing happens in real estate when people are using creative techniques in real estate, and they have lots of real estate techniques because I'm in that business also. All I can tell you is that does not come up. Again, put that on the list of one of the top fifty things people are going to happen that don't happen.

Michael: If you don't have much of your own funding to buy a business, where do you find it?

Art: First of all, you're going to find owner financing is one way of doing it which represents a lot of it. You're going to be financing assets. It's called a leverage buy out. There's two ways we go. Sometimes we have investors and that's one way to put a deal together.

The other way is a thing called a leveraged buyout. A leveraged buyout means you're getting owner financing on part of it, and then you're financing assets for the rest of it – equipment, accounts receivable, inventory, those things, all the assets that you have in your company, you're financing.

Again, you're not going to over finance it. We don't want to give up more than fifty percent of our cash flow. In other words, we want fifty percent less after we do all this.

Again, I don't care what country you're in, you're going to find that almost everybody in your country that's every financed anything has done it that way, whether it's called leverage buy out or not, that's what most of them have been.

Michael: Can you tell me if there was a percent of almost all the businesses all through brokers or all owner financing?

Art: Brokers are going after owner financing. That's the number one thing that they teach brokers in brokers school or when they work for me. We were teaching our people to get owner financing.

The problem is every broker will tell you this, it's very difficult to get financing for businesses. The average broker is going to tell you if they don't get owner financing, whether the economy is good or bad, the chance of that transaction going together is not good.

Now, you not what the sales rate is in the United States for brokers? On the average, and again, I don't believe this – it's twenty percent. They sell twenty percent of their listings, so one in five, but when somebody comes up with a figure like that, it's always a lie.

Michael: You think it's less than that?

Art: Of course it is.

Michael: What do you think it is realistically?

Art: I have no idea. It's not very high because of all the stumbling blocks, the things they do because a lot of us in that business have said, "Okay, what I want to do," the brokers because I was training them. I visited all five offices once a month because we also had marketing sessions in each one of the five cities.

So, I'd go in there and tell them that they had to qualify them, and you had to do the following, but you have to do it in such a way you're not going to irritated them. You can't turn down all the people you have coming in.

You're going to say, "Okay, the business is $100,000. Do you have $100,000 in cash?" That's what the average broker says. You'll say, "No, I'm going to borrow half of it." Or, the business is priced at ten million dollars and I have four. I'm going to borrow six. Even on that, they'll hang up on you.

What they do is they kill a lot of deals, and I used to have the same problem years ago with our brokers who were doing the same thing. They would come in nice and clean with all these bad habits, and then I'd have to spend my time hitting them on the head. They weren't going to make any money. They didn't listen.

Michael: So, you look at this huge market out there, every year, there must be at least a couple hundred, two – three hundred thousand businesses that owners are trying to sell or would like to sell, and probably 96-97% of that, they never ever get sold. They just either close down or the owner would just keep running.

Art: They won't close down. There's a lot of them that are doing well. They get to the point they want to sell.

Michael: What happens when there's one doing well?

Art: And, doesn't sell?

Michael: Yes.

Art: What they do is they take it off the market? What happens if you have a house that doesn't sell?

Michael: That's true.

Art: Whatever it is, they take it off the market. They don't destroy it or anything. They just take it off the market, but that happens a lot.

Michael: There's still going to be businesses that are doing well, if they've set it up right and the owner maybe gets sick or something happens. You know what happens then?

Art: Oh, the owner gets sick?

Michael: I guess it's just the manager.

Art: It's definitely a problem, but you see the average owner is going to tell you he has ill health. Years ago, we used to have a form. We'd have him fill it out in the corner, and it would say, "Reason for selling." They would always put, "Ill health." So, when I had the thing reprinted and I couldn't resist doing this, I put down, "reason for selling," and then I put, "Ill health," check if other.

Michael: That's funny.

Art: Well, the reason I did that is to get them away from that because they'll talk about retirement. They'll talk about all sorts of things. What happens is the average person does get tired of their business. I don't care how good it is or how good at stuff he is, but after five years or ten years or whenever it happens to be, it is very boring, and you want out.

I always try to find out why they're selling. I want to make sure there's not some major problem with it, but I usually find it out in the first meeting. Usually that's in the fourth or fifth hour. When I tell people, if they keep saying, "Well, why would anybody spend that much time?," because our deal when we go is in to put every deal together. I don't go into a transaction to practice. We're going in there to buy that company.

Michael: They're going to say, "Ill health," because they don't want to tell the potential buyer that they're bored with the business. They're not going to say, "Hey, it's a boring business."

Art: It doesn't have to be boring. It's just after you've done the same thing over and over again for a number of years, or what happens is a lot of time the guy likes the company. So, what he should do is hire a manager, or bring in a manager to run the company, but he doesn't do that.

What he does is continue to work sixty, seventy hours a week, and then again, the solution would be to hire a manager, but the average person doesn't do that.

Michael: Right, they don't want to give up control.

Art: Well, when I'm in there and buying a company, and I see this, I don't sit down and say, "Why don't we set up and we'll get a manager for you? It'll solve the problem," or "Why don't you sell it to your son?"

Michael: No, you're not going to tell them that. You want to buy it. You'll buy it and take care of it.

Art: That's right. Also, you can get bored. Check my career. I've been in business 50-some years, and if you check it, almost every category of it, I have done for fifteen years, and I didn't even realize it until somebody – maybe it was you that asked me to put together a background, and I found I did this for fifteen years. They always overlapped all the things I did, but I found out fifteen years I've got bored.

Just like the education business. I did that for fifteen years. I did Mexico for fifteen years.

Michael: Can you buy a company without money down, but just from the cash flow?

Art: Okay, you're going on the second point when you're talking about doing it from the cash flow. There are ways to do it on the cash flow, but from the standpoint of buying a business, what we're doing is we're getting the owner financed part of it, but if he finances forty percent let's say, if we finance assets for the rest of it, how much does he get back? He gets sixty percent back because every asset that we finance or refinance, that money goes to the seller.

So, on the average there's going to be thirty-forty percent owner financing. That means that sixty, seventy percent is going to be cash back to the seller. We haven't had any that I've seen with the owner taking nothing down. Would they do it maybe if they were about to fail? Maybe so, but all the ones I ever worked on, all the years I've been doing this, we have not had that problem.

So, nothing down is something they talk about in real estate. We don't' ever talk about that in business. We don't' have that.

Michael: Here's one related to cash flow. Would you buy a business with no cash flow, but you think has future potential?

Art: Okay, whether it has no cash flow or negative cash flow, it could have potential. What I have found, and again, I've done a number of turnarounds, type A is a turnaround where I come in as a consultant. You put up the money, and I do the turnaround with your money. That's pretty easy.

The second type turnaround is what we did with a couple of companies in Mexico where we had a problem and did a turnaround and I put the money up. What I'm doing with your money, I never had a problem, never have a worry. When I was doing it with my money and knew that I had negative cash flow, I wasn't going to make payroll on Friday as an example, I got very nervous.

All I can tell you is based on my experience doing this both basically as a consultant and as a buyer of companies, I have found that you can actually put together and buy a good business for less money and don't have to go through those hassles.

Now, if you're a person that likes to be punished and wants to screw up his life, go after the turnarounds, go after the ones that don't make any money. There are no businesses out there that are not making money or making very little money that are worth going after that right next to it, right across the street, there's another business there that you can get for the same price. By the same price, the business has to turn around it the one that's not doing well. It's going to cost you X number of dollars – it's going to cost *you* X number of dollars until a time where you break even or start to make money.

The company you're buying across the street is going to cost you X number of dollars, but it's already making money. You're going to find that turnaround that you have that you think you're going to put together for a couple thousand bucks turns out to cost you as much or more than buying the existing company and not have all the sweat.

In the old days, when I would teach a class, we'd put on three lectures, and the first thing I would do when I started off, I'd say, "How many people are here tonight because they like to buy real estate? Or, how many people would like to buy real estate?" Almost every body would raise their hand.

"How many people here would like to start a business?" I'd probably have ten, twenty percent of the people raise their hands. Now, in fifteen years, third question I'd ask is, "How many people here tonight would like to buy an existing company, one making money?" Do you know how many people raised their hands in fifteen years? None.

So, everytime I did a free lecture, I had to turn them around in an hour and a half or two hours and get them thinking about buying an existing company because nobody at that time believed in it. They didn't believe it could be done. They didn't use that as a technique.

When we first started teaching years ago, we had a lot of people from the auto industry because back in the days when I first started teaching, everybody thought that if you wanted to expand the company, you had to go out and start another one down the street. Nobody was ever thinking about buying an existing one to add to your company and make it easier.

Again, in those days, we had key people from the auto industry, all of them that were doing that. We had people from every industry coming in not because they thought I was so bright. It's just that it was a different concept than they had.

Since then, it's become the number one thing. Everybody wants to buy an existing company, and what you have to do as you're going through is believe. Again, over the years, I'm sure if we took a percentage of the people who I've met for the first time that ever believed anything I was saying, it was probably very small number.

But, then, they go out and try to experiment with it, and they try it. All of a sudden they find out, "My god, this works." I am not a rocket scientist. I made this work.

Again, understanding this rocket science, this thing, sometimes confuses people because they said, "Oh, this is going to be easy." I said, "No, nothing buying a business is easy. It's simple." There's nothing that we do buying a business that's complicated. If you find something that's complicated, even if it's creative, don't do it because there's other techniques around where you don't have to do anything that's complicated.

So, keep in mind. It's not going to be easy. It's going to be lots of harassment. There's going to be a lot of things going along, but it's going to end up easy.

People that I have all the time that come to me say, "You know, after I buy this company, are you going to be around." They ask me about my age. "Are you going to be around long enough to help me on the second business?" That's what they talk about. They say, "How old are you?" They know how old I am. They say, "Are you going to be around?"

I say, "Look it. I just want to tell you one thing. Of all the years I've been doing this, again, almost everything that people relate to me is a hundred percent." So, when they say to me, "Will you help me on the second business?" I'm going to tell you square looking you in the eye, "Of all the years I've been doing this and all the people I've been working with, I've never had one person – not one – ever come back on the second one. Why? Because they found out as they were going to escrow that, "My god, I didn't need Hamel's help. This is very easy." Did I say easy? I just screwed up. I didn't mean say easy.

Michael: Art, I listen to all of your previous conference calls with Michael Senoff. I've been looking at Biz Buy Sell for the past few days. I see a lady's and children's clothing manufacturer here in LA asking price is $9.5 million and cash flow is $3.1 million. It says the owner will carry financing of only a million. How can I with no money and bad personal credit buy this business?

Art: Okay, first of all, let's go back a step on this. One of the most dangerous businesses to buy is a clothing manufacturing company. I have never helped anybody buy a clothing manufacturing company because of the risk factor. The risk factor is based on the fact of how tough the people are on this business.

I don't care who you're working with in a clothing business, they're going to be tough to get along with. Most of them are not too honorable in the way they work. Now, can you finance these things a hundred percent or close to it? Yes, you can.

Why? Because first of all, the owner's carrying back a million dollars. Now, a million dollars, if you're not feeling good about the owner of this business or the business, is really not enough because you're saying, "Okay, this is going to be a risky business. It's going to be risky from the standpoint of the owner thinks he told me or didn't tell me on a nine million dollar deal. I need at least four million. What I'm going to do is I'm going to hold back part of it for the first year."

What's going to happen is they're going to misrepresent. Now, it's a good thing when they start off telling you they're going to carry back financing for a million because then with the assets because you'll have accounts receivable because in the clothing business, almost all of them keep financing the receivables. They either finance them or sell them or whatever. They're also financing the inventory all the time.

The reason for that is because of the cash flow shortages that you'd normally have in a business like this. You have to figure in the competition you have, and that's not only from people that you're going to be competing with, but it also from the people that you just bought the company from.

All I'm telling you is to beware. Also, it's almost as bad as buying a company where you're working with the auto industry where they're going to put pressure on you every hour of every day for the rest of your life, which will drive you nuts.

In this business, it's just too dangerous. You're going to find if you look at the list that I have, that I put out, you're going to find out there's two areas that we always tell people we will not get involved in either as a buyer or to assist somebody.

Number one, if it's a clothing manufacturing company of any type, any type, any place in the world, this applies all over the world, and I work with a number of these companies as industrial engineers, we had battles with unions in the beginnings with the ladies who worked, it was union whatever it was. It was the one that represents the union employees that you have. They're just tough companies. That's about all I can say on it.

Michael: Stay away from it.

Art: Oh, yes.

Michael: Can you still buy a $20 million company with ten percent down?

Art: When somebody asks me if they can buy a $20 million company with ten percent down, it really doesn't come up in a transaction because if you get in there, and you get the owner to carry back financing for ten percent, you're going to say, "Well, we just failed because we only got ten percent financing."

Whatever owner financing you can get is fine. Now, if you find a company with heavy assets, like what I'm working on right now back in Massachusetts. It's a manufacturing company. They're in the metal processing business back there.

This price includes real estate. I'm not going to tell you what it is right now, but all I can tell you is the assets appear before I get there to be about fifty percent larger than the whole value of the company, which means if this were really true – and I'm saying if it was really true – what would happen is I would have no trouble financing it, but it starts off and the owner says, "I'll finance ten percent," I say, "Hey, that's a great start."

In the meeting if he's already saying he'd go ten percent, and let's say we get up to the third or fourth hour of negotiating with him, there's a good chance he's going to go up to thirty or forty percent because he's already talking about ten. The ones that tell you no financing, are the ones that are the biggest problem.

So, what happens is if it does turn out to be just ten, a lot of the companies you're going to find, we have enough assets to finance, to cover the other ninety percent of the purchase price.

Michael: What about the companies who say absolutely no financing? What's your take on those when you see something like that?

Art; If they tell me there's no financing, what I have to say is I go to their balance sheet to see what kind of assets they have. Again, I'm looking at the key assets plus other techniques.

From all the programs that I have in the program that Michael sells, we have a lot of other techniques that have to do with taking your accounts receivable and telling the woman that you have that's in charge of accounts receivable that you're going to pay a ten or five percent discount if people pay earlier.

What happens is that brings in hundreds of thousands of dollars. On the other side, we take the accounts receivable that are paying in thirty days, and move them out to sixty. Again, mathematically, if that's a million dollars and you move out to thirty days, you just picked up how much? A million dollars.

So, these are only basic techniques that we have. Again, all I'm saying is that with normal owner financing, again even ten percent, and also with financing assets like accounts receivable, equipment and inventory, just taking those, almost every time you'll be able to finance a hundred percent.

Now, the other techniques that we teach, I always tell you, don't use them on the first business because you're not going to have confidence in them. You're going to say, "Oh, this doesn't work." What happens is buy the business, put the thing together, and then after you close, take it over, then have your employees do the following techniques to bring in money or move the payment periods out or whatever it happens to be.

There's a lot of different ways to do this. Michael was talking about things that are creative. I've been doing these for so many years, I don't consider these to be creative. The other things are also just a normal part of buying a company, and again, if the company makes sense if the company is well priced, in other words market price whatever it happens to be, you're going to find you can put the transaction together. Stay away from the ones that are ridiculously overpriced.

Again, in Michael's material that he has, we also have multiple scenarios, in other words, multiples that we recommend that Michael his put out, and with these multiples, cash flow – it basically tells you which ones are going to work before you even start.

Michael: Great. That's perfect. That's the end of this session, and on our next call, we'll cover the section, "What is the best type of business to buy and how do you find it?"

That's the end of our first part of our teleseminar with Art Hamel. I hope it's been helpful, and please stayed tuned and check your email for when the second part is available. Thanks for listening.

Hi, this is Michael Senoff with HardToFindSeminars.com. This is the beginning of Part Two of my teleseminar with Art Hamel. Let's get going.

Michael: Art, what is the best method or resource for finding all businesses for sale?

Art: I don't care where you are in the world, what I always suggest and I've always suggested from day one is contacting the sellers of businesses direct.

Now, what we normally do is in a library – I don't care where you are in a planet – a directory at the library, they'll actually give you information who the owner is and how much money they make, and yearly sales. It doesn't give you net profit normally, but it'll give you sales so you know what category you're in, type of business, how many employees they have, things like that, the address, the email address, the whole thing.

So, what happens is we prepare letters that we send out. Now, if you're going to send out a letter, keep in mind that you want a letter that's basically a series of bullets. In other words, don't have long paragraphs.

Just say, Item one, I'm interested in buying your company. Number two, I'm willing to pay all cash, whatever it happens to be. So, we have three or four things on that, and you tell them also, "I'm not a business broker. I'm not a merger and acquisition person. I am not a private equity fund." The reason you do that all over the world, these people are continually bombarding sellers of company.

If you don't let them know that you're not one of them, they're going to throw your letter or whatever you send them in the wastebasket.

So, you do that, and again, in every country, there's also services, whether it's a Dun & Bradstreet or whatever for a fee that will give you a printout. You just tear the labels off and put them on the letters to, and they will also give you the breakdown of how much money they're making and things like that. There's a lot of information out there.

Now the other source, taking it from the other side – years ago, we did not have the internet, and so, even when they first started putting together these internet sites, the international ones where businesses are for sale, what happened was they were almost all sellers of companies.

Well, I was in the brokerage business even back on those days and we had five offices. One of the things we do in our Monday meetings, we'd have the brokers sit up and say, "Okay, we want every one of you to spend at least two hours this week going on the internet and getting the listings from the sellers who are trying to sell it themselves." You'd go on there and tell them basically, "Aren't you tired of getting all these phone calls from your internet site? We can do that for you. We can get all cash. We do all the work."

So, what happens is the brokers had taken those sites over. The only problem you have with that is the brokers do too good a job of qualifying you. So, what happens is the average person I work with gets very irritated with these brokers or merger and acquisition people because they will question you to do. In fact, they'll question you so much that you'll eventually decide to do it my way.

Now, for those of you who don't believe in doing it my way, how do you think the private equity companies, how do you think the merger and acquisition companies, and how do you think the business brokers get their listings all over the planet. They'll currently send out letters.

That's the way it developed. In fact, when I first started teaching where we have all these business brokers and things around, the reason we all ended up doing this is this is what I was teaching years ago, back in the old days before the sun came up on Earth, but try these things, and yes they do work. We've been doing it that way for years.

Michael: What is the best type of business to pursue buying through investors in an economy like the one we are currently in?

Art: You said through investors. From an investor standpoint, the investors we work with in the United States especially, we find that they like manufacturing better than anything else, and the reason for that is most of our investors also are owners of manufacturing companies. So, they're usually easier to work with on those.

Now, for those of you that are coming to work with us or trying to work with us on these deals, the investors all want to get involved with the manufacturing. If you want to get involved in something else like service and other type business, we have other methods that we use, and they're in the program that Michael puts out.

If you're going through that, you'll be able to finding the other way of doing it because when we put together that program, we're really not working with investors. So, you'll find those other techniques which is basically a leveraged buyout. In other words, we're getting owner financing on part of it, and then we're financing the assets.

Again, that's why we pick manufacturing. It's the easiest to do, and the owners are easy to work with.

Michael: What type of business would succeed in a recession? What factors to consider such as cash flow, credit line when buying a business during a recession?

Art: Let's talk about a recession because people worry about this even when we don't a recession, or different countries around the world are in recession, maybe we're not in the United States, which I can't imagine, but you have to think about it.

Just use logic on this thing. Now, what businesses do you think or what part of the economy have the most peaks and valleys? No matter where you are on the planet, real estate. So, any business that you have that's tied into the real estate industry is going to be the kiss of death because every so many years you're going to have a peak, and you're going to have valleys.

So, what happens is over the period of time you're going to make X number of dollars for so many years, and then you're not going to make any money for X number of years. You don't want business like that.

The very simple thing is you're looking for a business that has had a growth in sales and profit for at least the last three years. Again, that's etched in stone for the last three years. If they have peaks and valleys, you don't want it.

If it's something that looks like real estate, we go actually ask the owners of the business, the sellers, for their sales figures and the profit figures for the last ten years – not the profit and loss and balance sheets, just the figures, just so that we can what the sales and profits were for the last ten years, to see where the peaks and valleys are.

Other things that we run into, and it's in the United States and all over the world, and these are companies that are suppliers for auto industries – I don't care if they're US auto industries or for the Chinese companies or the German companies, they will beat you to death. What happens is first of all you get an order for X number of thousand of dollars, and you're making X number of dollars on the product.

The next time you go in and bid on it, you have to go in and bid lower, and that eventually will make you an esteemed partner. They all have different things, BS type things that they'll refer to you as.

That means in that product area, you're going to be the only one manufacturing that product for them, but because of that, you have to give them a better price. They will continually beat you to death on that price and eventually, you will get to the point, recession or not, where you'll go into the red.

Right now, these companies are in the process of going down the tubes all over the United States, before the auto companies even go down. In fact, I read in the paper a couple of days ago that the Japanese companies in the United States here are willing to work with Ford, Chevy and Chrysler to protect the suppliers because if they have a problem or they file bankruptcy, some of the suppliers are going to lose that much business, which means they'll fail and the Japanese companies will not have a manufacturing source to manufacture their small parts. So, the thing goes round and round.

The other thing you have to realize is a business you don't ever want to get involved with recession or not, and those are clothing related businesses, anything tied into the clothing industry, unless you are a really hard nosed, blah, blah, blah, entrepreneur. You don't want to get in that business. They are tough. The competition is tough. A lot of the people in the business are tough to work with. It doesn't mean they're not nice people. It's just tough competitors.

Again, why get into something where you're going to have the headache? Don't get into that business, recession or not. Basically, it's just basic common sense. If you're out in that world, looking out your window some day, and you're thinking about it, say over the last couple of years, I've read in the paper where certain businesses are having trouble during the recession.

Again, you see it. The retail businesses are going down, a lot of them. So, you're staying away from the retail, and you're gong to find the retail businesses have peaks and valleys just like they do in real estate.

So, what you do while you're out there finding businesses, go through a lot of different markets of different type businesses you're interested in, and what you're going to find as you're looking at these, educating yourself – you're going to find businesses that have peaks and valleys, and you're going to find that.

I'm looking at a water bottle company, and you're going to say, "I wonder if they have peaks and valleys." Well, when you're out there and you're trying to buy a couple of them, you're going to find out whether they have peaks and valleys or not. You're going to be able to see it.

So, self education is the greatest thing, and again, do it on a continuous basis, and it's really a lot of fun. You then know what businesses to say away from. Then, when the recessions come out, you will not have the valleys. You will not have the problems the rest of them have.

The average stupid buyer of businesses on this planet always buys the worst business. Why is that? I don't know. There's some magic genie out there that waves a wand over you and says, "Okay, go out and do something stupid, even if you haven't done anything stupid in your life."

Follow my words of advice and do it this way, and you'll be in business and every year will be a great year and you'll really enjoy it. You will not have the pains the rest of the people have, the stupid ones, which are most of the people out there. It doesn't mean they're not nice people. It doesn't mean they don't have high IQs. It's just that they got carried away, and got into the wrong area.

Michael: What is the first question you ask and answer when you initially consider buying any business?

Art: How much money did they make last year? Everything is cash flow. I don't care what their sales are. I do secondarily or third on the list, but the first thing I want to know is how much money they made last year.

Then, I want to know how much money they made the last couple of years before that. The next thing I want to know is what kind of assets do they have so from a standpoint of financing or – if I buy a company, I'm in the service business and I have a used pen and an orange crate. Those are my assets. It's very easy for somebody to buy an orange crate or find an orange crate or find an old pen and compete with me.

In manufacturing, you have to buy equipment, lots of it. You need lots of inventory. You end up with a lot of accounts receivable, which means a lot of people owe you money. So, when you're in there, and you have X number of dollars, lots of dollars invested in assets, it's very difficult for somebody or people generally to go in and compete with you.

Why? It's too costly, so they go into the service business if they can find an orange crate and a pen, and they're on their way.

You're listening to Michael Senoff's HardToFindSeminars.com.

Michael: For someone with no experience or significant resources, where would you suggest they start? For example, what size?

Art: When I first started teaching years ago, I first started at $50,000 net cash flow, whatever you want to call it. In other words, how much money do you have left after you pay all your expenses and your loans and things like that. So, we're looking at $50,000.

When I did that, which was maybe forty years ago, could be longer, I don't know, I've lost track. When we were doing that, people were booing me, giving me a hard time. There weren't many businesses making $50,000. That was a bunch of crap, but that's what people told me.

Finally, after a couple of years, they backed off and nobody said anything anymore. They accepted the fact that there's a lot of them making $50,000, but I did this just to be ornery because I enjoyed doing it. I moved it up to $100,000 because we were basically setting the standard because we didn't have anybody really competing with us in the business of buying businesses. So, since we had the majority of people going out there, we were basically setting a standard. So, we set it at $100,000 cash flow.

As soon as we had done that for a few years and the last few years I was teaching, we moved it up to $250,000. So, since I have not taught in a few years, the minimum that I've worked on, I encourage people on, even beginning with all the problems has been $250,000 net, and that's after you pay managers and everything.

Now, if you're going to manage it yourself, and the manager's getting paid fifty grand, then the business is going to give you $250 plus the fifty, but that's $250 bottom line. If you do that, the thing you're going to find especially good, if you're not going to run the company yourself, at about $250,000, you will normally have a manager that will do a good enough job so you could be a good absentee owner without problems.

If you try to be an absentee owner on a business smaller than $250 on the average, you're going to have trouble because you're not going to be able to pay the manager enough to get a good one, to keep him from having to call you every hour.

So, my minimum has been about $250,000. Again, a donut shop is making $250 a year. It's really not a lot of money any more.

Michael: What is your best and almost full proof method for finding a business for sale?

Art: It's always sending out letter. It works. Again, keep in mind, over the years, I've worked with a lot of people mentoring, and everybody tends to go to the internet and start working with brokers, and end up with all the problems, brokers giving them a hard time and getting crummy listings and all this other stuff.

On the other hand, I have people I'm talking to on the phone that did not bother. They knew it'd be educational to start going on the internet because you can get a lot of information, educate yourself even if the brokers are giving you a hard time, and eventually you end up scoring because you sent a letter to an owner of a company.

All I'm saying is that's the thing that works. Again, try all the other things. When you go out, go on the internet, use that for education, contact a broker. You'll get a couple of pieces of paper off the internet, which is some of the information.

The broker then will ask for a non-disclosure document. You sign that. He then will send you a more complete package. From there on, they start to qualify you if they've haven't already – how much money do you have? I need financial statements. I need to know who your mother was, if she's still alive or something like that. Do you have your mother's approval? It's totally ridiculous.

Because of this, the brokers don't sell many businesses because they kill too many deals, which is a problem. So, what happens is that's good education because you're going to get a lot of information, a lot of packages within a few days, in a few weeks, and then over the next couple of weeks, as you send out letters, they'll start to come in. You're going to have to gather information on those, but the sellers on average will not be qualifying you like the brokers and merger and acquisition people do. It's just an easy way to go.

I don't' care where you are in the world. I have worked with people over the years, all over the world, I have found nothing to be different. So, if you're finding something different, you're in the wrong hole. You've got to think of another hole. I couldn't resist.

Michael: What is the three best characteristics of a good business to buy, in your opinion?

Art: That is very simple. That's not a question I get very often, but think about it. You want a business that is not tough to manage. In other words, if you have a business that doesn't have peaks and valleys, that's going to be one thing that makes it easy to manage.

You want to have one that's well financed. In other words, you have put enough money in or brought enough money in, you and the investors have enough money on the table so you don't have to fight for making payroll on Friday.

The key thing is can you actually leave that company again. Even if you're managing it yourself, can you leave it for more than five minutes? Can you blink your eye, and when your eyes open again, the business hasn't fallen apart? Can you take off and play golf? Can you go off on vacation and not worry about it?

The more time you can spend away from that business, and have it not fall apart, is the best business you can get. Eventually, you'll be able to put a good manager in there and only go in maybe once or twice a week or once or twice a month, which is what I used to do.

Those are key things, but you will find it makes it better. The other thing is just keep in mind if you also make sure that you get the financial information that you need so when you go in there, you've done your homework when you buy this business so there's no things that come up that you didn't uncover.

What'll happen is you'll have a dream business compared to everyone else because the average person buying a business does not know what they're doing. Because they don't know what they're doing, they make all sorts of mistakes.

In fact, I don't know what the figure is, but it is my guess that a large percent of the businesses that fails, these are ones that bought a business from somebody else failed because they were bamboozled in the transaction by the seller or broker or both. I was actually going to put a book together to see what the percentage was. I never got around to it.

Michael: What were you going to do, put a book together for what?

Art: On the studies I had made on doing that.

Michael: How people got ripped off?

Art: Yes, and what the percentage is. I have found a lot – because we have done a lot of consulting over the years – but I never went back to do it as a percentage to find out what it was. If we actually came out with a percentage, it would actually force people to go out and say, "I better find somebody to mentor, or I better find information before I jump in and buy or start business, or I'm going to really fail."

In fact, when we started teaching years ago, forty some years ago, the failure rate was really tremendous, and when we first started doing this, we brought this down tremendously with all the people we were working with. We actually showed them what to look for. We actually showed them how to do it, and the program that Michael sells actually covers all this. In spite of the people out there that think there's no way to do this, there is a way to do it. Just follow the way that we have said for the last few years, the program that Michael has, and you will find you will not have a problem with it, if you just listen.

I would suggest just follow the lead. If you then have something you don't like, you can send a letter to Michael or to me saying you were wrong, but I haven't gotten any of those letters.

Michael: What is one of the cheapest and profitable businesses to buy and own in Australia during an economic downturn?

Art: If I were in my office, I could probably go to the file and bring them out because of different people I worked with in Australia. There's nothing that's really different. You can go to Australia, and the reason I know about Australia, Michael will tell you, I worked with a number of people from Australia over the years, that he's aware of, and even before that.

We just started getting people in from New Zealand lately. We've done a lot with Europe and with Asia also over the years, and again, everything is basically the same. You may find some small variations, but I always tell people unless you go Mars, and I'm not even sure about Mars, but I think Mars may be a little different than what we have here.

Other than that, businesses were all set up by people, and I hate to tell people this, but everybody's the same. I don't care what country you're in or what language you speak. Everybody sets these things up the same way.

Again, I know that. We've owned businesses in different parts of the world, and we've had a lot of them in Mexico, and I was able to get away in Mexico for fifteen years and I don't even speak Spanish.

Michael: What are the best ways to find businesses that are for sale going for under market value?

Art: Under market value, turn around, all I can say is if you get out there, and you just go out to the market, and just look at businesses and you find out what the market values are, you will find some every now and then that are down.

What you have to do is realize a lot of times when you're getting them for a better price than say what the market price is, a lot of times, you're buying into problems, so you better check and make sure that they deal you're getting is really a deal because most of the time it isn't.

The reason the price is down or it's undervalued is the business isn't doing well. Again, I've done a lot of turnarounds in my life. Again, there's two types. It's a turnaround that you do for somebody else with their money, and then there's a turnaround that you do with your money.

Now, if you're listening to this and you're saying well, I'm a turnaround expert, my question to you is how many have you done with your money? Probably none, and you still call yourself a turnaround expert. When you buy your own, you're going to find it's a lot different.

You're also going to find that the amount of money you spend to buy those and the amount of money you spend to correct the problems will be more than it would cost you money-wise to buy a good business. So, why are you giving yourself all this stress and strain? I know, to have your name in the paper so the paper will come out and interview you and say, "Hamel did a turnaround. He is a turnaround expert."

If you did that and you followed up on all the turnaround experts over the year that you read about in the paper and read about on television or through the Small Business Administration, you then find that two years out on the third business they fail. When they fail, they dump everything they've done.

The thing is to have a perfect batting average doing nothing but turnarounds is next to impossible. I don't care how good you are.

Michael: I have an interest in purchasing a woman's hosiery manufacturing business. What are you thoughts on that market segment?

Art: Number one, I had mentioned before, I consider anything to do with clothing, I don't care with women's clothing, men's clothing, sports clothing, whatever – they are the toughest businesses to be in. The people that you're going to be working with are the toughest people to work with. I don't mean they're not nice people. They're just very tough. They're aggressive, and it's tough to get financing.

Michael: You probably need some pretty sophisticated equipment to manufacture women's hosiery.

Art: You're not going to have anything different manufacturing hosiery than you would other type products you're going to have out there. So, it's going to cost you a certain amount of money for equipment, but the thing is if you go out and buy an existing company, what you're going to do is you're going to be able to finance the whole thing or bring in investors to the whole thing. So, you're not going to be putting up a lot of money.

What you're going to do is end up, again, if you have investors who are going to open the company that's free and clear. If you have debt and you finance different assets, if you buy that hosiery company in that market, you're still going to have about half your cash flow on the average. This is just math. This is not magic.

You still have about half of your cash flow left on the deal. So, what's going to happen is no matter what your hosiery equipment costs, if it costs a million dollars, you're going to make X number of dollars. If your equipment costs three million, you're probably going to be making three or four times that amount.

Everything becomes relative, so you're not going to have any more difficulty or problems with a hosiery business than you would with any other type manufacturing. I hate to say this, but manufacturing, other than the problems with the clothing industry, all manufacturing companies are basically the same.

I've had many different types, and if I didn't walk to the back from the office, I wouldn't know what they were making. They're all basically the same, and again, as you get out there and you own a lot of different companies, it's going to become apparent that first of all, all companies are the same. Then, all manufacturing companies are the same.

I've had people argue with me a lot of times and say, "Well, that's not true." I say, "Okay, let's have a discussion." I'm always trying to get a discussion going on this because I know I'm right. I'm old.

Michael: Here's a question. It's March 2009, how much should I pay today for a business versus six months ago?

Art: Well, the whole time I've been on this planet, we've had market prices, market values that have not changed. Again, I started working on businesses. I started in the fifties, something like that, 1850s? No, 1950s. The market values, I have not seen a change in them.

Now, there may be changes on some of the businesses that are having trouble right now in the recession we have, but normally, from year to year with the good businesses, I don't really see a lot of the difference in the values of the companies. They don't really change that much.

Keep in mind, we worked on thousands of these things every year. We have for years, so if you think about it, over the period of time that we've done this, when we were in the seminar business, we had a hundred some thousand people go through our program. We gave them free help until they bought a business.

So, if you take that as an example, how many hundred thousands of businesses, or millions of businesses have we as a group worked on over the years? A lot of them.

Michael: What are the dangers and considerations when looking at a service business as opposed to a manufacturer? For example, an established health care business which needs a flow of new clients to continue to thrive.

Art: Well, any time you have a business that you have to go out and advertise and bring new people in, it's a tough business to be in. What you're looking for is a business that eventually, the customers will keep coming back. If you have a hundred customers, eighty of them are returned customers, or ninety percent, whatever it happens to be.

We are in the seminar business. We started off, and naturally we had referrals basically. We finished up after fifteen years, our rate was over sixty percent of the people coming to our class were referrals, even though we were also doing a lot of advertising.

Service businesses are especially tough. First of all, you're going to have more competition for all the people you're trying to sign up. So, if you're trying to sign up people for the health business, and you have to go out and advertise, keep in mind that there's a lot of people out there competing with you. There are more people competing with you than with any other type business because how much money do they need to get into the business that you're in, the health business.

Most service businesses, it doesn't cost that much money because you don't have much involved with the way of assets. Now, you may have to invest money for salespeople or people to do advertising, things like that, but again, the money is not going to stay with you.

In other words, you have to keep applying millions of dollars or hundreds of thousands of dollars every year to keep the same number of people coming in, and on a lot of these businesses, you don't end up with a lot of referrals.

So, what happens is with people coming in and competition being very easy to attain, people being able to come in and compete with you easily, eventually, there's going to be a good chance that you're not going to last very long. You're going to end up going out of business. You'll be a statistic.

Think about it. When I was talking to you, I was thinking about my health business may be exercise type facility, a gym type thing. They might have to do advertising. If you just go out and think about it, if you just go out into the market right now or even last year, and look at the marketplace you're asking me about, read the paper, and notice the number of companies in the area you're talking about that are failing right now, by category.

Again, when you go through the paper, again, are not a lot of them auto related? A lot of them are real estate related. A lot of them are retail related.

So, when you start to think about, "What do I get involved in?" Well, think about it, go out and get involved in the ones that are between the cracks, the manufacturing ones, the auto manufacturing. There's a lot of manufacturing companies out there doing very well.

Michael: In our current recession, how do you determine if the business owner is not selling the business due to legitimate reasons such as retirement or illness or other reasons that may tell you rather than that the recession is causing the sale through poor sales or foreclosed sales?

Art: It's very simple. You have to look them in the eye. Years ago, when I was teaching, people would always ask during the seminar, they'd say, "When are we going to cover negotiation? When are we going to cover getting down there with the seller and negotiating a purchase price and stuff?" I get down right to the end of the class, and they say, "You didn't cover this. You didn't cover this."

I say, "It's very simple. The only negotiation you're going to do, you're going to make sure first of all the business you're going in talking about is a business that is pretty close to another. It's price-wise and categories that you're interested in."

So, when you go in to meet with the seller, you sit down. They thought I was going to say, "It's nine o'clock in the morning, I've set aside an hour for this." We have never spent an hour.

What we do is we get in there. We establish credibility with the seller that we can put the deal together, that we do have the money to do it. We then spend four to five hours, and you can talk to a lot of people that have been to my seminars and they spent six, seven, eight hours they first time. You'll say, "That's impossible." It's the easiest thing in the world.

You start off by asking them, "How did you start your business? How did you do the following? What's your family like? Where did they go to school?"

What you do is you get to know each other, and if you do this over a few hours instead of a few minutes, you find out almost everything you want to know about this seller.

What you have to do is keep your mouth shut. Now, a lot of people say, "I want to tell them how great I am." The seller doesn't care how great you are. The seller wants to make sure you want to buy the business and you can pay them for the business. You want to get in there and find out about the business.

So, you ask questions. Again, the classic, you don't want a yes/no response. So, you want them to talk, and once you start to do this, you're going to find the hours pass, and although right now, you're going to say, "My god, I'll never get through that," try it.

I've never had a seller ever tell me at the end of the hour, "My hour's up." We get hungry usually after a period of time, somebody says, "Let's send out for sandwiches." Do the owners say, "Let's go somewhere?" No. They want to put together this program.

We've had brokers and merger and acquisition people in there. Have any of them ever said I have to go? No, they don't because they know where I'm at. We're putting it together. We're getting to know each other, and then also when you're doing this, usually after the second or third hour, if you're going to ask the owner to provide financing, that's when we do it.

Even if the owner says in the beginning he'd consider it, the owner has not met you before. So, the owner really doesn't believe it. They don't really want to finance.

Once you've been there two or three hours and they've gotten to know you, it's going to be a good chance, they're going to provide financing. Why? They know you. They're starting to trust you now.

So, you spend four to five hours, and again, I don't care where you go. When I was in Mexico, we spent weeks doing this, trying to get to know each other because that's what it took in Mexico to put deals together.

If you go to the Far East, I mean, the meetings over there when you go over there on your trips, you're going five or six weeks and meeting with the people because the people, especially in China, insist they get to know you before they really do business with you. I don't mean for an hour or two. They really want to get to know you.

You have to consider that with the people you're working with in business. Get to know everybody. You're going to enjoy it a lot more. You also will not have to worry about the problems because usually after the second or third hour, we call that the confession time because if something has been presented that is sort of on the fence, they sort of correct it at that time. So, try that. It works.

Michael: What is the best business to buy on my first deal that I won't have to be there all the time?

Art: It's very simple. Find a business where the owner has somebody else running it for them, and you're going to find there's enough of them out there that have been alright, and they may even own most of the business.

If somebody owns more than one company, you're going to find that you don't have to be there all the time. So, that's an easy one. There's a lot of people out there that own multiple businesses. So, on those, if they're selling off one of them, again, you just have to be aware on the ones they're selling you, but they're going to be available.

You're also going to find there's companies out there, I don't manage a lot of companies, so a lot of times we have the owners say, "We're buying the company." Again, if you go in, and you don't hard-nose, harass the seller and have a nice peaceful negotiation for four or five hours, sixty-some percent of the time today, owners stay to run a company.

We're also cashing them out most of the time. I forgot to add that also, but what happens is we're not harassing them. We're really becoming friends. The average owner usually is selling their business before they want to retire. Also what happens out there, business owners of something larger than a donut shop doesn't ever retire. They always think, "I'm going to retire."

Think about it. How many owners do you know that have owned businesses for many years that ever really retire? They may sell the business. They're going to retire. The next year, they're back in business again.

I've retired so many times, I can't believe it. I even feel like I'm lying because everytime I say, "I'm bored. I'm going to retire." My wife will tell you it's been about seven or eight times. I think it was six when we started working together.

Now, the only people that retire, when I worked for IBM, there were a lot of people there that were planning their retirement. So, I found over the years, most of the people that really retire are the people that work for the large corporations. They didn't lose their retirement program. They didn't have that problem in the past. If you're worried about your retirement program, buy a business.

Michael: Should I buy a business related to my current line of work?

Art: That is probably the number one question people should ask. How many people do you run into that like what they're doing? How many people do you run into that hate their job, that hate their boss, especially their job? Why would you even think about going into that business, most of you if you don't like it?

The key thing is to keep your mind open. Go out and find a category of business by net profit. In other words, I want a business making $100,000 a year. I want a business making $200,000, a million dollars, whatever it happens to be.

Go out and look at businesses in that category. Look at every business in that category, every type – retail, service, manufacturing, distribution, every type. What's going to happen is, and you won't believe this, you'll end up finding a business that you like better than anything that you've ever worked in. It's just that you didn't have the opportunity.

All of a sudden you have an opportunity to buy a company in that area, in an area that you've always like. Maybe it's been your hobby, and you've always wanted to have a business in that area. Suddenly, you're going to have a business in that area, and you'll have a business you'll like.

So, again, keep the thing open. Don't go out and look at businesses because you have the skill necessary. Keep in mind, if you're in management, you're buying a business and you've been in management for a while, your management skills are going to transfer directly over to whatever company you buy.

You're also going to find buying an existing company, you're going to have people that know their job in every category. So, you don't have to know the whole business. That's ridiculous, especially when you get above the donut shop level.

So, go out and take it easy, keep it general. I'll make you a promise, you'll end up in something you never thought you'd get involved in, and you'll also love it. You'll love business. If you do it right, it's the experience of your life. I just can't tell you.

For more interviews like this, please go to HardToFindSeminars.com.

Michael: I used Dun & Bradstreet million dollar database to find businesses to approach. They list the annual sales and not the profit. I've been approaching businesses with annual sales between five and ten million, but these all seem to be owners trying to get rid of a job. How can I do a better job of targeting businesses?

Then, number two, he asks, Dun & Bradstreet lists the primary board members, but not the owner. I've been contacting the highest board member. They often hand me off to the finance guy. Should I be contacting finance guys instead?

Art: No, nothing wrong with talking to the finance guy. I'm sure he's a nice person. What you're going to find is first of all, if you're going after million dollar businesses, ones below ten million are in that category.

So, what we always tell people, if you're going after a business making over a million dollars a year, you go to Dun & Bradstreet, have them pull up businesses that make over ten million dollars in sales.

Now, keep in mind, taking Dun & Bradstreet as an example, people will take Dun & Bradstreet reports for earnings. That means they did put that out. The problem is there is no service on this planet that puts anything out that's more accurate than the sales figure. In other words, if they say if there's a sales figure of ten million, there's a good chance it'll be ten million in sales.

If they told the profit was a certain amount, there's a good chance it's not true. I've had CPAs continually refer me years ago to Dun & Bradstreet to get financial information to use on a purchase in detail. I would tell them that Dun & Bradstreet information is never accurate because the business owners who supply it lie through their teeth.

I've had people in my class, CPAs, people from Dun & Bradstreet, and I always say that we have three or four hundred people in the class. How many people here have supplied a Dun & Bradstreet report? Almost everybody in the building would raise their hand. How many people here have ever done it honestly? In all the years, fifteen years, all those people, nobody ever raised their hand.

Dun & Bradstreet figures will be good as far as sales figures are, and don't worry about trying to get net. You're going to have to wait until you get the business to get those figures.

Now, the problem you have with Dun & Bradstreet, something is wrong because on the business they have, there are businesses making over ten million that are owner other than corporations or things like that, and you're going to have to talk to them about that.

If not, what I suggest you do, is you go to the library, get the manufacturing directory out for your state. They're updated every year. You can keep one. You can keep buying new ones. In there, if there are corporations, if they're public and stuff like that, you may get the president or something like that, but most of them have the owner's name in there.

If you want to contact owners, you might go to those type of directories, but also on Dun & Bradstreet, and I haven't looked at them lately, but I have not noticed the problem with having to contact officers like that.

Now, there may be something that the people have been harassed so much from the merger acquisition people, private equity, business brokers. They may have been harassed so much that the owners of these companies have put these other names on there, but on these other directories, you'll find most of them are still the owners' names.

Michael: Let's say you've got a student. He sends out a hundred letters, and the calls start coming in. What are the dos and don'ts when those calls come in? What should the potential buyer be concentrating on when that phone call comes in with a seller?

Art: The only thing you want to do is be nice and set up a meeting. If you sent a letter out, and you want to qualify them, let's say I'm looking for a business that has sales over ten million dollars, put it in your letter.

When you send a letter out to somebody, you're talking to a seller. The seller calls you back. He's going to be a nice guy, and he just wants to sell a business. So, what you're trying to do is be nice to him. You're the guy coming in with the cash. You're Mr. Nice Guy. You're Miss Nice Woman.

So, all you're trying to do is set up the appointment, "Hey, great talking to you. When can we get together?" Don't put anything on them. Don't say, "Are you having a good year? Are you having a lot of problems?" You're going to have to wait until you get there.

Any of the other things that have to do with a business that you want to know, "We're only looking for businesses that have been around for five years," put it in your letter. Do they always follow that? No, but the thing is you get the screening out that you would normally give out if you were asking questions at the beginning.

It's a kiss of death to start asking questions to somebody when they call you back. So, just set the appointment up.

That's the end of part two, Teleseminar with Art Hamel. Please continue to part three.

Hi, it's Michael Senoff with HardToFindSeminars.com. This is the beginning of the Art Hamel Teleseminar Part 3.

Michael: We're on evaluating and/or determining the value of a business.

Art: As far as evaluating, a lot of people have a lot of different roles, but the key thing is go after something that is basically in an area of certain net profit. That's what you should be looking for. If you're looking for a certain type business, you're looking for something that's $100,000 a year, then look at everything in that category.

What'll happen is you'll end up buying a business that's really suited for you as opposed to something your mommy told you to do. The same thing at one at $500,000 or a million, you're going to find anything you're looking for in all size businesses. You ought to go after something that you're going to be happy with because you're going to spend a lot of time running that company.

So, find one that you feel good about. Find one that fits you. So, start out with that area.

Now, the other thing is when you're going out and you're looking for a business, what you're going to have to do is learn to use market multiples, and again, the multiples work all over the world, and what you're going to find is if you're going out to get a service business, taking it as a multiple – I'm not going to use a thing like EBITA, but let's just say cash flow. In other words, how much cash flow is it making?

So, what's going to happen is if you're going after a service business, those are the ones that you can actually get for the best price. The reason for that is there is fewer businesses. There's a higher failure rate in the service businesses.

Those multiples are going to lay in the range from anywhere from one to three times cash flow. When you start to get into retail, they're a little higher. When you get up into distribution, they're a little higher. Then, the highest end – and again, I'm generalizing now – is somewhere between four and five times the cash flow.

You'll hear all other (inaudible), but I've been doing this for fifty some years, and those are actually the market multiples no matter where you go on the planet.

Michael: So, cash flow for example, X business is profiting $100,000 a year.

Art: Making $100,000 a year.

Michael: In net profit.

Art: In net profit.

Michael: After taxes or before, does it matter?

Art: Before taxes.

Michael: Before taxes, and so the multiple would be four or five times that at the highest level.

Art: Right, you're going to find some of them priced higher than or lower than that. That's fine, but the thing is in manufacturing, you basically have two types. One is you are a sub-contractor, you're building for someone else. So, those prices are closer to four.

When you get into ones where you have your own proprietary product, they're closer to five. Don't get me wrong, you're going to find some of them out there at six, seven, eight. What happens is in all the years we've been doing it, we have held on at four to five, and again, I've worked with tens of thousands of people, and we have held that standard of four to five times.

Michael: What are the key criteria you use to evaluate whether a business is worth buying at all, and then how do you calculate your maximum bid?

Art: First of all, I'm looking at the financials. I'm looking at the last profit and loss and balance sheet for the last three years and maybe this year to date. What I'm looking at is I'm looking for something that has steady growth.

In other words, each year it's had steady growth in sales and profit. What happens is if it happens to have a year that falls off, which means it has a peak and valley, what I will do then is I will ask the seller for these profit and the sales for the last ten years – not the profit loss and balance sheet, just the number and the sales number and see what peaks and valleys they've had in the last ten years. If it's part of that type business that you have peaks and valleys, we don't buy those. Those are too tough to run.

Also, if you have financing or you have investors, you can have years where you don't make enough money to pay your investors, which means you have nothing for you and your family.

So, follow those rules, and again, you're going to say, I found a straight business that has peaks and valley in it. Don't buy it. Let somebody else buy it because what's going to happen is buy you not buying that type business, you're taking away a problem that you can normally have in a business. All I'm trying to do with people is get them to avoid all the basic problems that you could have in a business.

If you avoid a lot of the problems that you can have, what's going to happen is nothing's going to be perfect. You're not going to have a perfect business, but you'll have a business that is a lot more perfect –

if there is such a word as more perfect, less imperfect than anything out there, and that's what you're after.

If you want a competitive edge, the main competitive edge is find one that's consistently making money all the time. Secondly, find one that doesn't have a lot of flaws in it. That's what we're trying to keep people away from. Stay away from the flaws.

Michael: Okay, what is the one most important aspect of a business to examine if you're trying to determine if it can succeed as it is without an extra infusion of cash from you after purchase?

Art: Okay, first of all, for the last however long I've been teaching – I probably started 40-45 years ago – we have preached one thing. We go after existing businesses. We don't go after turnarounds.

If you have an existing business, it's been making a certain amount of money for the last three or four years, you don't' have to put any more money in the company unless you're going to expand the company because the company has been making a consistent profit. So, since you're making a consistent profit, which means you have more money coming in than you have going out, you really don't have to add other money to that business unless you're going to grow it.

Again, a lot of times, depending on the business, you can actually grow it as the cash flow. In other words, it'll be enough for you and your family to live on, and there'll be enough to pay any debt you have, and there'll be money left over that you can use to grow that business. So, you have to put other money in.

Michael: I want to buy a manufacturing company. One of your criteria is to buy a business which profits have grown over the last three years. With the current business environment, what is the minimal amount of growth in profits should be a base line.

Art: Okay, just keep in mind, we're not really looking at what the percent should be, just basically what we're trying to do is get you to buy something that consistently goes up and out. Again, if it's in the last year, it fell off one or two percent, we don't worry about that, but normally, say we're making projections, and we're doing a pro forma projecting what the company is going to do in the next five years.

We're usually using ten percent increase in profit as an example. In the companies I've owned for the last twenty, thirty, thirty-five years, my standard has always been 25% increase every year.

Again, you're saying, "Well, how can you hit 25% increase in sales and profit?" Very simple, I do not run the company day to day. I'm an absentee owner. So, what I'm doing is I'm managing my managers.

Now, if I were running those companies day in and day out and taking care of all the big problems that come up in business every day, I wouldn't have time to do this, but again, by being an absentee owner, letting somebody else take care of the day to day problems, what happens is I can then work on increasing the profit and sales every year, and we do. We hit 25% and above every year.

Is it difficult to do? It's easy. I still don't have a lot to do. Most people think over the years that I've been retired for the last forty or fifty years. I sort of have been.

Michael: Well, you said in our first question, you said you better choose a business because you're going to be working in it a long time, but then we also talk about finding a manager to run it. So, for those people who think that may be a contradiction, distinguish the difference between working in the business a lot, and the difference between having a manager run it. What could one expect as far as time in the location of the business if someone bought one and how does that differentiate from running it?

Art: Okay, first of all, if you go in and take over a business, a normal business, and you're going to run it yourself, you're probably going to be spending more than forty hours a week, maybe sixty, seventy, eighty hours a week would be normal.

Michael: That's without a manager.

Art: That's without a manager. You're probably going to be working six or seven days a week. Again, there's nothing wrong with that in the beginning to learn the business, but if you're getting involved in a business and let's say you start in a larger one, maybe it's above what you've owned before, a lot larger than what you've had before. I suggest you leave the manager in place because what's going to happen is if you go in there with lack of experience, you're going to screw it up. So, what you do is you leave the existing manager in place, and you say, "The company will not afford a manager."

Well, fine, maybe you ought to find a larger business that makes money after you pay a manager. Again, I always try to tell people a very basic thing. There's nothing wrong with running your business yourself, especially in the beginning when you're first starting, maybe you have a little donut shop.

When they start to get larger, what's going to happen – I always give you an example – what I do as an example when you get in business, when you're buying a large one, I always tell people take a picture of yourself and put it on your desk facing yourself, and then take a picture of your manager and put it next your picture on the desk facing you.

Every year, take another picture of both you and your manager, and you'll notice you're not aging very fast, and your manager is aging faster than hell.

You can talk to every person that's every run a company, and they'll tell you the thing that drives them nuts is the day to day problems of running a business, and that's what makes you age.

Michael: Yeah, the stress.

Art: Whereas, as an absentee owner, which means overseeing whatever title you happen to have, your life is going to be a lot better. I'm going to tell you something as an example. I have done both. I have run the companies and for the last twenty some years, I have not run those companies, and liked it a lot better.

Michael: Absolutely, even if you're taking a little less money. The time is more valuable than the money.

Art: Right, well, keep in mind, what you do is you go out and you're going to find companies that make very little money, and you're going to have to run it yourself because if you hire a manager, you're not going to make enough profit. What you do is you set your standard.

If you want to be an absentee owner, go out and find a business that makes the profit that you're looking for after you pay a manager and pay all your expenses. It's very simple.

Michael: Okay, what is the most important criteria for determining which is the best type of manufacturing company to purchase?

Art: A lot of people are bringing this up today because of the recession we have or whatever we have going on, but the thing most people realize what businesses go after.

If you look out there today, and you look at and you're walking through the mall, you'll notice there's a lot of empty stores. Again, there are always empty stores in the mall, but the thing is you find a lot of them. You find maybe dozens of them. Those are retail stores. Guess what type business has a high failure rate, not the highest, a higher failure rate when you have a recession like this.

Now, who has a higher failure rate than they do? Service businesses, why? Because it cost a nickel, and you can have an orange crate and four pencils and all of a sudden you're in the service business.

The problem with that is it's the riskiest business. They're the businesses that fail first, and again, it's where you have the most competition because anybody can get in and compete with you.

As soon as you start to get in the manufacturing business, you have to realize it depends on whether you are a subcontractor or you are the person manufacturing the product.

Now, if you are a subcontractor and you're building parts for General Motors right now, you are in trouble, but also just think about that. You want to be involved in the parts business and have the work with General Motors every hour when they beat you on the head continually? No, but you already know that, so you avoid those auto companies.

You also know the real estate business is up and down every so many years. You say, "Oh, but this company is so great. They're in the cabinet business. They make cabinets for new houses." I say, "That's great. What happens if you don't have any new houses going up?"

Most of you are aware of it just by you're being, as you're out there, you know because I talk to people all the time, and they keep saying, "What kind of business?" I say, "What have you noticed in the last couple of years? What have you noticed good and bad?" Almost everybody has the same feeling. Unless you live under a rock, you know exactly what type businesses are failing, which ones are not doing well - again, related to the real estate industry, related to the auto industry or anything along that line.

But, again, I always like companies that are in the business of manufacturing, that manufacture proprietary products. If I then know that I have good sales ability or my company has good sales ability, I'm selling a product, again not real estate related, but other type products, I make money.

What happens when we have a recession? I add more sales people. I spend more money on advertising. Why? Because I don't want my sales and profit to fall.

What happens is everyone I'm competing with holds back. They say, "Oh my god, we have a recession. Sales are going to fall." I don't buy that. I'm not running it day to day, but as an outsider, as an absentee owners, I do not buy a falloff in sales or profit. That's not acceptable to me.

Michael: That's great. Here's a question. I've had only one experience of buying a business, and my business partner and I were badly burned by what we didn't know that we didn't know. We had a blind spot, raw material resources which our investigation failed to uncover. How do I get confidence again?

Art: First of all, you go back and talk to Mom. Your mother will tell you this is what builds character. I know very few people in business – in fact, I don't think I knew any – that have not had rough times in business. Maybe they haven't failed, but they have had rough times. Again, rough times, many times when you're in business, depends on how old you are.

What you have to do is first of all, when you go into a business, you just don't walk in cold and say, "Give me some numbers," and stuff like that, or you stand out and look at the building.

What you're going to have to do is put together a series of questions and information you get on due diligence. Now, there's a lot of sources on the internet and things like that on due diligence that are very extensive, and when you walk in with that list of what you want for due diligence, it will blow the seller's brains out, and also the accountant. If he or she sees all the information they're going to have to provide, they'll say, "I've sold a business before." The broker will say, "I've sold businesses before, and I've never saw this requirement."

Well, fine, you're not dealing with me. Here's my list. Again, on the internet, you can go on a number of different places and for very little money, they will sell you their due diligence list.

A lot of times when you're working with brokers or merger and acquisition people, their company will actually have these lists, and by lists, I don't mean one or two sheets of paper. These things are very extensive, but if you don't use them, buyer beware.

Michael: You're going to have blind spots.

Art: You'll still have blind spots. You have to go in there, and use this as a guide. I'll tell you, if you've gone out to buy businesses before, and you thought you were doing a good job, and then if you use one of these comprehensive lists that we use for due diligence, it's going to blow your mind. You'll see, "My god, how did I ever make it buying a business?"

Michael: Is that due diligence list a good filtering technique to identify sellers that really aren't serious because if they're not going to take the time to go through that or if they're hiding something.

Art: That's a very funny question. This thing will usually get people down on their knees because they're not use to providing that much information. If they really want to sell their business and they know you're a ready willing and able buyer and they know you'll be able to put the funds together to buy their company, if they back out at this time, there's a problem.

Again, you can also find out if on some of the due diligence they don't provide or they delay in providing it. Everytime there's a delay, what you should do is realize there's something wrong going on. Don't just assume there's no problem.

What you have to do is go in and always assume everything's going to be wrong. Not everything is rosy. Everything is wrong. Don't go in with a negative attitude. You don't want to go in there with some Pollyanna attitude. When I go in there, I'm looking for problems. Do I find them? Yes. Do we then resolve them with the seller? Yes. If we don't resolve them, we don't go ahead with it. We don't' buy the company, and a lot of times that happens.

Michael: Art, I've tried to buy businesses in the past only to run into a myriad of legal and financial hassles. How do I get around all the BS to determine what a business is really worth and make an offer we both can live with?

Art: First of all, one of the hassles everybody runs into on this planet is when you run into merger and acquisition or you run into, especially business brokers. They will actually drive you nuts with the qualification of the things they go through.

What you have to do is like everything else in life, anytime you have a bunch of things in the middle between you and your goal, you're going to have problems with it. What you have to do is figure out ways to get directly to the seller of that business.

Again, the easiest way that I've preached over the years has been send out letters to these people. Tell them you want to buy their company. How do you find out where the companies are? Go to your library. There are directories in there that will list the owner's name, the address, the phone number, the email address.

Send letters out to them. You're going to say, "Well, does that work?" Well, how do you think the brokers and merger and acquisition people get their listings?"

For more exclusive interviews on business, marketing, advertising and copywriting, go to Michael Senoff's HardToFindSeminars.com.

Art: Now, what happens though because of the brokers and merger and acquisition people and now the private equity people are sending out letters and sending out emails, I mean hourly to almost everybody.

So, what you have to do is you have to have a letter that's simple, just a series of bullets, letting them know number one, you are a buyer. The brokers have told this owner about all the buyers he or she has. You can say, "Here I'm the buyer they've always talked about." Of course, that's being flip, but again, let them know that you're a buyer of a company. You are not an agent for somebody else. Tell them you do have the money to put the deal together. You do have experience in the business. You do know that business. Again, just bullets, don't put paragraphs in there because nobody is going to read that.

Again, if the letter doesn't work, change it. It's very simple. You're going to say, "Well, isn't there a standard letter I can use." There's no such thing as a standard letter that's going to work.

What you have to do is if you can't figure out how to put a letter together to get somebody to call you because they want to sell you a business, you shouldn't be in business because how are you going to go out and promote your product or your service if you can't even do that?

Michael: Well, we've got a letter that works. It's been tested by a guy named Michael Chin in New York, and he was able to get a ten percent response.

Art: That's fantastic, Michael. I was not talking about you. You are an exception, and people should realize this, and you should put this out there also.

I have worked with hundreds of thousands of people in the last fifty some years. I used to say tens of thousands. That number is past due now, and I have not met anybody as well organized or as good at what they do as you do. I'm really impressed. I hate to say this about somebody who is young.

Michael: Thank you, Art. I appreciate it. Here's another question. Is there a business health shortcut for a buyer with no accounting background to understand the financial statements and what the seller may be obscuring or not. So, someone is looking for a shortcut.

Art: First of all, unless you have gone out and experienced many profit and loss and balance sheets, going to the library or taken a course in accounting is not going to help you very much.

What I suggest you do is find a CPA that you can work with in the beginning on an hourly basis, and while you're going through this, sit down and review them with them or some other person that is knowledgeable in business, and pay them so much an hour.

Now, again, you don't tie them up completely because what happens is you're eventually going to get down to the last couple of weeks in the business, and you're going to want to have them go in and do a complete check of the business.

As you're going along with the PNL and balance sheet, you need somebody with experience that can look at those documents and see if there's (inaudible) involved.

Again, once you've done it a while, whether you're a CPA, an accountant or a bookkeeper – I don't know about a bookkeeper – but, all I'm saying as you go through this a number of times, patterns will develop. The people that try to cheat you, the sellers that try to cheat you are not very creative because the average buyer does not know what he's doing.

Because of that, these sellers aren't very creative. So, once you understand the basic tricks and games they're going to play on you, you're not going to have a problem. Get somebody to help you in the beginning. You're going to say, "It's going to cost me." Well, it's going to cost you a lot more if you get stuck by somebody.

Michael: Other than past performance, how do you judge the future viability of a business for sale?

Art: Number one, when you go in there as a buyer, the buyer is going to look at the last three or four years to judge where they're going on the business, and then just make projections, ten percent increase each year.

When you're talking to a seller, the seller is going to say, "Even though I made X number of dollars last year, I'm going to make fourteen billion next year because there's a new road project coming through." You're going to say, "This company has nothing to do with roads." Well, do not believe the stuff the seller tells you about the stuff.

In other words, if you do believe him, take it with a grain of salt. What you're going to see if they're trying to get a higher price, and what you want to do is you want to buy it based on what they did last year or in the last couple of years. Again, is there something coming up that's really effective and really going to happen? I add a little more in there.

Keep in mind, if you do run into a real problem with that, if you work with your accountant or merger and acquisition person, they will show you how to do a thing called an earnout, and what you do with an earnout is you're basically buying the business based on what the company did last year.

Then, you and the seller agree to that you're going to give them a certain percent of the increase in profit in the next couple of years to cover the big increase the company is going to have, but most of the time, we're usually just buying it on the last two years.

Michael: Well, this ties into this question. Is value and potential more important than buying a business you love? So, I guess he's saying should you go for something you really love or the potential in value of an existing business. What's more important?

Art: First of all, go out and look at all sorts of businesses in the category you're looking for that's making X number of dollars. Once you do that, you're going to find a number of businesses are going to be businesses you like.

I want to tell you something. There are so many businesses out there that you're going to find that you like, you're going to find in that category there's going to be a number of businesses with fantastic potential. You're going to find a number of businesses with fantastic value.

The reason for that is there are so many businesses out there, that you can not go through all of them in a lifetime. So, take your time, check everything out, and you're going to find you will not believe how many businesses are on this planet that are for sale.

Michael: Given the uncertain times, how would one project the past earnings of a business into tomorrow's economy to maximize the probability of picking the right business among millions of choices?

Art: First of all, use smaller words when you're going out to talk to people. It's just like when you go out to talk to an owner of a business. You just say, "I'm very smart in business, and I want to know what your EBITA was last year." The average business owner is going to say,"Huh?"

What you have to do is go out and look for basic thing in business. The key thing always boils down to how much did it make in the last couple of years. I don't care what the economy is doing, there's going to be people out there that are going to worry about the thing because you worry too much. You're going to worry about, "Oh, the times are going to be bad because it's not 2009 or 2010, and the economy has not been good for a couple of years."

Then, you're going to get to 2010, and you're going to say, "Oh, my god, Iraq is falling apart. What's going to happen to our economy?" You're going to worry about all sorts of things. That is crazy.

What you have to do is cool it. Go in there, run your business, and as problems come up in the economy, as problems come up in your business, sit back, be cool and solve the problems. You're not going to run into any problems that will require you to have a background as a rocket scientist, and if you think you are, you're going to be very disappointed by being in business.

Nothing comes up that can not be solved easily, nothing.

Michael: What is the best way to know if a failing business just needs reworking and correcting mistakes to make it a good business?

Art: With an attitude like that, all I can tell you is you're doomed to failure. What you're going to find is once you get out there for a while, you're going to find instead of going after failed businesses to invest a certain amount of money, you can put the same money into an existing business instead of having to turn around and having negative cash flow and having a big change of failure.

What you're going to have is by taking the same money and put it into an existing business – you're going to have enough problems with an existing business that is doing well that are going to challenge you enough. You don't need to get into one that you have to turn around.

I want to tell you something. If you think you're a turnaround expert and you have not done it with your own money, you have never turned around a business. I run into people all the time that say, "I'm a turnaround expert," and I say, "Okay, how many have you done with your money?" They say, "What's the difference?" I always say, "That's my point."

If you don't understand the question I just asked you, you just answered it for both of us. Unless a turnaround expert is an expert with his own money, he hasn't turned around a business.

The other thing is, of all these great turnaround experts, how many of them are successful every time? They aren't. You read about it in the paper. This great person turned around this company, this great job, and the next one they dumped. What happens is they dump everything they've done.

If you go after existing businesses and build a portfolio of good, existing companies, you're not going to experience that, especially if you keep every company separate. That way, when you get to the point where you own more than one company, and say one company does fail or goes down the tubes, it doesn't take all the rest of them down with them. So, don't think about putting a big conglomerate together where everything is in one company. That is called stupid. I think they call that General Motors.

Michael: How do you check for hidden debts, liabilities or litigation, for example, copyright violations and others?

Art: What your going to find is in transactions, first of all, you're going to be asking a lot of questions. The other thing is your due diligence is going to be the seller of the business. It'll be given to the attorney of the business. You're also going to be talking to the CPA for the business.

When you're talking to these people, be also aware of the different things coming up, and if the attorneys on the other side bypass this thing and they know about a great lawsuit, and they allow their client to put down that there are no pending lawsuits, there are no copyright violations, they're going to have an even bigger lawsuit.

All I can tell you is in all the years I've been doing this, these things have come out. What I do is I take the time to ask a lot of questions. When I first go in to talk to the seller, my rule has always been back to day one, I spend four to five hours with that seller. We get to know each other, and usually after the second or third hour, it becomes confession time.

They may lie to you in the first hour or two, but usually on the average, once you get to the third or fourth hour, I don't care where you're working, I don't care if you're working in the Far East, the Middle East, all the years, I worked in Mexico, all I can tell you is it ends up coming out as you talk to them and get to know them.

Again, I'm not saying some of it doesn't come out when you're doing your due diligence, but you can also forego that because I've had meetings where in the fourth or fifth hour, I'm getting the key thing to this. I don't want to hear it takes the seller, but I do get up and say, "I'll see you later." When I call them back in an hour and tell them, "We won't be seeing each other again. Thank you for your confession."

Michael: Is there something you say like when you go visit sellers to kind of relax, like you can say, "Look, I know all businesses aren't perfect and there's problems in all businesses, and I'm here to solve them," that kind of makes them more relaxed to confess the problems earlier?

Art: I never start off by ever coming off with anything like that. All I say is a simple thing. I tell you who I am in five or ten minutes, I do that, and I say, "Why don't you tell me something about your business? How did you get started? Why don't you tell me something about the industry? Why don't you tell me something about your family? Why don't you tell me something about…and so on?"

What you're doing is you're trying to ask a series of questions that don't require a yes/no answer, and get the sort of talk now. The problem I had with a lot of people I've been helping over the years and mentoring is trying to get them to keep their mouths shut because they're very bright and they want to get in there and tell the seller how bright they are, and I tell them the purpose of the meeting is not to impress the seller with how great you are. It's to find out as much as you can about the business.

So, ask a series of questions. The seller will start talking and talking and talking. Again, as with anything else, you're going to find at the end of three or four hours, the owner of that business is going to think you're the brightest person in the world. Again, that applies to everything.

I don't care if you're talking to some rocket scientist. If you use this approach talking to them, that rocket scientist at the end of five hours, he'll say, "My god, you are a rocket scientist." Have you said anything? No, what you're doing is you're trying to ask questions. You're trying to find out about the business, and again, you have to keep your mouth shut because your purpose there isn't to show off. Your purpose is to find out about the business.

So, do it, and spend the time and don't go in there and say, "I need five hours." Don't ever do that. Go in there and they'll say, "We'll set the meeting up at nine o'clock." What'll happen is it'll be two o'clock in the afternoon and you'll say, "I'm getting hungry." If he knows that you're real, he's not going to say, "Let's go to lunch." He's going to say, "I'm going to send somebody out for sandwiches. Let's continue."

How often have I had a seller tell me, "Let's end this now?" Never. Now, even brokers that are seeing you, the merger and acquisition people that would normally say, "I've got to go. I have another appointment." I still never had anybody leave. Why? Everybody wants to put the deal together including you the buyer.

Michael: What are three things I have to have in place in order to value companies correctly, purchase them, and then operate them towards a more profitable future, and where can I locate the right people with that expertise to be on my team?

Art: First of all, in every transaction, you're going to need a CPA, a good one, and a CPA that understands business. Don't go to some CPA that's working for General Motors. You've seen the job that they've done.

What you want is a nice CPA who's done a lot of work with smaller businesses, that has experience in that, and has also done audits or checking on sales of businesses.

You also want an attorney that is used to putting business transactions together, not somebody that is an expert in law that has to do with divorces. You want two experts in your court.

Now, also you're going to find out there, although a lot of the business partners that you have out there and a lot of the merger and acquisition people are a bunch of jerks, you're also going to run into some of them that are very knowledgeable and will be very helpful.

Now, the problem is they are the exception rather than the rule. So, you're going to have to rely on your attorney, your CPA, and also other business owners because what's going to happen is if you're looking at electronics manufacturing companies, you're not going to buy the first one you run into.

By the time you buy the electronics manufacturing company that you want to own, you're going to have to run through a number of them. I can't tell you how smart you're going to be on the PNLs, the balance sheets, on the business, by the time you get through a number of them. If you sit there at four or five hours at a time, through a period of a few weeks or a couple of months, do you know how many hours that is? Do you know how much of an education you're getting?

You're not going to believe the education you get. I don't care if you've never been in business before. If you just keep your mouth shut, don't ask complicated questions, just ask them to tell you about it. How do I know this works? We've been doing this a long time.

Keep in mind, I was in the seminar business for fifteen years, and believe me, when I was teaching, we gave everybody free help until the time they bought a business.

If you think I was teaching a class, anybody who left that class or went out to buy a business that didn't come back and complain, it's something I said at the seminar or something I said in person wasn't true, I would get crucified. I wouldn't say that again.

Michael: What is the asset a business has that is most commonly overlooked by the seller that could be leveraged to advantage by the buyer? In other words, what is the first place a perspective buyer should look to find a way to increase the value of the business post purchase? Maybe he's talking marketing assets, things to look for, or you look at a business and even though you may be buying it at a good deal that shows some real promise. I don't know.

Art: Well, first of all, when you get involved in a business, you're looking for a business that has had growth. If the business hasn't had growth, it has been cruising along and not really increasing sales and profit, you may have a problem with it, but the normal businesses that you're going to look at, that you're going to end up buying usually has growth each year.

So, what's going to happen is the first thing you have to do is just keep that growth up and not change anything, and the way you do that, again if somebody's managing that company, you don't interfere. I always try to tell people when I'm working or mentoring. I say, "Look, we're going to close escrow on Tuesday at ten o'clock in the morning. I want you and your wife to meet me for lunch. Before you meet me, I want both of you to buy airlines tickets to the southeast, Fiji, first class. Then, meet me for lunch."

"As soon as you meet me for lunch, I will explain to you. I have set it up at a fancy resort, and I have both of you checked in to the bridal suite in Fiji. It's going to be a first class. Now, I have made an appointment for one year. The place you're going to be going to has no telephones, and the islands you're going to be on has no phones." They're going to say to me, "Well, how am I going to contact my business." "You're not because if I can convince, if the manager is going to be running it and he's been running it before or she has, he or she, what I want you to realize is if you don't interfere and you don't go in, the company will continue to succeed."

What causes most new owners to fail, they go in and start to use this great knowledge that they don't have, and what they do is they irritate the hell out of the person running the company. So, what you have to do is keep your mouth shut. If you're satisfied with the profit and the increase sales have been going on over the years, you don't really care. You sort of come in slow. You work on the outside, and that's what you're doing, but also don't start to get tied in this market. You're a big marketing expert said to me, "How am I going to analyze the market for my business?" I said, "How big do you think you are? Do you think you are IBM in the electronics business?" I said, "If you want to analyze your market, as soon as you get in there what you do is you pull out the lower drawer on your desk and you stand on it."

You stand on the drawer and you look out there, and you'll see your whole market. How difficult it is to market? I said, "It's not going to be very large." Anytime anybody asks me that, I always have to laugh.

Michael: That's funny, stand on your drawer.

Art: I know, but you never hear it from a person who is already in business.

Michael: That's right. Besides cash flow and prior financial performance, what are the top three most important factors you look for in evaluating a potential business's acquisition potential, and how do those factors change if your goal is to buy and hold as opposed to buy and turn in two to five years?

Art: First of all, I have never bought a company and turned it in two to five years. I don't even know what the experience is. Again, (inaudible) it's never a consideration.

The only thing that happens at the end of five years, if I have investors in there and the investors usually will leave at the end of five, but if I have another deal, and again, I've had investors for 35 years, if I have another deal going at the end of five years, they all end up staying. They just don't want to stay in the same business.

Michael: Maybe he was referring to he may be heard something about the investors will only stay on for two to five years, and then they get out. So, what does he do in that case? How does he analyze it based on that if he knows the investors want out in five years?

Art: Well, the investors stay for five years, and what we're going to do is cash them out. Now, normally, if you're going to increase your business at a certain level, your business will probably be worth twice, maybe three times what it was worth when you went in.

So, what you're going to find is you're not going to have a hard time cashing out the investors because if you bring investors in on the deals that we work on. You normally don't have any debt because you need X number of dollars. You're bringing in that many investors to give you that much money plus the working capital you need and things like that.

So, what you're going to find is the business you have is free and clear, so once you get down to the point, say it's five years, and let's say you have a manufacturing company. You're going to have assets. You're going to have equipment. You're going to have inventory. You're going to have accounts receivable.

Plus, also you can bring other investors in because what's going to happen is just like you're going through the five years, you're going to say, "Suppose I need an extra X number of dollars." So, I give you a call.

I say, "You know you don't have to call me. Why don't you just talk to the investors you already have? We didn't take their last dollars. They just took a percentage of what they had. Most of them already own mostly manufacturing companies." So, you're going to find it's not a problem.

Now, I always get this – not always, but from a lot of people – they're worried about the end of five years. Well, with all the people we've worked with and myself over five years, we have never had a problem at the end of the five year period.

Now, do we really sell and get ourselves? We could do that. So, if you're running into a situation that was really difficult and you didn't think you could cash them out, then sell the business.

What you're probably going to do is if you don't want to finance any assets, you may bring investors in to replace the other investors. Once you've had the business for five years, I mean, if you were able to get investors to come in with you in the beginning, after you've had five successful years, you're not going to have any trouble ever bringing investors in. You're going to have a (inaudible).

It's not a problem. As far as me getting out, we just keep the business. I have a fifteen year moratorium. I taught seminars for fifteen years. We were in Mexico for fifteen years. In fact, it was only a couple of years ago that somebody asked me to put together a history of what I've done in business that I realized that I've done things for fifteen years at a time.

I've been in certain type businesses for fifteen years. Why fifteen years? I don't have any idea. There's some clock in my head. I get bored after fifteen, whatever it is. My wife and I though have lasted forty some years.

You're listening to an interview on Michael Senoff's HardToFindseminars.com.

Michael: All right, congratulations, that's great.

Art: She's listening, so I better be careful.

Michael: Obviously, you'll be interested to buy businesses that already self operate. How do you know that the business you'll buy is not at the peak at the market and not expandable any longer? How do you increase the value of the business that you have acquired?

Art: First of all, let me just add something to the thing we just talked about because I want to add it. Of the top things you're going to find when you're looking at a business, on the assets (inaudible), an owner that's good to work with, what you're looking at is a management team is a team that's going to drive that company.

If you have three owners that have been running the company like I had at one time, a printed circuit board company in the Midwest in Texas, and I couldn't get any of the three to really stay for any period of time.

What happens is if you lose more than two people, it's similar to starting a business from scratch from a risk standpoint. I can tell you that from doing this mathematically many years ago. So, what you have to do is if you have more than one person leaving, you're going to have to pay them out over so many months or so many years.

The key thing is retaining that management and having good management. Again, if you have somebody that's weak, you get rid of them.

We had Mr. Walsh who ran General Electric for a number of years, did very well. GE did very well, and when he first got started, he said something that I got irritated about because he had said he had a new plan that he had which was every year, he was going to get rid of the bottom ten percent of the people in his company, the worst ten percent. I said, "Geez, I've been doing that for years."

Now, when you talk to your manager about this, you have to be very careful because your manager may panic when he's thinking about having to get rid of ten percent of the people. What I do is work with a manager on an ongoing basis, and we're basically working on phasing people out that are absentee all the time, that have bad attitudes, whatever it happens to be.

Do we want people with bad attitudes? No, I'm not in there working on the thing, but all we're doing is we're trying to clean up the company and end up with a lot.

Michael: What would you say to someone who's worried about when they make the acquisition of the business and they're worried about their manager taking off? What can one do to make sure that that transaction goes smoothly and you don't scare the manager off in that you're secure in knowing that with the acquisition of the business, you're going to be able to keep that management in place?

Art: Okay, when you have that thing, you have the manager instead of the owner, number one, that's very good. That's a really plus that the owner of the business has been able to put the faith in this manager.

What we do is we have a contract. We always put our key people under management contract. Just keep in mind, when you put this contract together, just keep in mind that it's always going to favor the employee. So, if you have to go to court to test this, you're going to find the court will always rule in the favor of your employee.

Now, the problem you're going to run into is – I'm going to scare you – is the owner of the business is not going to want you to talk to the manager. He or she will not want you to even let the word get out because they don't want to lose customers and they don't want to lose employees.

So, here you're going to get down to the end, and you will not have talked to the manager. You're going to be within an hour of closing. You're going to say, "When do I get to talk to the manager?"

Now, if the owner tells you that you're not going to talk to the manager until after you close, you have a problem. So, you're going to have to figure out some way to solve this problem to talk the manager because you may get in there and talk to the manager and hour before close and they'll say, "I'm leaving."

Michael: When you say that the management is under the contract, explain what that means. When you write the contract up, what is it saying about the manager?

Art: Okay, first of all, start off with the letter of intent, a non-binding agreement. If the owner is staying, I'll say that we will put together a management agreement before the close suitable to both buyers and sellers.

We will do the same thing. The managers are not going to know about it, but we'll talking about the fact of the following five management positions. In the next few weeks, we would like to put together a management contract with each one of the key five people in the company, or three people, whatever it happens to be.

But, again, the thing you're going to run into is you're going to have to convince the seller that you're going to be a good guy and you're really going to close because until they get to a point where they know you're going to close on this thing, they have a hard time having you talk to anybody. Say, "I want to talk to all the employees." That's not going to happen.

So, what you have to do is reassure the seller because he's going to be nervous, and if you don't understand, you will when you sell a company yourself.

Michael: So, tell me, what are some things that the seller is thinking? What makes him nervous about that?

Art: If the word gets out that he's selling the company, he's going to worry about losing employees. He's going to worry about losing customers. Those are the two things that every seller worries about.

Michael: Is it a legitimate worry? Does that happen?

Art: Yes, it happens.

Michael: Because a new owner comes in and typically tries to screw it up.

Art: Just like these private equity – the subprime mortgages that have all failed. People have come to me and said, do we have problems with people coming in to buy a business with very little down? I said, "Yes." They said, "How come you don't read about it?" I said, "Because compared to the real estate market, it's a much bigger problem. If you don't believe it, every seller you run into, if you're coming in with very little down, you may not want to bring this up."

But, the thing is every seller, every investor worries about a buyer coming in with very little down because what happens is if something goes wrong on the average that buyer will walk.

Michael: Then, the investors are stuck.

Art: More often than they do in real estate. What's the percentage? I don't have any idea.

Michael: Really?

Art: But, everybody worries about it. Every investor, so you don't have to bring it up.

Michael: So, with the management issue, what do you think the best way to handle it is?

Art: Well, what you're going to have to do is reassure the sellers are going along. In other words, keep the seller up to date. Be friends with the seller because what's going to happen is we do not hard ball negotiate anytime ever with a seller because by time we get done with our five hours, he or she and I are very good friends. We're buddy/buddy. We know each other very well, and we have a tendency to trust each other.

Well, then I bring up a letter of intent, which is non-binding, in the next day or so. I don't put anything in there that we have not discussed or agreed to. I don't play those games. I also don't make the seller nervous as I'm going through the due diligence. They know I'm checking. They know I'm moving forward. I'm keeping them up to date. They're in the loop, and they're part of the deal.

They know at the close of escrow, they're going to get all this money, which makes them very happy, but you just have to keep reassuring them that the thing is going to close, everything is going well, and they will get all their money at the close.

Michael: Let's go back to this question. I think we skipped or we didn't answer it. I'm not sure. How do you know that the business you will buy is not at the peak of the market or not expandable any longer? Let's say it's been producing steady growth for the last three, four, five years, but how do we know that next year-

Art: You're back to the same market standing in the desk drawer. You're not going to be in a business that is that limited. You're going to go out, and say you're doing a million dollars a year in sales, and you're going to find you're in a billion dollar market or you're doing five million a year, and you're in a $20 billion market or you're in a $100 billion. I can't imagine what's going to keep you from expanding in that market.

If you go out and keep running your business, if this does come up, in all the years I've been doing it, it hasn't come up for me, and it hasn't come up for the thousands of people I've worked with, but again, let's go back to a basic thing I mentioned.

That is when I was teaching, what I always did when we first started teaching, I had everybody in the class take out a sheet of paper and write down all the reasons they could not succeed in business, or things they worried about that would keep them succeeding after the seminar, or anything they ever heard that was going to destroy everything they were going to do. Just put it down.

I would say, "Okay, fold it up when it's done. Put it in your pocket. When you get home, put it in your desk drawer or put it in your safe deposit box. As soon as you buy a business, and you close escrow and you've got all the money yourself, that's your money in that business, I want you to take out that sheet of paper. I want to look at all the things you wrote down.

If there's anything on there – now, remember all the people we had go through our program, if you see anything on there that comes up, I want you to call the office, and let us know so we can change the program, if there is one thing that does come up.

Of all the people in all the years, do you know how many people ever called us? Do you know how many people ever told me that something came up? None, zero, zip. It's a whole bunch of crap. You keep following the media. You read the newspapers. It's a whole bunch of crap.

People are cutting back on the readings of the newspapers because it's not worth reading. That's why they don't have a lot of confidence in what's happening in Washington and Sacramento. Again, talk about crap. Just keep that in mind.

The other thing is keep a positive attitude because if you're one of these persons that worries all the time, worries about everything or the end of the world – it used to remind me of that cartoon that was popular back when I was young before all the people listening. This guy used to walk around with a metal shield on his head.

The reason he did this was in case a meteor came along, and fell on him.

Michael: That's funny.

Art: The thing is that's what people worry about. Again, quit worrying about all these things. These things are not going to happen to you.

You're listening to an exclusive interview found only on Michael Senoff's HardToFindSeminars.com.

That's the end of Art Hamel Teleseminar Part Three. Please continue to Part Four.

Hi, it's Michael Senoff with HardToFindSeminars.com. This is the beginning of the Art Hamel teleseminar Part Four.

Michael: So, our next section of questions are related to obtaining investors and/or bank loans or getting the money. Number one, what have you found to be the best first timers funding source?

Art: It's just like looking at the best way to buy a business. Again, it's been done for years in the US and around the world is a thing called the leveraged buyout. What you're doing when you're going in to buy the company, you're spending that four or five hours with the seller, and after about the second or third hour, what you're trying to do is you're trying to get owner financing. You're trying to get the owner to finance maybe 30-40% of the company.

The reason we don't go after any more than that – the normal owner when you're asking for 60-70% will normally want additional collateral, and I can just tell you arithmetic wise, that doesn't work out well. So, it's good to be under fifty.

Once you get beyond that, the reason I basically am pushing people as much as possible to get involved in manufacturing because you have assets to plants.

If you have a service business, and the business has one orange crate and an old desk, you're going to find you don't have anything that you can finance in the deal. In a manufacturing company, you're going to have three things. You're going to have the equipment. You're going to have the accounts receivable, and you're going to have the inventory.

Again, there's a number of other techniques that we've taught over the years, but those are the three basic ones. Again, those are the first timers funding sources. These are the easiest. You can put them together in good economies, bad economies. It's idiot type financing, so try that first. That will work very well.

Michael: In terms of funding the deal, what are the key aspects the lenders are looking for?

Art: It's just like investors or lenders. Everybody is looking for one thing. They want to be paid back, so what they're looking for is what is the collateral on the deal, and probably number one even before the collateral is what is the person coming in to borrow the money like? What kind of track record do they have? What kind of payment schedule do they have, FICO score?

So, what they're doing is again, mainly they're looking at the person coming in to actually borrow the money, and then secondly they're looking at the collateral, and also, do you have the ability either personally or in your business to repay the bet. So, it's very simple.

Michael: How can I convince an investor to lend money for me to buy a business?

Art: You know you start to work with investors, it's like you can go out and do things with sellers. You can do things with banks. When you start to work with investors, you're working with a different level of financing because what's going to happen is you have to go out and establish a track record because you can't go to an investor and say, "Look, I'm a first time buyer. I want to buy a company. Would you invest with me?"

The investor would have to be crazy to do that. Why? If you have never done it before, and you don't' have any success behind you, what's the chance of you making it? From an investors standpoint, you may have a great chance of making it, but the thing is from an investor's standpoint, you don't have a track record. In other words, how can they trust you to be able to do what you say you're going to do.

Investors are usually something you're doing, in other words, you're exploring the owner financing. You're exploring financing assets. Then, after you're in business a while and you've established a track record, you should then consider investors. If you try to do it before that, you're really going to have a hard time.

Michael: How do you get financing when banks and creditors are not lending in this bad economy?

Art: Well, what you have to realize is lenders are lending in this bad economy. What you have to do is quit listening to the crap that they have on radio and TV or the newspapers. How often do the newspaper or the politicians ever tell us the truth?

So, what you have to realize is that yes, banks are still out there lending. Is it more of a problem? Yes. Are investors not investing? Yes and no.

What you're going to find is and again, I've been through this, the ups and downs of the economy year after year during my whole life, and I always hear all this negative stuff when it's down. I'm still out there plowing along getting financing, getting loans, again, I have not had that problem. So, I really don't know what they're talk about.

Michael: I don't know any wealthy people. How do I approach someone cold for financing a new business or purchasing an existing one?

Art: In all the years we've been doing this, Michael, that is probably the best question because everybody thinks that people that invest are rich, and what you're going to find is a lot of times when you're starting out with investors, you're working with your Uncle Charlie or your mother or your father.

When you're getting started and you need $100,000 or $200,000 or even less than that, the chance of getting it from anybody other than a relative or somebody you know is between remote and none.

So, as you start to get up in the higher numbers, you're not going to find that. Keep in mind, most of the time over the years, the investors we've had have actually been business owners. Most of them have owned manufacturing companies.

I guess you can consider them wealthy. I don't know what wealthy is. I don't understand the term, but all I'm saying is a lot of people out there that have invested with us over the years, and I don't think they're wealthy. I don't think they're poor either, but I don't consider them wealthy.

But, they do have the money to invest. The problem is when you're trying to invest somebody cold, to get financing on a new business or purchasing an existing one, what you're going to find is you have to start out in business. What you have to do is you have to go out and try to get the owner to finance.

Now, if you don't have a track record, or if the owner doesn't like you, you're not going to get owner financing either because the owner doesn't trust you. The owner doesn't think you can repay the debt.

Now, when you start to go out and finance assets and different things, a lot of times, again, they're not holding their feet to the fire when you're financing equipment or financing accounts receivable or you're financing inventory. You have to go to a bank to get a regular bank loan. That's a different situation.

But, the thing you have to realize when you're first starting out or until you really get a track record, to go out to try to get investors is really a waste of time unless they're a relative of yours because you're going to find that the track record is not very good for people trying to find investors.

In fact, we got involved with investors a number of years ago by mistakes. We had always done leverage buyouts. I had seen the word investor in the dictionary, but other than that, I never met one or if I did meet him, I didn't know they invested in businesses.

We were doing leverage buyouts, so what we were doing using assets to finance businesses. So, there I was in Mexico. We had Mexican assets. SO, I go to BOA. I go to Wells Fargo, and tell them about these great Mexican assets I have free and clear that I want to borrow money against I think BOA and Wells Fargo will still tell you how hysterical was. I think they were laying on the floor laughing at me because they never heard anybody stupid enough – this was 35 years ago – to try to borrow against Mexican assets.

So, we got involved with investors, and business survival technique. It was the only thing I could do, and when I first approached the investors, most of them were people that went to our seminar that were doing well. I was really afraid. I figured, "My god, I'm going to get shot down. They will never buy this. Nobody will ever invest."

Then, they started doing that, and then over the years, we just kept having more and more of them as we become more and more successful.

Michael: The current situation with the banks make them an unlikely source for financing. Would you recommend using an investment bank to help raise money to buy a business?

Art: Now, if you're going to do investment banks and things like this, I consider these things very high faluting. If you're just starting out and you're thinking of investment banks, I don't know what your background or how much experience you have in the market, but unless you are buying very large companies and you have a fantastic track record, going to an investment bank is not the way to start.

Again, getting back to thing with investment banks, the current situation, I hate to keep bringing this up because I keep hearing this from people about the current situation, and I'm out there as one of the persons telling you yes you can get financing.

What you need is you have to build a track record. You have to have a reputation or bring somebody in, or leave the management in place that has a track record. What you also have to do is buy a business that makes sense, that can repay the debt.

Hello? Again, I always tell people this is not rocket science. Just think about it. Suppose you were a bank or investor, what would you like?

Would you like to get your money back? Would you like to be repaid? Yes. That's the number on thing, and it's impossible to do it when you're doing turnarounds, or you're starting a business or you're buying one that's a piece of junk.

Michael: This may be repetitive, but let's just do it anyway. You may have a different answer. Art, what are the most important criteria investors will look for in a business purchase deal?

Art: Well, first of all, the management of the company. You plus anyone else because that's what they're thinking about is how good is the management. Again, they want to know if the company is making money and they can repay them easily, but the thing they're also looking at is how good is the management.

Now, this is why over the years, I've tried to get a lot of people I've worked with that are just starting to leave the management in place in a company. Number one, it's easier to put it together, keep the owners in place in a business because what happens is if you don't have experience, number one, you're going to have a hard time putting the thing together because anybody who knows what they're doing and they look at you and find that you have no experience. You're going to find they really don't want to do business with you.

So, by leaving the management in place, that's a good thing, and then also from a safety thing, I'd bring investors in a lot of deals. The reason I tell a lot of people I'm working with, I'm assisting buyers, the reason I tell them to leave the management in place, I know they're going to screw the company up in they don't leave the management in place.

Now, again, will they be able to run that company in a year or two, yes, but when you're going into something that's larger, and you don't have enough experience or you're going into something even smaller with no experience, the chances of you trying to do it on your own, you're going to fail. You're absolutely going to fail.

Michael: You've said that investors usually like preferred stock. How would you recommend structuring a preferred stock issuance?

Art: Preferred stock issuance, whoever asked this question has to be a stockbroker or something like that. We don't get involved in preferred stock because what we're normally doing is we're putting a transaction together and the buyer is going in and usually forming an LLC.

What happens is the buyer coming in, again, we may have more than one buyer, but say the buyer says, "Look, I want to be in a preferred position." It doesn't mean that we're going out and going to have an issue in some stock. What the buyer is doing is a buyer is sitting down with the investor with the attorney and usually the buyer's attorney, and they're working up a deal.

What they're going to say is, "Okay, you came in today and you met the owner of the business, and you saw that the business that we're buying, and you met the buyer, and how do you feel?" The person investing says, "I like this deal. I'd like to be in a preferred position."

So what happens is the average person that I've been working with, when they're putting a deal together ends up giving up cash flow. A lot of people that are buying companies worry about giving up ownership or control, and in most deal, the investor wants to be in a preferred position, but there's no issuance.

What happens is the attorney is putting together an agreement with them, and they're going to get a certain percent of the ownership, and they will be in a preferred position.

Again, with S Corporations that we used for years, until LLCs came along, for those of you that are stockbrokers, you know that we can't issue preferred stock. We only have one type of stock to use. Today, with the LLCs, they can be put into a preferred position, but please forgive me for always using the word 'stock.' It's from being a long time and using the wrong words.

Michael: Okay, should it be structured to make payments periodically, or should it be structured with a convertible equity component in case the business is sold or the investors want to be bought out? If so, how much is usually a fair amount to give to the investors?

Art: Okay, as far as structuring it, the normal deal when we're putting this together is the investor will usually stay for five years. The other thing is what we're normally doing is we're paying him quarterly. So, when they're coming in, a lot of them are going to ask for this convertible equity component. I don't normally talk to it that way because the attorneys are working on that part of it.

What they're always asking for is you happen to go public or something like that, I like to have a chance to convert my preferred position to an ownership position so I can sell my ownership in a deal like that.

We do have investors sometimes that want to be bought out before the end of the five year period and that comes up, but we usually don't bill it into the agreement. When it comes up, we just face it when it comes up and we take care of it.

Can we buy them out at some other time? Yes, we can. Whatever the investor wants, we're not going to fight him on it, and since we usually have a lot of cash in these businesses, and again, when we bring investors in, we're usually not doing any financing. In other words, we have investors in there. They own part of the company, or they're in a preferred position.

What happens is we don't have any payments. In other words, the company basically is free and clear, and again, the amount is fair that you're giving to investors. We're usually giving them a percentage above what they're getting right now.

Over the years, we've been giving them maybe 15-20% above what they're getting now and we've been able to do that. Other people that are doing deals like this will say, "We're going to give out a certain percentage to everybody." We find it doesn't work very well because you have certain people coming in with assets that are already getting a certain return, a higher return.

Let's say it was real estate and they had a cap rate of return 6-7% now versus somebody that is in a CD that's only getting two or three percent. We don't want to overpay or give them too much return because when you do that, the investor then gets very nervous, like, "Why are you giving me such a fantastic return? You're giving me two or three times what I'm making now." They're going to think you're running some sort of a scam.

We don't do it that way. We just keep it simple. We don't use the big words.

Michael: Good day, Art, I've gained a lot from your course, and I'm actively out pursuing my first deal. I've run into a consistent pattern of business owners wanting to verify the source of my funds as well as investors wanting to see the specific business that they will be investing in.

I feel like I have to juggle both sides just perfectly to get anywhere concrete. It seems like a classic case of the chicken and the egg. How do I get a business owner to negotiate with me before verifying the source of my funds? How do I get an investor to commit to investing with me before I have the letter intent, business plan on a specific company? Should I be looking to lock up the investor first and rather the business first, and why so?

Thank you, Art. I love what you do and hope to gain much more wisdom through the future. Take care, Chris.

Art: Good day, Chris. You must be from Australia or New Zealand, and we do have a number of people we work with over the years in those two countries, and they've done very well. Let me just make this thing as basic as possible on this.

We're normally running into trouble when we're working with brokers or working with merger and acquisition people because when a broker or a merger and acquisition person is trying to get a listing from a business owner, there's a couple of things they promise them.

Number one, they're going to promise them they're going to get them all cash. Number two, they promise them that they're going to qualify everybody. So, the person says, "You're going to qualify them so we don't have a bunch of flakes coming in or the people that don't have the money." So, the broker does that.

So, if the broker is doing a good job and knows the business, they're going to then go out and try to qualify you as soon as you come in. It's normally the brokers that are giving you a hard time. It's not because they're bad people basically. It's just basically that they promise.

Again, what's going to happen is if they let people slip through that are not very qualify and too many of them, they're going to end up losing the listing.

Now, as far as the chicken and the egg, I know exactly what you're going through, but what you have to do is realize one thing. You can't go to a bank, or you can't go to an investor as an example and tell them that you're going to buy a business and will they lend you money.

What you have to do is you have to be able to go to the investor or go to a bank, and you have to have a business plan and a contract signed, an offer to purchase. If you go to them before that time, and again, I'm not talking about the owner now, I'm talking about the investor or I'm talking about the bank. So, what you have to do is you have to be able to do that.

Now, as far as being able to get in, when you're working with a broker, a lot of times, what you're going to find is they will say to you, "Until you to give me a financial statement or something like that, I won't give you information." Other brokers will tell you, "I will not let you meet this seller until you give me a financial statement."

You're going to find you have to be able to get around these people, and you're going to have to be able to talk your way around them. Now, what I always tell people to do, but everytime I tell them this, they think I'm insane, but over the years, I've told them is what you have to do is believe in yourself.

What you should do, and I know this sounds silly, when you're home, find a mirror, a large mirror, and stand in front of that mirror, and tell yourself that on your deal where you need $500,000, that you have $500,000. That doesn't mean you have it in your pocket. "I have $5,000. I have access to $500,000," and keep telling yourself, when you're looking in the mirror.

The reason I'm telling you that, I've been in many deals where as soon as the broker or the seller brings up something on financing or the money that's required, the buyer panics, and the buyer goes into this, "Ah, ba, ba, ba" and what happens is they end up blowing the deal.

Now, if you don't want to listen to me, if you don't want to use the mirror, fine. Now, once you use the mirror, and you've done that for so many minutes, turn to your spouse or some friend and say, "I have the $500,000." If they laugh at you, back to the mirror until you believe it. It's the same thing on how much experience do you have.

If you get in there, and the experience question comes up and it will come up, and you panic, and you will panic on it, and you'll hesitate, and you'll blow the deal.

Now, if you don't listen to me, the first or four businesses or the first ten businesses, you'll blow just because you're not handling it properly. What you have to do is believe, number one, that you can do it. You have to believe you can run that company because if you don't believe you can run a company and the seller is very smart, and they are smart, they're going to look at you and say, "I don't want to sell it to this person. They don't know what they're doing." You have to believe in yourself if you're going to get by this.

Now, what I always suggest again with people that are working with brokers, and again, I said if you're having trouble getting by with brokers, what I always suggest is you go to the library, you get the directory for manufacturing companies, and they're available all over the world, and they list the owner. What you do is you put together letters, and you send them letters. Tell them that you want to buy their business, a certain percentage will call you and set up appointments.

When you go direct, you're going to find the average seller – I don't care where you are on the planet – will not quality you. Now, if you're running into a situation where you're running into sellers and they're qualifying you, and they're doing it quite often, you're doing something wrong. I suggest you go to the mirror and spend a lot of time there because you're telegraphing something. It is unusual to have the sellers do that to you.

For more exclusive interviews on business, marketing, advertising, and copywriting, go to Michael Senoff's HardToFindSeminars.com.

Michael: Hi Art. I'm determined to purchase a million dollar earning business how you described in the course. I've been attempting to do so for the past eight months, and keep coming up dry on the investors' side of the deal.

When I find a qualified business to purchase and package the plan, I can't find an investor to buy into it. It seems as though the few I found are reluctant to work with a first time business buyer like myself even though I'm packaging a sold investment for them.

How exactly do I find more qualified investors for my deals, and how do I get these investors to take my deals seriously despite my lack of any track record? Thanks so much, Art.

Art: People are always talking about investors. You can talk about the bank. You can talk about the seller because if you do not have a background in business, what you're going to find is it is very difficult to buy that business. Unless you decide you're going to leave the manager in place or you bring somebody else in with you because think about it, you're the investor.

Would you invest with you if you were looking at a person that didn't have the experience and probably would not succeed? They're not going to do that. So, what you have to realize is you have to package yourself to go out and do this.

Now, a lot of you are going out for investors because you think that's a very easy way to do it. Let me just tell you. The average people in the world out there, when they're just getting started, are putting together deals by going out and getting owners to finance. This is all over the world. They are getting owners to provide financing.

What happens is just take an example, brokers on the whole will tell you that everytime they meet with a seller, they get a listing. Even though they've talked to the seller about the fact that they can get them all cash, they're then after the second or third meeting talking to them about providing financing and telling them the financing in business sales is very tough..

If they don't provide owner financing, they may not sell the business. So, there's a lot of sellers out there that will think about, and they will do that.

What you have to do is get this investor thing off your hook because go after the first one, the first one when you're starting, and go in there after you practice in the mirror, and go in and meet with sellers, try to get seller financing.

Then, what you do is do the leverage buyout and finance the assets. For those of you just getting started, you're beating your head against the way trying to get investors in the beginning.

In the old days, we used to tell people, back in the early days when the Wall Street Journal was a lot better than it is today, what would happen is we would run ads in the Wall Street Journal for investors. It wasn't very productive, and the reason why it wasn't very productive, working with investors is a start. When you don't have any experience, it is very difficult as opposed to a seller wants to sell a business.

They're going to be easier to work with. They're easy to work with investors, and again, I don't know of any way to go out and get investors. I've I'll already said in the past, we just lucked into that so many years ago because we were having trouble with leveraged buyouts going into Mexico.

Again, if I had to do it over again, would I have spent the first years of my life, many years of my life, going out and getting owners to finance and financing assets? I would still do it that way. Why? Because I found it easy. It still works today. We do it that way a lot. The problem is it seems easier to have investors.

Well, if you're having trouble with the investors, you're just getting started, all I'm saying is instead of fighting the battle, instead of being disappointed, go out and do it the leverage buy out way. Get the seller to provide the financing.

What'll happen is if it's normally priced to market, whatever happens with the type business you're buying, and there assets involved in a normal manufacturing company, you'll have enough assets there to finance the thing close to a hundred percent.

Now, don't accuse me of teaching nothing down. I've never done that. the average seller is not going to take nothing done unless it's a piece of junk business, and even then, they're not going to do it.

What you can do is finance a hundred percent, and you'll still find doing it this way, getting owner financing, to finance the assets, you'll still have a larger percent of the cash flow left. The goal has always been you have to have 50% of the cash flow left.

You're going to say, "Well, how do we do that? Is that magic?" No. I'm giving you what the arithmetic is. This is just a plain arithmetic class. It's not something based on some great formula that I have, Art Hamel.

It's based on the fact that with owner financing and financing assets, this is how much cash flow you have left. It's simple arithmetic.

Now, if you don't get close to fifty percent, you're doing something wrong. Even when you bring investors in, we're giving up about half the cash flow. How does that work out? It's the numbers. It's the return that the investors want, the price we pay for the business, this type arithmetic.

Again, there's no magic. It's not some great formula I have. Just go out and try it. That's how the arithmetic works out.

Michael: Okay. I know the investors' preferences are manufacturing businesses, but how favorable are construction businesses?

Art: Keep in mind, construction business is a service business. A construction business has many peaks and valleys. In fact, anything turns into the real estate business has peaks and valleys.

If you go back and track the real estate business, let's say any construction company, as soon as we get in there, we always ask you to get three years profit and loss statements. If it's a construction company, also ask for the profit and the sales over the last ten years, not the PNL and balance sheets, just what the figures were.

As soon as you do that, you'll see what the problem is. You have enormous peaks and valleys. If you come in with all cash, fine. That means occasionally, you and your family are not going to have enough to eat that year, but if you also have loans on it, or if you have investors in it, you're in trouble because you're not going to be able to pay our investors, or you're not going to be able to pay them the full amount.

You're then going to have unhappy investors. If you don't have enough money for the bank, because the bank is going to be asking you for ongoing profit and loss and balance sheets, and so are a lot of the investors.

As soon as they start to see that you're having trouble making the payments, and you will in the construction business. Let somebody else buy those. Why do you want to be in the construction business? It is so tough. I didn't grow up in that, but I've been in that business in Florida many years ago.

I also grew up in my father was a building contractor back in New York, and I saw the boom and bust of what we went through as a family with him being in that business. All I'm saying is there's a lot of them out there where you don't have the peaks and valleys. Go after those.

Why get into businesses that are going to stress you out? You're going to live a lot longer if you listen to me.

Michael: Where do most people make critical mistakes when seeking financing for the purchase of a business?

Art: Well, the number one thing they do is they try to go after investors. I don't know where this came about. Maybe I helped to bring it out or whatever it was with investors, but again, getting back to the basics of buying companies. The basic thing is the leveraged buyout. That's why I also tell you to buy manufacturing companies. They have a lot of assets.

A distributorship may have assets, but when you start to get into other type business like service type companies, what you're going to find is they don't' have as many assets to finance.

So, what you're going to find is how do you go out and finance it? Now, a lot of people are going to say, "Well, let's go to the Small Business Administration." Well, let me tell you what the new SBA rules are as of, March 1st, I think of this year, 2009, and they're also changing in the next couple of months, I think in August.

They think they have changed on these SBA things, with Obama, they said they are now going to provide financing on 90%, will guarantee 90% of the loans, which means the bank makes the loan. The SBA guarantees 90%. What you don't realize in the fine print is the SBA now is saying that the seller has to keep 10-20% of the company.

So, they have to carry back financing on 10-20%, which is going to kill a lot of deals. You're also going to find they won't do it if you don't have any business experience in that business, not business experience – in that business. These are new rules.

What I'm going to say it's getting tighter. Why is it getting tighter? Well, because of all the problems we have with these subprime loans. So, I'm just saying since we're having this problem now and since the economy is in uncertain shape, I'm just telling you, go the normal way. Go the leveraged buy out way, and then later on in life, when you have more experience and you own more companies, investors are going to come to you. You will know a lot of people that will want to invest with you.

That'll be the way you can go unless you decide you don't want to have investors. You may decide, "I'd rather have the loans."

Michael: Let's say someone wanted to approach an investor and go that route rather than the leveraged buyout, what approach do you use to contact the potential investors to purchase a business that you find, and also want to have an ownership stake in? Also, how and where do you prospect to find these investors?

Art: You're asking me a question that the answer is going to be, "It's not going to help you," because what happens is I've had these investors that we had that we work with for the last 35 maybe 40 years now, and they started with us when we went to Mexico many years ago.

Over the years, they've always had to put up at least a million dollars because of the value of the business that we were buying. We didn't want to have a lot of people in on the deal, but all I have to do is put together a business plan that makes sense. If it's ten million dollars, I need a ten million dollar business plan.

I also have to have a contract and an offer to purchase whether I'm working with somebody else or I'm doing this myself. What I do then is I send a summary to the investors in an area, and again, if I'm working in Connecticut, I'm not going to go back to California to get investors. I work the area. I've been doing this for so many years.

I know people in all the areas all over the world. So, what I do is I start in that area, and I start to visit investors. Again, I am normally visiting one in the morning, so Monday of the week, I visit one in the morning on Monday, one in the afternoon Tuesday. Usually on a ten million dollar deal, I have commitments for ten million dollars, tentative commitments by Thursday or Friday that week.

I then send an email to the buyer and to the seller of the company and tell them exactly what's happening, who the investors are, their phone numbers and the whole thing. it's always been full disclosure with us.

Keep in mind, I have a long term relationship with these people, and I've been in business a long time. So, I have a different relationship with the investors.

Now, again, I told you years ago, we always used to tell people to advertise in the Wall Street Journal. You may even be able to advertise in your local papers, but it depends on how much money you're after. If you're going after a few bucks, you may get people to invest with you, but the thing is once you start to get up to the larger money, you have to have a track record, something to get you started.

Let's say the private equity companies or something like that – nobody really wants to talk to you when you're starting. Again, private equity companies, I've made a mistake because I've had people come to me and say, "I'm working with a private equity company. They're going to bring money in." I say, "Yes, they are, but private equity companies don't finance people. They buy companies and they don't want to have you in there for part of it."

You may think so, but when you get down to the end, it won't happen. It's just like the companies that will finance start ups and things like that. On those deals, they're going to want 100% of the company. If you're a good boy or a good girl, they may give you a chance to buy back five percent before they go public. It's not as easy as it looks.

What you're going to have to do is you're going to have to start with simple, and that's why I keep telling people, "Go to the leverage buyout. Get going in that way." Then, as you become stronger in business, other things will become apparent to you.

I'm sorry I had to give you an answer on how we do it, but that's the question you're asking me. Again, this is what you'll be able to do after you've been doing this for 35 years.

Michael: How exactly do you structure the preferred share in financing to take over a business and get investors to buy them for you? Where do you find investors, and what is the pitch to them?

Art: Okay, we keep going back to the same thing. We don't have investor groups. They come in individually, and if we need ten million dollars in a deal, and we have three or four investors that we're working with. So, we have a day where they fly in or a couple of days.

What happens is my attorney and I will meet with them. The attorney will have a boiler plate agreement. Once they have checked the business and feel good and have done whatever due diligence they want to, we're then signing an agreement with them for them to stay with us for five years, to get a return every quarter and be in a preferred position. In other words, we're going to make sure they get paid first.

But, again, we're doing this as an LLC. The attorney is putting together the agreement. I'm not. I'm not an attorney, so that's basically what we're doing.

But, getting back to the whole thing again of how you find these investors, the way I found them was I was putting on a seminar. In the seminar business, years ago when you were teaching for ten years, we did something nobody else had ever done.

We gave everybody in our seminar over a ten year period free help until we bought a business. So, when I needed investors, these are the people I went to many years ago. Could they have turned me down? Yes. Did they? What had never said that they had an obligation to help because we had helped them buy a business, but they still agreed to invest with us.

From that, that has grown and we have more investors now than we have deals, but where are the investors in the world? I have no idea. Again, I keep telling you the Wall Street Journal, maybe you can advertise for them. You may be able to talk to your attorney or CPA, but the thing is you have to keep in mind, you're going to a CPA, an attorney, and investment banker, and you don't have experience or you haven't done it before, you're going to get killed.

I have people come to me all the time. My son is an investment banker and he's a managing director for one of the big national companies for the western United States. So, he has access to a lot of multi-million dollar deals. He has a lot of multi-million dollar investors. I have people coming to me all the time that want to talk to my son, and I keep telling them, "Unless you give me a business plan and a contract, I'm not going to give it to him." Why? Because he's going to cut you off at the knees, but they'll say, "I've got to talk to him."

I've got some very good friends that aren't as good friends anymore because I referred them to my son, but any investor banker who can provide investors are going to do the same thing to you.

Again, you have to quit trying to do that when you're staring out. I'm not saying you're not going to be successful. You may be able to find investors, but getting owner financing, financing assets is a much easier way to go.

Michael: Like your son, he's not going to look at anything unless you've got a signed contract and a business plan. Is the reason for that because they don't have time investigating the deal? They need to know that the person coming to them with the deal has got something solid that's not going to take a whole bunch of time for them.

Art: I have a deal like this right now. I have a good friend of mine, I've known for years in Albany, New York. We've been emailing back and forth the last two days. He was very upset with me yesterday when I sent back the email because he has a company that's a start up business a medical device thing that's going to really do great.

So, when I went back to him, he was talking about signing on this (inaudible) document. I said, "Okay, I'm going to have to sign it. Later, the investment banker group will sign it, but now, what you're going to have to do is send me a business plan. I'm going to have to go through it and make sure it makes sense because if I turn it over to these other people, either venture capitalists, or whatever it happens to be, it's going to kill my reputation.

Michael: They'll never look at anything from you again.

Art: Right, so I can't afford to take junk because what happens is also on start ups, most people that have start up deals, do not know how to put together a business plan and they don't hire anybody to do it. They're saying, "God, I have to keep the money. I can't afford to spend five or ten thousand."

A start up business plan probably costs even more than that because it has to be more complete than an existing business, but there's all these road blocks out there, and when I try to tell people what the real world is, a lot of people get very upset with me. Well, all I'm trying to do is save you time and money.

Michael: Hello, Art. With all the recent moves in reaction to the poor economy, I fully expect higher inflation and interest rates in a year or two. How will this increase effect the return we give the investors when they can get higher returns elsewhere, yes the distributable profit from the business remains roughly the same as when inflation and interest rates were low.

Art: Well, I don't know how old you are, but I've been around long enough to remember the interest rate. I remember the president of ours. I think his name was James Carter, some guy that runs around the country telling the world what a great president he was.

Well, I was around then, and he wasn't. When we were trying to borrow money on businesses during those times, we had interest rates on businesses over twenty percent. Hello? Are you there? Real estate, I think the interest rates had gotten up to about 18% on this.

What's going to happen is you still put deals together because over the years, taking investors as an example, we've averaged probably about ten percent return back to investors – good years, bad years, sometimes one type of investor is a little higher, another one is down a little lower. The interest rate is higher. We're always able to put these things together.

What you have to do just like everybody else I talk to, you have to quit worrying about the little deals, and what you have to do is first of all you go out and find a good business, and you're going to find – I don't care where you are on the planet – if the thing makes economic sense, you'll be able to get loans. If it makes economic sense, you'll find investors.

What you have to do is start with a good business, okay, and again, you can still be thinking about it because it's going to be experience you're going to look at it.

Say a manufacturing company, you're going to say, 'Okay, I have lots of assets. I have lots of inventory, equipment, things like this." The owner is going to provide financing of a certain amount. Before you go very far, about halfway through the first meeting, if you've done your homework a head of time, you're going to know whether this deal is going to go together or whether you're going to bring in enough money.

After you do two or three of these negotiations, I don't mean buying the company, just two or three times when you get together with sellers, which is maybe in the first week or two, you're going to know where things are going and what's going to work out.

What you have to do is quit making this more difficult than it really is. It is very simple. The problem you always have is everybody tries to complicate buying a business, and by complicating it, you make it more difficult.

What you have to do is start with the basic rules and follow those, and don't be negative. Everybody worries about the economy. Next year, you're going to worry about the fact that too many fat people are buying at McDonald's or some other ridiculous thing you're going to hear about.

What you have to do is just brush them aside. It's just like everything else in life. You're not going to live very long if you let all these things get to you including the economy.

Some of the other questions, I had to do convertible debentures, give back the same thing. Everybody is trying to complicate this damn thing. Keep it simple. You don't need all these formulas and things to do it. On larger businesses, maybe, I do larger business. I put together a lot of larger deals, and we have not gotten involved with convertible debentures.

Again, if you're the type that's thinking this way, you're going to be a corporate type that even though I have an engineering degree, I always say one thing, "The purpose of college is to educate people to work for me." The average person that gets a college degree ends up working for some large company.

The little smucks that can't make it out of high school or can't go to college are the ones that end up buying or starting all these companies as you're going to find.

Again, one of the purpose of a college program is so I can hire people for less money.

Michael: That's right. They produce a good stock of people ready to work for you.

Art: For very little, I mean, relatively speaking.

That's the end of part four, Art Hamel Teleseminar. Please continue to Part Five.

You're listening to an exclusive interview found on Michael Senoff's HardToFindSeminars.com.

Hi, this is Michael Senoff with HardToFindSeminars.com. This is the beginning of the Art Hamel Teleseminar, Part Five.

Michael: This section of questions has to do with the subcategory of negotiating the deal. Art, what leverage do I have or can create to lower the asking price?

Art: I always go back to one thing, whether you're going out to lower the asking price or get owner financing or whatever, it really has to do with getting to know the other party. Everybody tries to make this thing complicated.

We went to negotiate with the seller or even when I'm working with a buyer, I'm the seller, once you get in there, and they find out that you're real and that you can provide the money to buy this, which you will be able to do in the first hour. I don't care if you have brokers there or you have merger and acquisition people, they don't leave.

You don't need a lot of negotiation techniques. The technique is get to know the other party. What's going to happen is whether you're trying to lower the price or whether you're trying to get owner financing, you're not going to get it until I get to know you because once you walk in, they don't know you from Adam.

So, what happens is they have a tendency not to trust you. They don't believe in you. Once you're there two, three, four, five hours, and you start to talk about lowering the price or coming up with some other condition or coming up with owner financing, there's more chance they're going to say yes.

You could try every technique in the book, and all I can tell you is the one that works consistently is getting to know the other party. Once you're in there four or five hours, the two of you are going to know each other very well.

Again, although a lot of people over the years have come back to me and said, "Oh, that's crazy. That'll never work." Yes, it does. Everytime I have some (inaudible) to do, person is telling me, "Oh, this will never work." I say, "Go out and try it and then come back and complain to me if it doesn't work." How many people have come back? None. Why? Because it works everytime.

I don't care what country you're in or who you're doing business with, what'll happen is even if you're the most obnoxious buyer in the world and even if the seller is the most obnoxious seller in the world, I hate to tell you this, but after four or five hours, you'll become buddies.

Human beings have a hard time hating each other once they get to know each other.

Michael: That's great. What issues should I be aware of if I'm buying from multiple partners?

Art: Well, when you're dealing with multiple partners, I don't care if it's a husband and wife or whatever, you have to try to get all the interested parties into every meeting you have because what's going to happen is you're going to get down to the end, and you're going to think you have a deal, and a guy's going to tell you his wife doesn't agree, or especially if it's a partner. I have two partners that are out of the business, and they just invest.

You're going to get down to the end, and you're going to find that you don't' have a deal. I still remember one of the big deals I had in Mexico. I had been working with two owners for years, I mean a long time on a deal we had because we had brought contracts in.

We went to the point where we made an offer to buy the company, full offer, full price, all cash. They turned it down because their third partner turned it down. I had never heard of this person. I didn't know there was one, and again, did we get shot down? Yes. Did I not do a good job or do my homework? I've been here a few years. You'd think it'd come up in that period, but it didn't, and I wasn't able to put it together.

Michael: How does one buy a majority or controlling stake if the owner does not want to sell the entire business?

Art: Okay, here's what's going to happen when you're out trying to buy a business. Some owner is going to want to put you in a minority position. When you go out there, the thing you have to realize, I don't care if you're in the 30-40% position. If you own 30-40% of the stock or 49% of the stock, you're going to find that the other person with the 51% is not going to pull rank with you and cause that problem.

I've been in business now for 53 years, and we've been involved with thousands of companies, and we have never had that come up as a problem.

Again, in the beginning, I used to be notorious, I mean, in my brain, thinking, "Oh my god, I have to have control. It's going to be terrible." How many times has it ever come up? How many times has it been a problem? Never. It has not come up.

It's one of those things that everybody worries about when they go into the business.

Michael: How can you buy a business by exchanging your marketing knowledge?

Art; When you're buying a business and you're exchanging marketing knowledge, you're going to have a hard time with the owner. Now, if you're coming in, and you're going to offer your marketing knowledge and you're going to do that for part ownership of the business, that's one thing, but to completely come in and buy a business, it's like saying, in real estate, they're always talking about nothing down.

Well, in all the years I've been in business, I have never seen a deal where it's nothing down. We have deals where we finance 100%, but not nothing down because the seller always wants something down.

I could imaging what the average seller would do if you came in and you're offering your knowledge to buy that company. I couldn't imagine a seller buying that.

Now, if you're going to come in in a minority position and you're going to be working for the company or providing consulting work for part of the company, I can see that happening, but to come in to buy a complete company.

I'm talking about a company making money, not something in trouble, something you're going to turn around, but a normal company. You ought to try it, but don't be surprised it if doesn't work.

Michael: Art, what one skill, if I developed and I did it in excellent fashion would have the most impact on my success of buying a business?

Art: Well, the one skill you need is to become very negative. In other words, if you think everything is cherry in the world and everything is fantastic, you're going to get shafted when you buy a company.

What you have to do is quit your mindset, you're going to give the owner a big hug everytime he tells you something, but what you're going to do is you're going to check everything in detail as if you didn't believe a word he was saying.

You don't tell him that and you don't put him down with that, but you still have to go through everything, dot every I and cross every T. The reason for that is there's a lot of things owners are going to hold back – some intentional, some not intentional.

What's going to happen is it's going to come back and bite you when you get into that business, or if nothing else, even if it's not a major thing, it's going to irritate you and get your stomach all upset because you missed something. So, take your time, check everything out, and then double check it and triple check it.

I know a lot of people that go out there and just wing it, don't even bother checking anything. They say they're doing due diligence. These are people I'm working with.

They want to get in there to do my due diligence behind them because I'm bringing investors in. They haven't done a thing.

Michael: Mr. Hamel, how to persuade a big company to buy 50% of an old company? I would buy the other half and then use some of the marketing resources from the partner company.

Art: Okay, if you're gong to go out and let's say you want to buy a company and your deal is you'll put up half the money. You're going to put your experience up for half the company and you're going to get a big company to buy it. I can't see them doing it in that order.

In other words, if you went out and bought a company, and built the thing up and then went to a large company and sold them half of it, that happens quite often, or sell them all of it, exchange that for stock.

But, what you're talking about is again, you're complicating the process. In other words, it is possible for every one of you to go out and buy a business without going through these convoluted things that you come up with.

Again, you might read about it in a magazine somewhere, but it's not the way things are normally done. I just keep trying to tell people, go back to the simple life. Go back to the simple ways of buying these companies.

Instead of coming up with all these – I hate to say hair-brained schemes, but I don't know where you get them from. All I'm saying is go back to the basics. They work all the time. These other things are things that may work occasionally, I wouldn't even consider doing them. I think you're wasting your time trying to do things like this.

Michael: What is the most important thing about buying a business that you Art wish you had known but didn't when you bought your first business?

Art: I could think of at least hundreds of things that I have done. How I survive in a business had to be pure luck. Did I know anything about due diligence? No. If I sat down and gave you a list of the top fifty things I could do, off the top off my head I can do this – at my age, I might forget a lot of things, but those things I don't forget.

You as a person buying a company – I want to tell you something – if you go out and commit as many mistakes as I do, and you're not lucky, you're going to fail.

So, in the beginning, I was very lucky. I had nobody to go to. There was nobody to talk to. There weren't programs out there when I was doing this. This was fifty years ago. I hate to tell you how different things were fifty years ago, but they were, and there was no where to go.

I looked around. I had all these crazy ideas just like all of you do. This is how you buy a business. Of course, I thought you had to start one. To show you how stupid I was when I go out of college, my goal was to be a millionaire, and do you know how I thought I'd get there? I was going to go work for IBM, and eventually work for IBM and become a millionaire. It didn't dawn on me until later that the people that became millionaires were not employees of other companies.

Michael: Art, how do you convince doubting owners to deal with you when you approach them directly? For example, not through an accountant or a lawyer.

Art: Successful people I've worked with over the years have not gone through an attorney or a CPA or even through a business broker. They basically have sent letters out or other correspondence directly to sellers telling them they're interested in buying their company.

So, basically what you do is you get a call back and the seller says, "I saw your letter that you sent me, and I'd like to talk to you. I never thought about selling the company, but if you'd like to talk about, we can do that."

So, they're going to be nice because they're looking at you as a person with money, a person that's going to buy their company. You're going to find they're very friendly. In fact, all the years I've been doing this, especially in manufacturing, I have never met an owner that owned a manufacturing business that wasn't friendly, that wasn't nice, that wasn't an engineering type, a laid back person.

So, what you're going to find is you have to get over the fear. What you have to do is realize you go out and you get started. Everybody worries about the fact that the owner is going to give them a hard time. The seller is going to be horrible to work with, and what you have to do is you have to go out and find out what the real world is.

Even though you have all these doubts and dreads about this, everybody does this. Everybody has the same feeling. I can tell you, I've had that more times than anybody that's listening to this right now. When I got started, I was afraid of everything, and all I can tell you is what you have to do is go out and go to that meeting. Sit down with the seller, and what you're going to find is all the things you've heard disappear.

What'll happen is at your first or second meeting, you're going to be the coolest person in town. How do I know? I've been doing this a long time over and over again.

Michael: If the SBA is only lending money on businesses that are growing or level in revenues, what's the best way to sell the owner on seller financing?

Art: First of all, most the businesses we work on don't really qualify under SBA, and although I've worked with SBA companies a lot when we were getting involved 40 years ago and worked directly with the people from Washington, DC, the problem we had at the time is they were very tough to work with. What they would do even then, they would want you to put up all the assets you had, your collateral, your Aunt Mamie's wardrobe, whatever it happened to be.

Today, the problem is, again, looking at the SBA, just taking that as a sampling, as of March 1st, which is a month ago, of this year, the SBA has set the thing up so that sellers of companies had to carry back financing of ten or twenty percent and you have experience in the industry. So, they've made it a lot tougher.

What happens is the SBA talks a good game, or the government talks a good game, but they usually do not perform in most areas. So, don't be surprised.

The other thing is the SBA really goes up to about two million, so if you're interested in something larger than that, you have to get the SBA out of your mind.

Now, keep in mind, until recently, when I've gotten involved with some business brokers, I had not thought of the SBA. It hadn't even crossed my mind in the last thirty years because we had not worked with the SBA or even heard about them. I guess they existed, but we just didn't work with the SBA on anything like that.

Now, as far as getting owner financing, it always goes back to the same thing. You can't call them on the phone and ask for owner financing. Owner financing, I keep telling people, we have one way of doing it, and it works almost every time, and that is you don't discuss it in the first hour. You wait until the second or third hour.

As soon as you have a feeling that the two of you are bonding and you're becoming friendly, and basically the seller appears to be trusting you, feeling good about you, the way he's talking or she's talking. At that time, you bring up owner financing.

Before that, the owner doesn't know you, and even if the owner had told the broker, the merger and acquisition people that they would provide owner financing, they don't believe it.

Now, if you don't believe that, the next time you go out and the broker tells you that the owner will finance, the first thing you do is ask him about owner financing in the first hour and then say, "Do you really want to finance or do you want all cash?" In every one of them, hello, every one of them will say they'd rather have all cash.

Nobody wants to finance the business because every owner of every business when they sell worry about the fact that they're going to have to take the business back if you screw it up as a buyer.

Now why do they feel that way? Because a lot of people that provide financing in the business end up having to carry the business back because the buyer screws it up. It happens quite often.

Because it happens quite often, many sellers worry about this. In fact, I don't know any sellers that don't worry about this. So, the word is out, and what you have to do is get around the word.

You're listening to an exclusive interview found on Michael Senoff's HardToFindSeminars.com.

Michael: Art, is there one specific question you ask to start the ball rolling that gets the seller's attention to make him or her stand up and take you seriously?

Art: Well, I start off by telling them who I am. Again, I don't care who you are or what your background is, the thing that's going to get the ball rolling is to let them know who you are, what your background is, and just be honest with them.

What happens is we as human beings have a tendency to telegraph when we're not telling the truth, and again, the seller hasn't met you before. The seller doesn't feel good about you because he doesn't know you. So, what you have to do is sit there and tell the truth, and tell him who you are and be nice about it, and like you normally are.

You don't have to play any games of anything, and that'll get the ball rolling. Then, you have to go to these questions. I keep telling you, you have to ask these questions that don't have yes or no answers. Don't ask them something, "Have you been in business long?" Yes. Do you like it? No.

What you ask them is, "Tell me something about how you got started in business." It's always a question that has to do with explaining it in detail. Again, at the end of X number of hours, the thing everybody always finds, you're going to find this seller and you the buyer are going to be getting along famously. You're also going to find that as you ask for things, they might ask you something in reverse. You're going to say yes.

Why do you say yes? You know each other now. Again, you say, "How can you know each other in four or five hours?" Well, you know each other a lot better than you did four or five hours ago.

All I can tell you is this is what we come up with, four or fives hours, after all the years. I've had people go seven and eight hours the first meeting. Four or five hours is what normally works. Again, you can go to all these classes and maybe they're going to teach you how to negotiate.

I teach seminars. I used to make everybody nervous because I wouldn't cover negotiating until I got down to the last part of the class. I would tell them just in four or five hours, and they would sit there stunned. They were looking at me like, "Huh? You've got to be kidding. It can't be that easy." I said, "Well, go out and try it. I know you think you have to be a Henry Kissinger to negotiate." You probably don't know who he is. He's the predecessor of Hillary by twenty or thirty years.

Michael: People who are buying their first business will generally be working a full time job and using their spare time to work on the business purchase. Should this be something that we shy away from telling the seller so that they will take us more seriously?

Art: If you're referring to the fact that you have a job, there's no reason to lie to the sellers once you're going in there. The other thing is a lot of people worry about being able to set up a meeting. The average person that's selling a business really wants to meet you after hours anyway because they're always nervous about the employees or the customers finding out that the business is for sale because it'll screw up the value.

So, what they're doing is they're going to say to you, "Why don't you come in? The employees will be gone by seven o'clock. Why don't you come in at seven o'clock at night?"

Or, the second thing they'll say, "Why don't we meet in a restaurant?" There's a lot of people that you're going to make very nervous as a buyer because they don't even want you in the company at all. I ran into that in Southern California about ten years ago and we had to pull apart the deal because we were in escrow. We were going through the due diligence period, and they wouldn't let us have access to the facility.

You know what happens if you can't get in there while the employees are there? You can't find out really what's going on, but in the beginning you don't have that problem because the seller is going to want to meet you someplace else. They're not going to want to meet you during any working hours because they don't want the employees to find out.

Well, what you have to do when you're mailing or sending out anything, you have to think about it from the standpoint of the person you're sending this to.

Michael: I'm just curious, so you know that's a big concern. Have you found that to be across the board almost all owners are very concerned about their employees knowing that they're even considering selling the business?

Art: I'd say 99.999%.

Michael: If they're concerned about that, how are you going to get in there and really look at the business and be in there? Will the owners trust you enough to work with you to get you in there so you can see what you're buying?

Art: The thing is when you're sending a letter to somebody, we don't want to talk to them about the fact that you have to worry about that because the employees may leave because then we should put it near the fact that they want to provide owner financing because we may skip out.

There's a lot of problems and a lot of things that the sellers think about, and although they're going to have to be addressed, what you have to realize is when we're sending a letter out, what we're only trying to do is let them know we're a buyer. We are not a business broker or the private equity firm. We have experience in your business – things like that.

So, all we're doing is trying to put that information done be cause all we're trying to do is bait the hook. We're trying to get to the point with the person that we're sending the mail to who is going to be interested in calling me back and saying, "Let's set up an appointment and talk."

Now, a lot of people would say, "I'm going to get financing information." I said, "No, you don't' want to get anything from them." They said, "But, I'm going to be wasting time." No, you're not because in the beginning, if you're worried about the business making over $500,000 a year, tell them you're looking for businesses that have sales of a certain amount and make over a certain amount of money, just put it in a letter. It's very simple.

I wouldn't go any further. I would not ask for further information. I would just keep in mind a lot of sellers don't listen to you. In other words, they're going to be making $300,000, or they're not going to have the sales that you're thinking of.

What you have to do is you have to spend the time, you have to go and talk to them, and you can't insult them. What will happen is that business then gets to the point where it makes sense in the next couple of years, and they're going to come back and call you.

I get people calling me all the time from deals I worked out a couple of years before, and we couldn't put it together. I never burn the bridge. Sometimes, I've been tempted to, but I've not burned the bridges, and what happens is they come back. In fact, I'm working on right now. They came back from four or five years ago in South Carolina.

Michael: That's interesting. So anyone out there hustling and they're meeting with business owners, the sales cycle could last up to five years. You've met them. You've expressed an interest in buying their business, and that's not wasted because you never know when they'll call you back.

Art: They call back quite often, and I never keep track of what the percentage is, but they do call back quite often. The chance of them selling to someone else is remote to almost none because not that many businesses sell in the marketplace.

So, when you're looking at that, you're just saying, "There's a four to one, five to one chance, maybe a ten to one chance that they're going to come back. I'm talking about ten to one in my favor." But, ten to one, and you're going to say, "Well, that can't be possible." I say, "Well, I've been doing this a long time. I don't do anything magic. I'm a person just like all of you are, and I end up with the same deal that you end up with because even though I have a lot more experience that you do, you probably have just as much experience meeting other people. Let's face it. That's all it is when you're putting together a transaction and you're sitting down with a seller or with a buyer."

It's just two or three people getting together. They're going to like each other. There's nothing wrong with that, and that will trust each other more than anything else.

That's the end of our Part Five, Art Hamel Teleseminar. Please continue to Part Six.

For more interviews like this, go to HardToFindSeminars.com.

Hi, 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. Along the way, I've created a successful publishing business all from home 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 free resource for online, downloadable mp3 audio business interviews. I knew I needed a site that contained strategies, solutions and inside angles to help you live better, to save and make more money, to stay healthier and to get more out of life. I've learned a lot in the last five years, and today, I'm going to show you the skills you need to survive.

This is the beginning of Part Six of the Art Hamel teleseminar.

Michael: Okay, we're onto the next section, running the business, absentee owner, management team, exit strategy, etc. Art, for businesses where you hire a key person to run it in your absentee, absentee ownership, how would you go about structuring an arrangement to give him or her an equity stake to incentivize them?

Art: Very good point. We always are setting up incentive programs. Being an industrial engineer, that's probably something that was drummed into my head from day one, incentive programs. What happens when you go in?

First of all, I just want to tell you, the first thing you have to be aware of is a certain percent of the time, the seller is going to stay around. So, you're not going to be hiring another manager. The key thing on that is you can cash the owner out for a hundred percent, but if the owner's going to stay around and manage, the owner is going to expect an incentive program also. So, you can pay them all cash on Tuesday at the escrow. On Wednesday, when you're sitting down talking about them to continuing to run the company, and they've done it to me everytime.

In the beginning, it screwed up more deals. You couldn't believe it. They'll say, "Okay, how about ten percent of the stock?" So, I just bought a hundred percent off them. One hour later, I'm buying back ten. So, what we do today, if the owner is going to stay on beyond just a few months, we set up an incentive programs.

The simple one is we let them keep usually ten percent of the stock. We had a couple last year that were 15%, but it's normally ten percent. They don't mind doing that, and then we buy them out later.

Now, other than that when I get in there, we're going to have a manager in place, and what you have to do before you disturb anything is if you're going to keep on the manager, and I assume you are after you take over because this other person has been running the company for a year or two for the seller. What you're going to do is find out what their incentive program is because you don't want to go in with an incentive program, and find out that you're below what the person was getting before.

So, find out all the details of that. Keep in mind, you're going to have to get this from the seller because the seller is not going to let you sit down and talk to the manager of the company before you buy it. This is a problem as you get down close to the end. How do I put this thing together? How do I provide the manager with a contract if the seller won't let me talk to the manager until we close? Hello?

You have a problem that is very tough to solve. We've had some where we've been able to sit down with a manager ahead of time and set up the management contract, and we've had some we had to wait until after we closed. The seller is going to have to decide what it's going to be.

Again, don't let either one of them goof you up. Now, if they already have an existing incentive program, look at that and see what you can do to improve it because what you're trying to do is if the company is making X number of years now with this manager, then your plan is to make this much more. What is it going to cost you? How much can you give him to get him from point A – and let's say it's an increase of business at 10% a year, and you'd like the percentage to go up to 20%.

You sit down and work it backwards. What is the additional profit you're going to get, and what you're basically going to do is build a program in where you give him a percent of the increased profit.

You don't want to give him part of the profit you're getting now. I mean, that's what you just purchased, and the incentive is going to be based on getting a percent of the increased profit.

Again, we structure it, you're going to get four percent of the first million. You're going to get three percent of the second million. Whatever you decide to set up, and basically they're working it backwards. In other words, how much money is it going to take me to get this person to be motivated? Is it going to cost me another thousand dollars a year, five thousand, ten thousand, whatever it is?

So, I go to that point, and then work it backwards to figure out how I'm going to come back to the manager. Again, it isn't something I discuss with a manager. It's something I sit down and discuss with somebody that's in business with me in some other business, or I sit down and talk to the wall or my dog while I'm doing this.

The thing is put the thing together, bounce it off the manager before you do it in writing, and then come back and give them the agreement in writing with the management contract. Again, we also have a management contract because we want to be able to keep the employees as long as possible.

Michael: What are some of the key metrics that you monitor to keep your finger on the pulse of the absentee ownership business that you have owned?

Art: I remember back in the days, it used to be faxes. Today, what we do is we get emails everyday from every business. What we're doing is we have certain key information we want like maybe the sales for the day. They wouldn't know the profit or any major expenses over fifteen cents – things along that line.

So, we're getting that daily. We're then getting a report weekly which is a summary of that week. Now, most companies have the summaries for the week, so it's no big deal to do that. It's also no big deal to give you it daily.

Once you get beyond that, the key thing is going to be the monthly reports that you want. What I do is I keep these on the board up there, and what I do is I have a clipboard, and I actually have them up on the wall in the office. I can actually flip through those after I've had that business a while. I can flip through with my fingers and numbers will pop up in my eye, and I'll be able to spot things that are out of line.

If the number of new customers everyday was 43, and flipping through it, I'll notice that one day was six or whatever it happened to be – whatever the number happened to be. Again, they're then providing as the CPA or the accountant for us is providing the most important one which is the monthly. If we're absentee, we have outside companies providing us with the monthly.

We have the outside companies providing us with quarterly and annually because we don't trust anyone. I always tell people – what I always do in the company is I have mom running the company, and then I have my father checking on my mother, and I'm there watching both of them.

Michael: What are some controls and methods you use to avoid being ripped off or scammed by the managers of your absentee ownership businesses?

Art: Well, the first thing you have to do is you have to have at least two people signing checks. Now, keep in mind when you do this, if you have a husband and wife working for you, you don't want to have the husband and wife signing checks, the two of them signing it.

If I'm absentee, I normally have the accounting company, the CPA company that I'm working with sign the checks along with the people in the company. Then, normally we're trying to do some things maybe over a thousand dollars or something like that.

One the small items, we're trying to use things like petty cash so we're not writing checks, but then you have to control the petty cash because they will steal the petty cash. So, you have to keep that fund down to nothing and make sure that you have control. In other words, that will be included in the report that you get daily, what the cash fund and what it was at the beginning of the day – it was $1,000 when you started. It's now $2. What happened to the other money?

You have to find out as soon as possible, but the key thing is having two people sign checks.

The other thing is when you have an accounting firm coming in or a CPA firm especially that's who we want. We don't want an accounting firm. The CPA firm is going to set up controls in this business – normal accounting controls, and you're going to find those will do a very good job as long as you have somebody monitoring those.

Again, you're going to have an accounting firm outside that's going to be doing part of it. You then have to do it yourself on a daily basis with the reports you're getting. Then, when you have something that looks out of line, you call a manager on the phone. He gets nervous as hell. You strap on your super gun, and you go to see him.

But, we've caught very few people that get by and steal very much money from over the years. I also put the fear in death in them.

Michael: What do you say to them?

Art: No problem with what I'm about to say because a dentist in Glendale actually went out and copyrighted this and was selling this. It was called the Arthur Hamel Dragrope.

Michael: What's a dragrope? Tell me.

Art: For years, I would teach this in class. Since 100,000-some people heard this, I might as well tell you what it is. If you remember John Wayne, John Wayne and the westerns, what would happen is when an officer was caught being a trader or something like that, they would take him out into the parade ground, and there'd be some guy out there. The drum goes boom, boom, and the officer would be at attention.

The commanding officer would come out with his sword, draw his sword out with his officers standing out in front of him. The flag would be flying. The drummer would be going boom, boom. He would then take this sword and cut off the epilates first. He would then cut off the buttons, and then when you get down to the last button, I did something different that they didn't do in the John Wayne movies. I would cut below the last button. That employee would never steal again.

Michael: That's funny.

Art: So, this dentist came up with the Arthur Hamel Dragrope. So, what happens is when you find somebody cheat, what you do is you get the Arthur Hamel Dragrope out, and you check to see how much you lost. You then tie one end of the rope to the leg of the employee. You tie the other end of the thing to the back bumper of your car. You then go into the Merchant of Venice. If you remember the Merchant of Venice, it's a pound of flesh for every so many dollars. So, for every thousand dollars we take off so many pounds of flesh.

How do we determine that? We get in the car. Start the engine, and drive. Now the employee is going to be dragging around the back, and they'll be bouncing. What you have to do is make sure that you only stop once the pound of flesh has been removed from the employee.

When I used to tell this in the class either version of that, I could see everybody getting nervous because they were thinking about the stamps they were stealing from their boss – or stuff that employees all walk away. I mean, have you ever searched your employees when they're leaving including your mother, you have to watch mom. I hope your mother doesn't work for you.

Michael: No, she doesn't. You've got to let them know you mean business.

Art: They get nervous. Every company I've ever had, I tell stories like that, and the reason for it is they remember. If I just told them something, it would pass right over. In fact, I can go back to people that went to my class 20-30 years ago, and they will recite word for word exactly what I said on these stories, and that's why I told a lot of stories.

Again, all of them happened. They all happened. What happens is after you teach for a few years, you tend to embellish a little on them because they're not as funny as you thought they were.

Michael: Okay, next question – Art, did you always have an exit strategy plan for every business before you bought it?

Art: Never. It's just like people ask me if everytime we buy a business, or everytime we're doing well, do I redo my financial statement? No. You see, what people do is when they're very young, they put together their first deal, and then they put together a financial statement showing themselves how well they've done.

Then, what happens is by the time you're in business for a couple of years, they don't ever do that anymore. They're not even thinking about that.

Now, as far as an exit strategy, I have never had an exit strategy before or even in the beginning when I bought a business. If I have investors, the investors to want to be out in five years. So, they have an exit strategy, maybe sooner, but normally five years.

At the end of a five year period, I can have an exit strategy too, and I can say, "Okay, I'm going to get out," but I have never done that. What I do is at the end of five years, I still want to own this company. So, what we do is we get an appraisal on the company. We give the investors their money back. We then give them a return based on the increased value of the company, so they get some of the upside as determined by the appraisal.

Now, for those of you selling your company at the time, you have no problem. You just give them a percentage of the increase value of the company. Again, that's our basic exit strategy.

Now, even though we're telling our investors basically – I shouldn't be letting this out, but I'm sure most people know this now – at the end of five years, a lot of times what we're going to do is we will have an exit strategy, and let's say it's a company that has a proprietary product.

If we have a proprietary product, we may want to be out at the end of five years. Now, a lot of people will say, "When we get to five years, we're going to go public with this company." Well, I don't like these people that buy stock in these companies. I've had enough trouble years ago when we were in the franchise business.

So, what we do is we had a proprietary product, we may approach Proctor & Gamble or some other company depending what our product is, and try to exchange stock because let's say we buy it for a certain multiple and if the company is worth two or three times what we paid for it at the end of five years, that multiple is great, but the thing is if we then go to public company and if we can exchange our company for stock in another company, we're going to end up getting a multiple that is much larger, which satisfies us as owner.

It also satisfies the investors because they get a return far in excess of what they got, and that's always good.

You're listening to an exclusive interview found on Michael Senoff's HardToFindSeminars.com.

Michael: Okay, great. Art, what percentage of cash flow should remain for me after I pay for investors, debt and other financing costs, 20-30%, 40-60%? What would be the minimum percent you would recommend never going below?

Art: Okay, don't think about it from the standpoint of how much you're going to pull out. What you have to realize, if you get down in the area of five and ten percent net profit, the problem is you're in the grocery store business, or you're in some other business that has very small margins.

If you have a small bump in the economy or in the business that you have, you're going to be in the red. So, you're looking for the ones that have the most profit margin.

Now, from the other standpoint, you have to determine how much money you want to make. Now, if my goal is to make $500,000 a year, that means I want to make $500,000 after I've paid everything – after my manager has been paid, not after taxes. We're not even taking taxes into consideration because we have an S corporation or an LLC, which is basically like a partnership.

So, think about it from that standpoint. I want to be able to pocket $500,000. Am I going to have to pay tax on it? Is my ex-wife going to get part of it? Forget about that. How much money do you want to make on that business, $500,000? If that's what the business is making now, you're right where you want to be.

Then, you have to decide how much more you want to make, and what you're going to do is increase 10-20%, whatever it happens to be, every year. That's a different thing.

But, again, for those of you wondering say, "Well, maybe I want to have $100,000 because I can live on $100,000." Well, if you're going to buy a business, let's say you're making $100,000 a year now. In the area I live in $100,000 isn't very much. You can't even afford a house.

In Orange County, again, this is before the big crash of the houses, but I had read if you had to have an income of $171,000 to buy an average house here, which is ridiculous, but I'm sure it's $7,000 now. I don't have any idea. We don't have a loan on our house or anything. This is what you get when you get very old.

Michael: Art, when you buy a company, how do you insure that management's behind you and supporting your long term goals?

Art: I'm sorry. I don't mean to be laughing. That is a very good question. It's another thing to worry about, but what you have to do is worry about the way you treat people.

Now, if you buy an existing company, and you leave the management in place and you're not in there, that's fantastic because I keep telling you the thing that screws more existing larger companies are the buyers when they come in.

You screw them up royally because you're going to go in and make changes. Well, you could buy the company and it's making $500,000 a year now, or a million or $100,000, whatever it happens to be. If you're satisfied with a company and what it's making right now, and the manager's been running it say for four or five years, why would you want to go in and make changes?

Now, you might go in and start thinking about things other than increasing profit and stuff without driving your managers nuts. Do not go in there. Do not be a pain in the butt. Don't start making changes because once you do that, you're going to screw up the company.

Michael: You also have said though in other instances, that you're going to have to be at that company for a certain amount of time, but there is a real difference when you're buying a business with an established long term management team in place. You really can do that eventually, maybe not the first couple of weeks, but that is realistic.

Art: Yes, you can work your way in. You can do the same thing if you're taking over, but even when you're taking over a company that's existing – say there's an owner or owners that have been running it, they're going to be staying around.

We may phase out one owner over three or four months. We may phase the second owner out over a year. So, if you're in there and you're going to be the one running it, there's no problem with the transition. You're going to be getting to know everybody. You're not going to be in there being a smart guy running a company. You're going to let the existing owner continue to run the company. You're going to work in the gradually.

Michael: That's probably a good thing also to settle the fears of the employees and the management that the owner is going to be around for a while. He's not leaving.

Art: Yes, and also, you're a nice person and you're not going to fire everybody because that's another thing that every seller worries about that you're going to go in and start chopping heads.

So, during the five hours that we're talking to people, we are reassuring that we don't do that, unless we catch somebody stealing. Then, we're going to fire them.

Michael: What are the main instruments incentives that you use to do this? Is it mainly through financial incentives and target setting or also motivational psychology in relationship to the managers?

Art: I've always been one of those guys that's into the dollars, giving them money. Now, I'm not saying we don't give them other incentives. We don't say them, "Okay, we have restaurants. So, when you become a general manager – in other words, when you're over five to eight restaurants," this is a true story, "we're going to give you a Buick Riviera." This is back in the old days when a Buick Riviera was a good car. Our managers had Buick Rivieras.

The next thing, once you became a general manager over five to eight units, you got a Cadillac. We never went beyond that because the people above that were making so much money, we had nothing to do with buying their cars for them, but a car always used to be an incentive. Again, it still is today.

Everybody's getting an insurance policy. Everybody is getting medical. We don't give the employees medical. Even back as medical became more expensive, all the companies I've every owned, we have never had the employees have to pay part of the medical, even if it meant it was going to be part of our profit because we didn't think it was fair. It would also be distracting.

What you have to do is stay away from the negative incentives. You have to keep a positive attitude, be cool, be nice. In other words, don't' change the way you are now just because you own a company.

Michael: Great. Art, many successful businesses seem to depend upon the strong personality or vision of the founder or current CEO. What's the best way to ensure continuity of that vision or energy after the purchase?

Art: Okay, well, keep in mind, most of you that are listening to this are not going to be buying a company that's going to be that large where you have to worry about vision or things like that.

Everybody refers back to this because we're talking about large companies, the multi-nationals, things along that line. People always ask me, "How am I going to be able to see the marketing? How am I going to be able to see the whole marketplace with no experience?" I keep saying to them, "In all the years I've had – that I've been in business, this has never come up."

Things like this and questions like this come up from people that have not been in business before. Once you get in the business, 99.9% of the questions you've ever had about business will go away. You'll find the questions that you're normally thinking about before you buy a company fade because they don't pertain anymore.

It's something that you think about before you buy a business, but once you buy a business, you don't ever think about that anymore. It's something that you read about in the scholar's study, but the rest of us out there working our butt off running these companies don't think about that.

Michael: How do I know if the management team in place is correct or if I need to replace it?

Art: Well, if you get in there and you buy a company that's making the amount of money that you like and let's say you want a company making $500,000, and it's making $500,000 a year, and it's been increasing in sales and profit every year for the least three or four years, you ought to give your management team a hug, even if they're the ugliest people in the world because the profit is going to tell you.

Again, we don't want you buying businesses that are turnarounds. In that case, you may have to fire all your managers, but when you're buying a good company, even if some of them are ugly, even if some of them are weak, overall your company is making a profit that you are satisfied with.

If you then, over the next few months, want to go in there and you're analyzing the managers, and you find some of them weak and you want to replace them, that's fine, but in the beginning, be satisfied with what you have. Don't get nervous about it because if you don't do anything, it'll continue going along.

So, you may say, "Oh my god, I have weak managers." Well, even if you don't come back from Tahiti for a year, the weak manager will still be there and the company will still be going ahead. Then after you get in there or after a few weeks or a few months, you can get in there and make the changes.

In he beginning, keep in mind, when you're buying good companies that they haven't been up and down, and things like this, you don't want to go in there with a mindset that you're going to change things. You don't' want to do that because you're going to screw up the company.

Michael: Okay, this question kind of relates. Once you've purchased a business, what should you focus on to create a more lucrative business than what you bought so that you can sell it at even a higher profit?

Art: Well, first of all, I never think about it. I'm not in the business of flipping businesses, so since I plan on keeping them, not forever, but whatever forever means, and in a normal person does not go in there thinking about they're going to buy this business and build the thing up.

Now, are we going to build it up just for the sake of building it up? Yes, because that's what we want to do. Why be in business if you're not going to increase profit?

So, what happens is if I'm working as an absentee owner, there's somebody else running the company. That business is going to be run by that person day in and day out. All the problems that you have every day – in fact, the thing that drives everybody nuts in business, and you don't even think about it is the day to day crap that you run into.

Once you get to the point where you have somebody managing it, and you're basically managing it from a distance or even if you're only two feet away, what's going to happen is your life changes.

Again, it's the day to day crap that you run into running a business that drives you nuts. Once you get away from that, the whole thing changes. People have come to me over the years, "I can't believe this. I've been running these companies on my own. All of a sudden, I backed off, and my whole life has changed." Of course it has because it's the day to day crap that drives you nuts.

Michael: Okay, one more for this section. Art, I heard a recording of an interview you did with Michael Senoff where you said that just hire people to run the business you buy. How could an employee possibly be trusted to run the business properly?

Art: Well, first of all, we buy businesses and keep these managers in place. A lot of times, we get the owner to stay. Now, if I'm buying a business and there's not a manager there, the owner's leaving in a short period of time, once I go into the due diligence period which is a sixty day period, once I have the letter of intent is signed even before the contract, I start looking for managers.

I interview them. I do all this. I want to hit the group running, as we say. In other words, I want to have that manager hired and in place when we take over the business so that the former owner or owners can help train this manager even though he's fantastic running this company, we now have somebody with experience that's going to run this company that will be paid well and is going to have the opportunity to run a company, but again, he'll have also the benefit of the owner staying around for a period of time.

Now, this is maybe twenty to thirty hours a week, and then after that, with most owners, we have them on as consultants for the next couple of years so we can bring them in an hour at a time. In other words, we don't leave anything to change. With everything you're bringing up or I bring up when I'm going in to buy a business, I correct. I don't let it just sit there.

Again, all the things that all of you bring up are very important, but what's going to happen is once you get in the business, most of the things disappear.

Michael: We're now into the section, specific questions for Art and his methodology. Art, what is your profit formula, down payment, going in, cash flow and timing your sale?

Art: Okay, timing the sale is as soon as possible. Normally, we're going into buy a company, we're talking about closing maybe in three months or four months. We are normally asking for a sixty day due diligence period. It also takes time.

In other words, we're going to go in there, and we're going to be negotiating for two, three, four meetings before we go to letter of intent. So, maybe that's a week or two, and then we're going through a sixty day due diligence period, then you normally have another period from contract to close. So, you're talking about three months, maybe four months as far as the close.

The down payment is as little as possible. If we're going in to buy a business and we're bring investors in, and again, we're going to bring investors in to the whole thing, so we don't really have a down payment formula.

We're going in and we're working with say a manufacturing company. We have been the experts in leverage buyouts and that's what we have done for years, even for the last few years when we've had investors, we've done a lot of leverage buyout.

A leverage buyout is nothing more than getting the owner to provide financing, maybe 30-40%, and then financing the assets the rest of it. If you buy the business for the right price, and I don't mean magic price, I mean market price, and we get owner finance, normally, you can finance the assets and get the owner financing, and cover 100% of the cost of buying the company.

Now, that is not nothing down. That's 100% financing, and what will happen is the magic numbers will come up to 50%. If we're bringing investors in, we're giving them 50% of cash flow. If we're going in and getting owner financing, and if we're also getting asset financing on a manufacturing company, we're normally giving 50% again, and this is not a magic formula. This is how the arithmetic works out, and has been for years.

In fact, I don't care where I work on the planet, whether they're doing a leverage buyout in England or they're doing it in New Zealand or they're doing it in Australia, it usually goes up to about 50%.

For more exclusive interviews on business, marketing, advertising and copywriting, go to Michael Senoff's HardToFindSeminars.com.

Michael: Art, I've heard that it's best to own a business in a field that one is very passionate about. Does this also apply when one is buying a business using your methodology?

Art: Well, I don't know about that. I have never been passionate about any company that I've ever owned. All I've been passionate about is making a certain profit and keeping the profit up and that's been my passion.

But, if somebody came along and offered me a good price for some business I owned, I would sell it. I wouldn't even worry about. There's not the passion there, and again, passion is something that read about or hear about with these people in the electronics industry or the people in the internet sites, but when you meet them and talk to them, there may be a passion there before they do it, or even when they're starting and getting this going, but I've met a lot of these people over years. I used to live in San Jose, California, and owned a couple of companies, and all I can tell you is I don't see the passion that you're talking about.

Again, I see the passion for running the company and things like that, but they're usually pretty cool people.

What you have to do is do find something you like. If you have a job right now, there's a good chance that you hate your boss, number one. Number two, you hate the business you're in, so when you go out to look at a business, do not start with a business you're in.

You say, "Well, I have experience in this." That's fine. That's going to be great. Now, if you go out and try to get a loan from the Small Business Administration, and you don't have experience in that business, unless you fudge it, they're not going to guarantee the loan on the thing.

Now, if you're going out to buy a business from someone else, say from an existing owner on a business like that, then you're getting owner financing, and you're getting bank financing and stuff like that, you don't have the same thing coming up.

Michael: Greetings. I purchased your seminar in cassette form that was recorded in the '70s. Is that information still applicable today?

Art: You know, I talk to people about this. I even talked to them back in the day of the seminar business. People always say to me, "Have you updated it? Have you changed things?" I say, "Well, you know in the beginning we put it together. We had a tax section in it, which changed all the time, income tax."

We then took that out and since then, nothing has changed. I always tell people, "If you're ever in California or any other state, and I'm working on a business deal, and you'd like to come in on a meeting, keep your mouth shut. You'll notice that we do the same thing today that we were doing fifty-some years ago."

There is one way of doing it that works all the time. This is the way we do it. If there's other people out there doing it some other way, I'm not even aware of that because we've been in our own little area for all these years. All I'm saying is if you do it our way or the way we're suggesting, you're going to find it works.

There's no magic to it. It's a nice, very simple thing, but the key thing is we have not had to change it. It hasn't changed. We do the same thing over and over again.

Now, if somebody would come up with something different or something that worked a lot better, we'd do it, but that hasn't happened.

Michael: How relevant is the information you provide to be able to buy a business in a country other than the USA?

Art: I have been working with people all over the planet for years, and I haven't had any of them come back and tell me how something is different.

When I used to give speeches all the time, I would say, "Look, I don't care where you try to put a business deal together, this is the way you do it. I don't care what country you're in. If you go to Mars, I'm sure it's the same way."

How many ways can you do something? We have one way of doing it. We're buying a business. We do it a certain way. It works every time. Are there other variations that you can use? Probably. Why don't we use them? Why make it more complicated? Why get a headache doing this?

Besides, we may have even done some things differently 53 years ago, but ever since we've been in the seminar business, I'd say 40-some years ago. I'd hate to tell you we started that many years ago, especially since I'm 37 now.

Michael: That's right, Art. You're young. All right, Art, would you ever buy a business if they did not have a list of customers or clients to give you?

Art: Okay, the customer list or client list or whatever you want to call it, the key thing that's always a problem with new people buying a business. They want the customer list that they can check out before they close. It's not going to happen.

Should you be able to check with customers and make sure everything is real? Yes. Will they give you a customer list before you close? You do realize when you go to the customers what you're going to do in a business, don't you? You're going to screw it up because the word is going to get out with all the customers the business is for sale. They're going to be looking for other people they can do business with. The business is going to lose customers and business, and you're probably going to get sued by the seller for screwing up their business.

Yes, you should have that customer list before you close. Will you ever get it before you close? You will run into a stupid seller every now and then, but the average goodness seller is never going to let you do that. Again, once you sell your business, don't' let the do it either.

Again, it's an either/or. You're saying, "My god, well, how can we do this?" Well, there's a lot of situations that come up in business where you're trying to buy it where you can't go with the stuff you want to go with as a buyer because the seller knows if you do take that step, then even if the deal goes together, the deal has just gotten screwed up.

Michael: How do you utilize today's technology and online platforms to do your work versus the old days?

Art: Well, first of all, we didn't have platforms in the old days. The platform we had was the platform out on the loading dock that the trucks backed up to so we could load.

Everything you see today with the internet, there's all sorts of companies out there that are expanding their business at a fantastic rate, faster than they ever did before because the ability to advertise the product or have a website that sells a lot of their products, and you also have to have people on the payroll and people you hire that do that.

In the old days, we didn't have the people working for us that were in TI or things like that. Business was not that complicated, but it has gotten more complicated today, but even for a person like myself, when I owned a business and we've had websites – believe me I had nothing to do with putting them together.

I could barely get to them, but again, I was still able to run these companies effectively without that knowledge. Again, everything is changed now including the terms that's why I was making the joke out of the platform thing because there's a lot of technology that the young people use that is a lot different than it used to be, not that it's not better.

Michael: Art, do you have any suggestions on how to persuade one's wife that buying a business is not a crazy, off the wall idea?

Art: If it's not your wife, it's going to be your brother-in-law, or it's going to be your mother, your father. I don't remember ever talking to anybody that didn't get a lot of harassment from wives, brother-in-laws, mothers, fathers, telling them not to do it. You're a bum. You'll never make it. You can't make it in business. You don't have the following.

I can't remember how many people told me over the years – I've had this happen a number of times as I hit different stages of size of business that I couldn't do it. We always did it. Of course, I never went back and tried to correct them on it.

The thing is interesting. Mom and Dad are going to give you a hard time. Your wife is going to give you a hard time. Once you get into that business that you're making all that money, that name they called you a bum. Your wife called you a bum, or you're never going to make it, or mom called you that. As soon as you start to make the money, they're going to hug you and tell you that they told you all along that you could make it, including your wife.

Again, you're going to say, "Well, my wife wouldn't do that." Well, you buy that business and start making that money, and she gets to go out and spend it, and she will never even remember telling you that you couldn't do it.

Does everybody run into this problem? Yes. The only people that don't run into problems with the wife are the ones that aren't married yet. So, for those of you that are waiting to get married, wait.

Michael: That's funny. Okay, Art, what deal was your profitable and how did you determine it?

Art: Any business that you want to make the most money with the least investment is going to be the service business. One of the businesses that we made a lot of money in was the seminar business over the fifteen year period, but you see we were in a number of other businesses. I don't even know how many companies we had at the time.

We owned a lot of businesses that we were buying, but at the same time, we were in the seminar business. We had five business brokerages. We had two or three merger and acquisition offices. We had two or three finance company offices. We had two consulting company office. These are all support organizations.

How many people did we have all together? Hundreds of them. How much did we make? We made millions of dollars. How much? All I can remember is all the things we were going through at the end of the year trying to cut down on the taxes we were paying.

If you talk to my CPAs, I'm sure they can tell you all the fun we had trying to do that of all these things that were coming along. I think of the windmill projects and the solar panel projects with all these tax benefits. Did we ever save money on those? I don't have any idea.

There's some of them I can't talk about on the air, but we paid our taxes, and we also made a lot of money. I don't know how much and I don't know what our profit margin was because it sort of grew like topsy. In other words, we had people getting out that couldn't get financing. We had people that couldn't find businesses.

So, we basically, since we had so many people going through our program, we just went into the business. We figured if nobody else will do, we'll do it for ourselves.

Michael: Have you bought any art galleries, and have you seen any art gallery financials you could share with me?

Art: Yes, I spent quite a bit of time working with a good friend of mine up in Carmel, California who has the largest Henry Miller collection in the United States, and he has art galleries there.

The last time I talked to him was in that area either six or seven art galleries, so I was very familiar with the financials on them. I was also very familiar with what we working on doing on these things, and how we were marketing these. He had something like $20 million worth of art, Henry Miller, which is pretty good stuff.

In fact, I think we have three or four of them on my wall here in my home, and again, at that time, those things were going for four or five thousand each. They're probably up to ten or fifteen thousand now, quite an artist.

Michael: Was he selling them through his gallery?

Art: No, he didn't sell just that through his gallery. If you went to the Henry Miller galleries, if you're up in Carmel or out at Pebble Beach, they have a big one out of Pebble Beach, and there's one in Carmel.

There's one in Monterey. There's three of them down in Big Surf. They're all over the place, and that's just one thing he handles.

Michael: What kind of margins are there on that?

Art: On Henry Miller, I have no idea because this was privileged information only he had. I know what he sold it for, but I did not know what his cost basis was.

Michael: So, he had an arrangement with the artist.

Art: Henry Miller lived in Carmel. Gary was a good friend of his when he was still alive. So, he got the rights to take it over, and he has the biggest collection in the US, and then the biggest collection outside the US for Henry Miller is in Japan, but I have experience doing that. Have I owned an art gallery? No, never, I know nothing about that, but I was able to help Gary working with him.

Michael: How much money does one need in order to pursue buying a business with investor money? For example, money allocated for travel, etc, to meet the seller, business plan writing fees, CPA and Attorney fees, fees to pay Art's hourly consulting fees and then necessary money to put as skin in the game into the business in order to win over the investors, how much total approximately?

Art: Depending on the size of the business, but in the beginning, I always suggest you buy something close because you're going to feel more comfortable even if you're working absentee.

For those of you buying the larger companies, I work with a number of people that their first time in buying a large company making over a million dollars, and a number of them over the years have bought companies all the way across the country on their first deal.

Of course, I tried to talk them out of it in the beginning because of the cost because you're flying back and forth, and you're spending a lot of time and money out there doing this.

I can not predict what it's going to be because it's going to depend how close or how far you are. If you're going to do this locally, and you have to drive, you're talking about tanks of gas, and not staying over or anything like that, but if you're going back to the east coast, you're talking about thousands of dollars.

Now, this is incidental compared to what you're going to have to invest in the business. So, again, it's going to depend on the size of the business. It's going to depend on whether you're working with investors.

There used to be a lot of deals out there where you'd be putting in very little because the investors would be coming in. Ever since we've had this prime equity fiasco in the United States, a lot of the buyers have become very antsy on that. In other words, they really don't like nothing down or very little down on these.

In fact, the other example is just say you go out and try to find a business, and you're going to get SBA guaranteed financing. The SBA will now go up to 90%, so they'll guarantee 90% of the loan, but as I told you, the big problem is again, it's hard enough to get owners to carry back financing, but if you're trying to get an SBA loan and you tell a seller that they have to keep 10-20% because the government tells them they have to. I haven't had this come up yet, but I can imagine how they're going to react to that, and that problem.

On those, they're going to require 20-25% down. You're not going to get away with nothing. Again, it's going to depend on where you are in the economy, what your background is. In other words, when I'm talking about investors, I'm talking about them getting antsy about ones that don't have money and also don't have experience because there's three things I always used to ask people.

They'd come to me and I'd say, "I have to ask you three questions. First of all, do you have any business experience? Number two, do you have any management experience? Number three, do you have any money?" Now, if you don't' have two of these, you're screwed. You're dead. If you don't have money, we can probably do it for very little as long as you have management experience and you have business experience.

The thing is if you come in, and you have money and you have some business experience and no management experience, you're still going to have problems with it.

All I'm saying is you have to think of those three areas they're going to look at, everybody is going to look at. The government is going to look at. How much business experience do you have? How much experience do you have in management? And, the third thing is how much money do you have?

You can get around a lot of things, but the biggest problem is trying to get around the money thing. So, it's going to depend on which way you go.

Now, if you don't have a lot of money, one of the easiest ways to go, probably the easiest is a leveraged buyout, getting owners to provide financing on a certain thing, and then financing assets.

Again, if you're financing equipment, accounts receivable and inventory, people usually aren't asking for financial statements, so you're not running into that. They're not asking you for how much down that you're putting in. So, on leverage buyout, this doesn't come up very often.

With the investors, this does not come up until recently. Does that mean that none of the investors will never work with anybody with nothing down or very little down? I have no idea until we go out and check it, but again, I think it's really going to depend on if you don't have a lot of money for the down payment, how much experience do you have in that business, how much management experience do you have.

Michael: Art, do you run multiple businesses at one time? If yes, what is the most number of businesses you have had to run simultaneously and how do you do it?

Art: First of all, we were in Mexico for fifteen years. By the time we got done in Mexico, we had seventeen companies in Mexico. We also owned six other companies. At that time, we owned 23.

I'm trying to give you numbers I remember. Now, in the beginning, we got involved in the restaurant business. We had that small hotel in Modesto, which was a mistake of great proportion. We then got involved with a pizza chain. We built a unit in California. We then took over a number of other ones.

At the end of one year, I think we had ten of them because we had taken over ones that were in trouble. We then had somebody buy our little dinky stupid motel selling franchises. We went into the franchise business with a company called Continental Marketing Institute.

We sold franchise companies. One of them we took over was one on the east coast, a hamburger business. It had twelve units. We were having trouble getting them to do anything because we had sold a number of franchises in California, so I bought that company and we had twelve. So, that gave us 22 restaurants.

At the end of two years, we had thirty businesses. I don't remember the other ones, but those are the keys. How did I get involved with so many? I was absolutely insane at that time. How do I know I was insane? Why would anybody that's an engineer, that knows manufacturing get involved in restaurants? You have to be really stupid.

Somebody was asking me before today, did I do any stupid things? The first thing I did was getting involved in the restaurant business. At that time, I said to myself, "I'm making about $50,000 a unit profit. In order to make a million, I'm going to need twenty of these. So, I'm going to have twenty crazy managers, restaurant managers not making very much."

It dawned on me I can buy one manufacturing company making a million dollars, and have only one person reporting to me. From that point on, we got in the manufacturing business. For those of you thinking I just made that up, that's the actual true story.

Michael: Great. I got one more question. It's a long one. Before the recent economic collapse, I bought your course and additional consultations from you, and put in a great deal of time looking for businesses to buy here in greater Los Angeles area.

I did everything exactly as you instructed. I found many businesses available to buy, but none that met your perfect deal criteria. If the business could be had for four to five times earnings, it had some major flaw that would disqualify it with your investor, and if it had no major flaws, the owners insisted on seven to eight times earnings.

I possibly could have eventually found the perfect deal, but I couldn't afford to keep putting in the time to search. Along the way, I met other people experienced in buying businesses who told me the reason that I couldn't find the perfect deal was that the market for small businesses had evolved in the last twenty years, and that there is now a lot more money chasing these deals than there was before resulting in prices being bid up.

From your perspective having bird dogs all over the country, you may still have perfect deals brought to you simply because of the huge volume or searching that's been done by people wanting the backing of your investors or by people who have known you for decades, but for a new person to this game and having to earn a living while looking, doing enough searching to financially stumble over a perfect deal seems unrealistic – not impossible, mind you, but unrealistic as a practical manner.

I'm expecting your initial response to this idea to be something, "Like, well, maybe this isn't for you," or, "I do have people who are winning with my system." Well, with so many people trying it, someone is bound to get lucky.

Don't get me wrong. I'm sure your system works every bit as well as you claim, when you developed it many years ago, but you yourself told me that Michael Senoff's customer hadn't brought you even one qualifying deal. You attributed that to the quality of his customers, but could it be also that the environment your system was designed to handle has changed?

Art: No, obviously you have been talking to business brokers, and the relationship I have with business brokers is known far and wide. When you talk about the multiples being between four and five, what you're talking about is manufacturing companies, and those are the things that we had set up.

Again, if you go out in the real world, what you're going to find is that is what these businesses are selling for. Are there ones out there that are selling for seven or eight? Yes, there are, but all I can tell you is I have to continually working around the world and I keep running into the same thing, businesses at four and five times net.

Now, as far as having perfect businesses, the rules that we have for investors are not set up by me. In other words, I didn't set these up and say, "Okay, investors, we want you to invest a million dollars in a business with somebody that has little or no money, and we don't want to have any rules."

What happens is over the years, we've had investors, and again, they keep changing them. They keep making them tougher and tougher. In the beginning, it was just me working with the investors. They have toughened them up. I don't even know if I qualify any more.

So, if they appear to be perfect, it's just that they're putting up a million dollars. Over the years, they get more and more nervous, so they ask for more and more things.

Now, if you weren't able to do this with us, it's very simple. Go out and find a business, get owners to finance it. Get them to carry back 30-40%, which is a normal thing. In fact, your broker friends will also tell you that they can get owner financing, so you can get 30-40%.

What's going to happen is if it's a manufacturing company, you can finance the assets. You don't need my help to do that. You can go out and do that on your own. You can do it right now, and although you think the world is against you, again, I don't know what to tell you.

All I'm saying is instead of getting angry about this, what you ought to do is go out and try it again. You don't have to go out and use my help. What you do is go out and try it. Go out and try spending four or five hours with each seller.

First of all, find a business that's priced right. I've been in the business longer than you have, and I know what the price on businesses are. You're working with brokers obviously, but if you go out in the real world, you're going to find a lot of businesses priced at this level.

Again, you're in California, just one business by itself. Go to all the businesses in the category you're looking for, and find out what percentage of them are in the category of seven and eight times multiple, and you're going to find if you go back and check with the brokers, they've had those damn listings for fifteen years, and that's why the price is so high.

Why are there a lot of them on the market that are twice that level? Because those are the ones that don't sell. Those are also the C-corporations that don't sell. What you want to do is find one that's priced in the right category.

Also, if you want to try something else from an arithmetic standpoint, take the businesses that the brokers tell you are up there at eight and nine times the EBITA, and try to put them together arithmetic wise. Try to make the arithmetic that the broker has set up for you makes sense so that after you provide the seller with financing and you also finance assets, how much cash flow do you have left?

The arithmetic does not work out. They're also going to tell you that owners normally carry back financing for five years. Back in the days when I was teaching, the first thing I would always start off with is by showing everybody that five years financing doesn't work because every time it screws the damn buyer. How do I know that? I don't know maybe eight years on the fraud committee for the department of real estate.

I'm sorry you're upset, but what you ought to do is instead of just going through life and being upset with me, take my picture and throw darts at it, and at the other side, take yourself and go out just for the heck of it, even though I'm probably wrong and find a business in this category.

Take your time. You don't need any help. You already know how to do it. Go out and do this. Get the owner financing. Get a manufacturing company so you can finance the assets. Don't go after service and retail.

What's going to happen is you'll find it working. I don't know what else to say.

Michael: You don't give up. You keep going.

Art: I hate to tell you how many times I have been turned down on deals, or how many times I have had rough periods things didn't work, and also, off the record, Michael. I can't tell you some of the stuff I've had problems with people, not from California, but from other parts of the country where over the whole time I worked with them, they did the same thing after the same thing. The reason they couldn't make it work is they wouldn't listen.

Also, the biggest problem I've had over the years has been the fact that people still get hung up on C-corps. They want to buy a C-corp.

Michael: What's negative about a C-corp? Why don't you want a C-corp? What's the problem with that?

Art: You can't buy assets in a C-corporation, what happens is C-corporations are taxed twice. They had a thing called (inaudible) doctrine that was wiped out in 1986 tax reform, and before that, what would happen is when you had a C-corporation, you'd have to sell stock.

So, what happened is if you try to sell assets, they would tax you on it twice, which is what they're doing today. Now, up until 1986, when you were running the company, you paid taxes twice in a C-corp. When you were selling your company, through 1986, you only had to pay tax once.

So, when they sold assets, it was no problem. Today, what happens is they pay tax twice. So, what happens is they tax on the assets, if you try to sell assets in a C-corp. Your tax comes to 60% of your gain.

Michael: Sixty percent of your gain?

Art: Yes.

Michael: Wow.

Art: Sixty percent. Now, from a buyer's standpoint, the problem is when you buy stock, your liability goes back to day one of the corporation. If you buy assets, your liability starts when you take over.

Michael: Can a C-corp that wants to sell, change their corporation status and then sell?

Art: Yes, over a ten year period, but what happens is it's then pro-rated. It's different state to state, but normally it's pro-rated ten years. In other words, even if you do it after five years, you're going to get some benefit, but you're still going to be hit with a heavy tax on it.

Michael: Your advice would be anyone out there looking at businesses, if it's a C-corp, just don't even look.

Art: But, I have not been very convincing with some people over the years that have spent a lot of time. I mean, may have spent the first year working on C-corps. If I can't convince them and they want to keep spending the money, that's their problem, but normally what happens with people like this, they run out of money before they get anything.

Michael: How did they think that they were going to do it? They were willing to take on the liability, but investors aren't going to touch it.

Art: You can't finance it either. Also, if you have an attorney that has been to law school and has been back at all, and got more than Ds in class, they would never let you buy a C-corp.

What happens is – let's take an example. There's a company that a number of them got stuck on. It's a large company in Denver, Colorado, and they have lots of listings.

A lot of their listings are C-corps, and the reason they're C-corps is they can't sell them. So, what happens is they put these beautiful packages together – I mean, you'll love the packages they put together. So, what happens is when you go to them, they have an ad in the paper. They're on the internet. You go to them, and if they figure you're a flake or you don't have any money, or you don't impress them, they send you one of their old packages. They figure what the hell do they have to lose.

Maybe if some stupid person will buy it. I then have to fight with them, the person that you and I are working with, to convince them to back off of the damn thing.

This is the end of Part Six of the Art Hamel Teleseminar. Please continue to Part Seven.

For more interviews like this, go to HardToFindSeminars.com.

This is the beginning of Part Seven of the Art Hamel Teleseminar.

Michael: Hi, Art, I want to hire you as somebody to mentor or coach me on buying a business and pay your fee from the business after the purchase. What do you say to that?

Art: I have people all the time offer that, but you see, what would I gain for that? Why would I do something like that? I can go out and buy the same business you're going to buy, and instead of having a fee – let's say it's making a million dollars a year, and the investors take half of it.

Instead of getting a few fees at say $150 an hour, I can go out and buy this business and I'll have an income in the same period of time. It'll be faster than working with somebody new. I'll have an income of $500,000. That's if we buy a small business.

So, although I've had a lot of people come to me over the years and want to do this after the fact, if you don't have the money now to go in on it, what you ought to do is do it on your own.

In other words, find a manufacturing company, and get owner financing. Finance assets, then go out and buy the business without the mentoring, but I don't know anybody that's been in business very long that's going to do it after the fact. But, a lot of people do ask, but try something else.

Michael: Okay, if I buy your home study course, can you be my mentor for life? For example, if I encounter some problems in the buying process, can I call you for help?

Art: People call me all the time, but the thing is on the home study course, I really have nothing to do with that. Michael does, so maybe you can get him to be your mentor for life, but as far as business, I have people that went through the seminar. Basically, back in the seminar days, we used to give everybody free help until they bought a business.

I have people from the seminar today, 25-30 years after they went through the class that are still calling me on different things that they're buying large companies.

I really can't tell you that on the home study course I would be your mentor for life just based on the home study course. Again, if you call me for problems in the business, I would do it for a fee.

Other than that, think about it. How many people in any field can you go out and because your bought their book or something like that, and they're showing you how to get into the internet business, and you run into a problem. You can't call the university, and you can't call the person with the book.

So, on a home study course, I'm sorry but I can't be your mentor for life.

Michael: Art, so we have a new policy for some of the students who want to work with you. Why don't you just describe what it is and how it became?

Art: Let me go through this in detail so everybody will understand why I'm making the changes, and also, I don't want them to get the feeling that we're not going to be working with them anymore. It's just that – well, I'll explain as we go through it.

The main thing we wanted to talk about was the refund of the $150 an hour fee. Now, forty years ago, 35 years ago, we were in the brokerage business. We had developed different things to use, so when people would come to our office, so we wouldn't waste our time, we'd charge them $150 an hour. Then, when they bought a business, we gave them their money back.

Again, that worked very well, so we started doing this, and work with people. Even though we were doing something different, we weren't really in the brokerage thing. I decided to use $150 an hour because we had used that 30-some years ago, and I figured that would be fair.

The thing that I screwed up on is I then added that we were going to give the money back, and I should not have done that because I believe it's caused problems. Let me just explain that.

We always go through these different programs at the end of each year, and again, we went through this and again it wasn't until February when we got to the point where we made a decision on what we were going to do.

So, this $150 an hour fee, I'm refunding it when you buy a business. We'll continue to do that for anybody that came in before February of this year, but after February of this year, we will not be refunding the money at the close of escrow.

Now, we're always talking about a buyer having a little skin in the game. When we give a buyer all of their fees back, they have no skin in the game, and again, it never dawned on me. I mean, I just picked $150 an hour a couple years ago when I was working with people coming out of your program, Michael, but I should not have added that we were going to refund the money because what we did is we went to people and said, "Okay, you can come in. We will help you buy a business, and you have no cost. You have nothing out of your pocket. In other words, anything that you put up, you're going to get back."

So, what happened is they really didn't have any skin in the game. Again, the reason I think they came in the beginning was how could they lose. There was no cost involved.

Now, I never expected to work with buyers that had $10 million to buy a $10 million business. Most referrals I work with have little or nothing to invest. Then, they needed investors to take up the slack, which is what we did. We went with the investors.

Now, what happens is u p until February of this year, also, the second part of this is the investors wanted me to stay as long as they stayed, which is five years. The investors that come in, they get paid every quarter and then at the end of five years, they get their money back plus a percent of the upside.

So, at the close of escrow since they wanted me to stay, I received a warrant option, whatever it was – I'm not an attorney. What would happen is I could get out when the investors got out.

Now, although I seldom mentioned it, more investors said yes because I left my ten to twenty percent of the business in the deal. Now, why would investors do that? Well, if you're basically coming in from the program, Michael, and say you were able to buy a business, and let's say I was receiving a fee. I'd be receiving a fee of ten percent of the business. That was our deal all the way back to day one.

What happens is when I'm coming in and I'm taking something in kind, that's always been the rule in every business I've worked on, and that is ten percent cash, and if you want me to stay, I'm getting stock. I get twenty percent. So, the investors thought it was all pretty good because they figured even though the buyer is coming up pretty much a little, I was leaving my ten to twenty percent in the deal. So, that was offset the nothing or very little from the buyer.

Also, every seller and investor worries that if a buyer doesn't have any skin in the game, when a problem arises, they'll walk. Now, think of the current subprime real estate mess. This goes on all the time hearing about real estate.

I have people come to me and say, "How come we don't read about that in business?" I keep saying, "It happens more often in business." It's not something you're going to put on the business page. So what? A buyer went in and didn't put much money in and then something went wrong? He just walked away. That's what's happened.

Now, they knew I wouldn't walk, so number one, they had ten and twenty percent of my money in the deal. They also knew I wouldn't walk, so the investors said, "Okay, 35 years ago," now, when we first started, maybe it's 40 now, the buyer for many years with me, Arthur Hamel, only, we only started working with buyers a couple of years ago, and did not change the rules. I should've set it up at $150 an hour, and not refund the money. That was basically my mistake at that time.

So, just to review, the $150 an hour will not be refunded at close after February of this year. Also, I get cashed out at the close of escrow. Just think about it from my standpoint, I don't want to wait five years. I'm over 75 now about to turn 76, and I may not need it when I'm over 80.

So, think about it from my standpoint. I would like to get my money out now. I've been waiting for five years on these other deals, and I really don't want to do it anymore.

I also want people to know that in June of this year, I'll be raising my fee to $200 an hour, non-refundable. I'll continue to raise it by $50 an hour every six months until I turn 80.

Michael: It'll also encourage the students to maybe do a little homework on their own.

Art: I know, but you see, I just finished up with somebody that didn't rely on me very much which was very good. You can't find anybody Michael that's ever come to me through your program that I did not push all the time. In other words, quit calling me on the small stuff. You're running up your bill. You're spending too much money.

If it wasn't non-refundable, I think they would've thought more about it, not that $150 an hour is a lot for what we're doing, but I think it's going to help.

Michael: I think it's a good idea. I think you're going to have better qualified and more serious students, and $150 an hour for your experience and your advice is peanuts. It really is.

Art: Also, I will not work with any buyers that do not sign a contract. In other words, if somebody comes to me and they want to wait, again, I used to offer this up – either at $150 an hour, or you put together the business and the business plan and the offer to purchase and bring it to me when you're done, and I'll look at them and see if I can do something, but you would have to pay $150 an hour.

The problem is just recently, I had a deal after the other person had spent months working on this and because of certain conditions in this business purchase, I couldn't work on it under no circumstances.

So, I basically had to back out. The buyer was not very happy with it, and also, I wasn't because I was giving up a very large fee in cash as a matter of fact, but did I have to do it? Yes.

So, that's one of the problems you have also when you decide to wait until the end. I couldn't do it anymore because I don't want have somebody being disappointed.

The initial meeting fee that we've talked about, that was always non-refundable, first meeting, payable in advance. That will not change. That will always be $150 an hour. That's non-refundable.

Michael: The initial $150, and then in June, up to $200.

Art: That part will always be $150. We're not going to raise that. That's just to talk to me. I just wanted to spell one thing, number one, I am not retiring. I will continue to spend most of my time with businesses for my account using my wonderful investors' cash because they are there. They've been there a long time.

Again, I said Michael, I enjoy working with you, so I just wanted to explain this.

Michael: Hello, Art. Here is a challenge for you. I'd like to see you solve it or somebody beat this one. I'm a sixty year old male, very intelligent, and I've been around. I'm a former real estate investor, bought and sold 392 residential properties, all with no money down. In fact, I came out of closing with cash each time I bought a home.

When Clinton came into the White House, he did his thing and I and many like me bit the dust. I ended up going bankrupt. I was hurt in an accident and currently are receiving Social Security disability, and have about $500 to my name.

I can run a company. I was just about to jump back into real estate, and of course I do have the skills to succeed, but I loved to see you help me buy a $20 million company instead. Lou.

Art: Well, can you go out and buy a $10 million company? Yes. There's two ways we normally work with something like this, if you're going to, Michael, and that is we're going to charge you $150 an hour. We help you while you're doing it.

The other way to do it is go out and find that $20 million business, and just tell me that's what you're going to do or tell Michael that's what you're going to do, or $10 million business.

When you get to the point where you have a business plan finished and you have a contract, then contact me. You will not have used any of your $500.

Michael: Art, does your course focus on buying online businesses? If so, what would you consider the major points to buying a successful online or internet business?

Art: Okay, first of all, one thing I'd like to tell you. I have found this in 53 years of doing this, and that is I don't care what kind of business you're buying or where it is on this planet, it's always the same. So, whether you're buying a manufacturing company, or you're buying an online business, the negotiating part is the same.

Now, the thing you have to realize is when you're going out to buy an online business, it's a service business. So, one thing you're going to run into, a major point is going to be the fact you're going to have a hard time in the finance stage because you don't have assets to finance.

You're also going to find there's a lot of people out there that selling that don't want to carry back any owner financing. So, unless you have money, you're going to have a hard time putting it together.

The other thing you have to worry about, on some of them, is just the competition because you can get in an set up an online site for about 43 cents or maybe less, which means everybody else out there is competing. Again, you're going to get on there. You're going to buy this successful online business, but there's a lot of other people out there that are trying to do the same thing, or they're competing with you.

The competition in the online business is horrendous, and there's no way to protect yourself because what's going to happen is somebody else is going to come along and say, "Boy, is he doing well. I'm going to go out and do the same thing. I've got 24 cents or 43 cents to do this also."

I'll give you an example today. One of the problems on these businesses like this, the business is not going to be that large, probably price wise, but in the past, a lot of people with service businesses like this would go to the Small Business Administration which would guarantee a certain percent of the loan to go to the bank and get a loan guaranteed by the federal government.

Well, they've changed that now, and the thing that's called goodwill, the government will not go over $250,000. Now, what happens with an online business, you're going to find that you have two orange crates and two pens, which means you have a total equipment, hard asset of 43 cents in this company that you have.

You're going to find the rest of the price is going to be goodwill. So, you're going to find you can't even go out and get SBA financing on this things. So, all I'm saying is I don't now if you should be going out to buy one, or maybe you should be starting one because when you're out there and you look at these successful online businesses and they give you the information on it which an owner will have to to sell it to you, what the average person is probably going to do, and maybe you should consider doing, get the information and go out and form your own online business. You can get it around the problems and do it a lot less expensive.

Michael: Are there any outstanding books or other training programs that you would recommend for buying businesses?

Art: When we first started, there was nothing out there, and the only one I know – Richard Parker, who I know pretty well. He's in Florida. In fact, his corporation, if you go on the internet, it's Diomo Corporation.

So, if you go on the internet, you will find information, and he sells books. I don't know if he has a training program or not. He's also a business broker, so I don't know what your feelings are on business brokers, but you always have to be careful with business brokers. I have never had any negative feedback on Richard over the years.

Michael: Do you have transcripts or recordings of your old TV and radio shows that we can learn from?

Art: I hate to say do, transcripts, recordings. We have video of the times we were on the TV shows, and we have them in storage. Have I ever looked at them or gone back on that? No. Should I? I'm going to do that. I'm going to go back and see what we have, Michael, and I'll check back with you, but give me until May sometimes.

Michael: If you get them all together and mail them down to me, I'll get them digitized for you.

Art: We talked about this a couple of years ago.

Michael: I'm just wondering, did you send me something?

Art: I did send you something. I think I sent you the one hour training program we had on television.

For more exclusive interviews on business, marketing, advertising and copywriting, go to Michael Senoff's HardToFindSeminars.com.

Michael: Okay, Art, your course seems a bit over my head. What material would you suggest I use as a primer before I get into your material? Kind regards, Kyle Bolt.

Art: I just want to tell you something. I started teaching 40-some years ago. I hate to keep bringing that up, but it's been a long time, and I have not met a person – and again, I've had people that didn't have an IQ as high as Gomer Pyle did or any of these other people on television that didn't have too much in the way of brain power.

All I'm saying is I don't care what you have here. You're going to find that this is not a problem. It's very simple. What you have to do is when you're going through the program is you have to go through each chapter more than once because it has nothing to do with an understanding.

This is not rocket science. You're going to find it's very simple. It's very simple to comprehend, but what you have to do is you have to believe to make it work. First of all, you have to believe that you can buy a business.

Once you come in here and go through this and have enough information, you have to take the main chapters on financing and finding a business – things like that. If you don't believe or you don't go out and make it work, you have to go back and read it again until it finally sinks in that this really does work.

Once you do that, you're not going to have a problem with it, and again, we came out with courses originally, many, many years ago, in all 40 some years of teaching and all the things we've done and education over the years, 40 some years, we have never run into that problem.

Keep in mind people keep coming back and saying, "This is tough." It is not tough. I say it's simple. Again, sometimes they get the words confused. It's not easy. It's time consuming. It takes time to go out and buy a business. It takes time to be successful, but the thing is if you put the time in, you'll find you can succeed every time be cause it doesn't take a lot of anything to accomplish this.

Michael: What's the prize? Let's say someone put the time in. It wasn't easy, but it was simple. They put the time in. They had to look at a lot of dogs to find that one business. Let's say they find a $10 million business, and it's manufacturing, and they're able to finance the business using assets. What's the prize? What are they going to end up with?

Art: If you buy a business and say it's a $10 million business, it's going to have a net profit of $2.5-$3 million, you're going to find out you need investors, and say you go in and finance assets. Arithmetic-wise, what happens is you end up giving up half the cash flow. So, on three million dollars, you only have a million and a half left for you and your family.

Michael: A million and a half a year, and that's with investors.

Art: No, that's a million and a half that would go with you. That would be with investors, but it would also be if you finance assets.

Michael: That's true. That's going to be the same whether you finance the assets or you use investors.

Art: What we preach is if you don't have 50% left, there's something wrong with what you're doing – either you overpaid or something along that line. Please don't come back and ask me why it turns out to be 50%. Even though I'm an engineer, I never bothered to figure it out.

Michael: So, either way, you're going to end up with a million and a half a year.

Art: To you, to start. Again, then you're going to come back to me and ask me, how much should you pay yourself in salary? No matter how you work it, you're going to have complete control of your company, and you're going to find that that three million dollars is going to be sitting in the bank right from the beginning – the first year, anyway.

So, if you wonder whether you should pay yourself $100,000 or $150,000, don't pay yourself anything. Draw a million and a half out of the company. In other words, if it's a million and a half, I say you can draw out a $100,000 and some a month, if you and your family can live on that. That's to start.

If you have management in there, you'll have more than one company which is what we do. We buy multiple companies.

Michael: Is there a preferred way to draw an income from a business that you own? Do you just pay yourself a salary? Is that the standard way, or is there a better way to do it?

Art: Pay yourself a salary. You pay withholding. You pay matching withholding. We normally are forming LLCs today. It's basically a partnership. So, there's no taxation in the company itself, in the corporation.

So, what happens is the people that own interest in this company get a return monthly, quarterly, whatever it happens to be. They pay the tax outside the company in their own income. So, what happens is, again, you can pay yourself a salary, but I don't know why you would do that.

What we do is just give yourself a job. Pull money out every month. Pull it out hourly. It's your company. You have the checkbook.

Michael: When you pull it out, you're pulling it out as a salary though, or are you borrowing against the company?

Art: No, I'm not doing either. I'm taking my money out, profit that I have from the company as I go along. So, I'm going to have say a million two a year – that's going to be my profit. If I want to leave some of it there to expand the company, I might do that, but if I'm pulling it out, I could pull out $100,000 a month. By pulling it out, I write a check to myself.

What happens is the government comes back April 15th, and says, "We want to pay tax on that."

Michael: Right, you personally will pay tax.

Art: You will pay the tax on it personally. I don't call it a salary because most of the time, I'm not running these companies. Since I'm not running the company, someone else is drawing a salary and running it. That's why I keep telling people I have not had a job in fifty years.

Michael: That makes sense. You own it. You're not running it. So, it's not really a salary. You're the owner. What do you call that? Is that earned income, or just income tax wise? What do you call that?

Art: It's profit from a company. It's a profit you're making on the business. I own this corporation, and this is the profit I made last year. I made $1.2 million. The other $1.2 went to paid for the loans I had on the company.

Michael: You think about your first year if you got a $10 million company, and you're going to profit a million and a half, and ask yourself, it takes a lot of work to go see a lot of businesses to find that one that's going to work. Look at the profit you're going to come out with. If you really knew you could do it, you can invest a million dollars just to find one company.

Art: Okay, but the person with a million dollars is going to want a $50 million company or a $20 million company. The reason I know that, I've worked with a lot of people that have purchased the companies, and they're in the range of say $10 million. When they come back again, they don't go after another $10 million company. They go after something larger. This is something we do as human beings.

Michael: You've always said that the larger it is, the easier it is to do. Why is that?

Art: It's like working with investors. The reasons I like investors to have over a million dollars, the ones that have under a million dollars are petty little jerks. What they want to do is they want to get a 500% return every year on their $100,000 or $200,000.

We tried a six month period a number of years ago, to work with people that had less than a million. At the end of six months, after almost having a nervous breakdown working with these people, we decided that we would never do that again.

People that have over a million dollars to invest are usually looking for a normal return, unless they go to Madoff – whatever that guys name is. If you want 12%-15%, or 25%, you go to him. Actually, the return you're going to get on your business is going to be more than he offers, and you're not going to have to have a ponzi scheme to do it if you do it legitimately.

Own a business, pay your taxes, hire a good CPA, so every year he can figure out what you can do to minimize your taxes.

Michael: As you're doing this and you're looking at a business to get a CPA, an attorney to ride along with you, can you explain that?

Art: Well, in the beginning, even today, a lot of people come in to buy a business and talk to me or don't' talk to me that don't have a lot of money to invest, so they're trying to go after a little donut shop. What you have to do is realize you have to build a team in the beginning.

First of all, you can't buy a business, I don't care how good you are, if you took an accounting course or two in school. What you have to do is you have to hire a good CPA because somebody is going to have to check the books, and you need a CPA that has business knowledge.

You have to have one that has gone in to check books of companies when somebody is trying to buy it. You don't buy some guy that handles divorce taxes or something like that. You need somebody that handles that, and then once you buy the business, this CPA will end up working with you.

Now, say I'm in California, and I have a CPA in San Jose. I've had him for years. I still use him although I'm in southern California now, but if I'm back – like, right now I'm working on a deal in Columbus, Ohio. I'm not going to have my CPA fly back there. I'm going to find a CPA there. I can not use a CPA from the company because he's been doing the books, and I can't say I'm not going to trust him, but I need somebody new to go in and check the books out. So, I will find a CPA in Columbus, Ohio.

After we close on it, he will end up my CPA, and again, when you're buying a multi-million dollar business, and you go to a CPA, he's looking at you as, "Wow, I want this guy as a fantastic new client."

The same thing with attorneys, when you go to them, you say, "Well, god, they're probably going to say, 'I want a retainer,' and all this other." You're not doing a very good job if they ask for a retainer because I've had this come up year after year in the seminar business and after the seminar business.

I keep telling them, "Tell the attorney, tell the CPA that you'll pay them at the close of escrow." If you're going out and having somebody do a business plan for you, tell them you'll pay them at the close of escrow. It's not big deal.

Now, will some big corporations give you a hard time? Well, if they do, you ought to talk to another person that's higher up in the company and explain to them what type of customer you're going to be.

If some attorney just starting gives you a hard time, it means you're working with the wrong person because every CPA, every attorney out there is trying to drum up more business, and if you're bringing them an account – let's say you're buying a business at $5 million, $10 million, $20 million, that's a hell of a big account. They're going to kiss your butt.

So, go out there and get a good attorney that's handled business transactions, not some divorce attorney. Get somebody good, somebody you like. You don't want to work with somebody you don't like or you don't trust.

As you go out there, again, you're going to keep thinking people are going to reject you. All I'm saying is over everybody over the years comes to me – not everybody, but most people – come to me and say, "I'm getting all sorts of negative reaction." I say, "I've been in business for years. In the beginning, I had so many people telling me I couldn't do this. I couldn't do that, and you know what? Even today, as we expand and do different things, I have ne'er-do-wells, where people say, "Oh, that'll never work. We can't do that. You can't do that."

I don't listen to them. Why? Because they have never been right, because I am always determined. When I go out to look at a business deal, if I fly to Columbus, Ohio, I'm not going to go back there to see an Ohio State game, especially since I went to Penn State and we kicked their butt last year.

All I can say is the best opportunity in the world is not going to some hedge fund, is not going any buying real estate so they can tell you what a great investment it is.

The thing you have to think about in this world is not equity. You have to think about cash flow. What you have to do is take your life and say, "Okay, I'm going to buy a business. I'm going to buy a larger business." What you have to do is convince yourself. Don't get discouraged.

It has nothing to do with race, creed or color. It has nothing to do with your age. It has nothing to do with your weight. I don't care what excuse you use for not succeeding. If you were talking to me, I would never let you get by with that.

The problem is some of you don't listen. So, if you listen to the program or you're listening to me, you say, "I'm not going to do it that way." Well, all I can tell you is I've been doing this for years, and all I can tell you is there may be a lot of other ways that are easier and better than what I tell you do.

All I can tell you is this works. All the other things are just going to give you an exercise. So, instead of doing that, put my picture up. Get a dart board out. Throw darts at my picture. Everytime something goes wrong, a broker gives you a hard time, throw a dart, and just keep in mind your goal is to go after that business and buy it. Don't let anything discourage you.

You're going to have times when things are going to go well. You're going to find three or four in a row or ten in a row that are pieces of crap. Let somebody else buy those, because they're going to suffer.

What you do is take your time, and buy something good and don't let anybody discourage you because every one of you can succeed doing this. I don't care where you are on this planet. I don't care what excuse you have. Your excuses are not valid.

All you're doing is you're coming up with reasons to cause yourself to fail, and again, a few years from now 30-40 years from now, you'll look back and you'll say, "I've succeeded." No, you didn't. You're a failure. Why? Because you didn't go out and take advantage of the time you have right now in your life. Take the time to buy a business. Your life will change completely, and this dollar figures, these nets we keep talking about I know are unbelievable, but who do you think owns all these companies. Nobody? Hello?

For more interviews like this, go to HardToFindSeminars.com.

Thanks for listening. This is the end of Part Seven for the Art Hamel Teleseminar. Thanks for listening.