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Insider Secrets From One of America's Best Business Brokers

Michael Senoff's
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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 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

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Insider Secrets From One Of America's Best Business Brokers About

The Only Way To Buy Or Sell A Small Business In Today's Economy… And Make Top Dollar

Most small business owners have no clue how to sell their businesses. They either hang on for far too long and essentially miss the best time to sell or they shortchange themselves on the deal by using outdated methods for selling that fail to showcase the true value of their time and effort.

But in this three-part audio, you'll hear how to make all the right moves, straight from one of America's top business brokers. He gives a step-by-step inside-look at how to take the same "Wall Street principles" large corporations use to attract the right buyer, and apply them to your small business.

You'll also hear exactly how to research, find, and buy the best small businesses – even if those businesses aren't currently on the market!

Part One: Selling A Main St. Business Using Wall St. Practices

Roughly 60% of businesses on the market today won't sell, and that may have something to do with the traditional "fire, aim, ready" approach most people use to sell them. They do everything backwards by listing their businesses before they analyze the marketplace and determine their place in it.

But in Part One, you'll hear how they do it on Wall St. to make billion-dollar businesses look good on paper, and how to easily adapt that to your Main St. transactions. You'll also hear…

- A five-second exercise for finding the exact person most interested in buying your small business *or* what type of business you should be most interested in buying
- The three classifications of buyers in any market – industry, financial and sophisticated – and what each could mean for you
- All the "insider" secrets about the way most business transactions are actually financed – and how knowing those basics will give you an edge in the buying process
- The three areas of any business you should enhance in order to get top dollar – and a real-life example of how one young woman was offered $165,000 for her no-assets, right-out-of-college small business (but instead decided to enhance these three areas and ended up getting $1.25 million from a sophisticated buyer – in just 6 months!)
- A very simple tactic for using the current economy as a way to attract sophisticated buyers

Part Two: The Most Effective Way To Find And Buy A Business

Most business owners think they'll be able to sell their businesses on their own when the time is right. But the biggest problem with that picture is that business owners tend to hang onto their businesses long after they've taken their foot off the gas pedal. Fortunately, there are strategies for getting to them before that happens, and in Part Two, you'll hear what they are.

You'll also hear the only way that works to approach owners of businesses not currently on the market and get them to sell including…

- How to write a well-crafted non-threatening letter that will get business owners interested – while also letting them know you're not just another BS-artist
- Exactly what you can expect to pay if you enlist a good business broker to run searches for you
- A play-by-play account of the important meetings you'll need to set up with a potential seller – what you need to make sure they bring to the table and what you're next steps should be
- The only three questions you'll need to ask to determine if a business-buying deal should go any further
- How to identify the areas of opportunity in any business

Part Three: A Quick Overview Of The Business-Buying Process

Every successful business has two people behind it with two different sets of skills – an inside guy and an outside guy. The trick is in recognizing which skill set you have, and in matching it with a business's needs, or vice versa. And in Part Three, you'll hear how to do that. You'll also hear…

- How to increase the value of a company without increasing declared earnings
- Actual case studies that illustrate the best ways to use acquisitions to make a company instantly more valuable before selling
- The three things you need to know about any business to determine its profitability
- A quick look at how to use an IRS field guide to calculate a company's worth
- An easy three-step plan for getting the most from selling a franchise

The typical real estate model will never work for buying or selling a business because most business owners want to keep their sale a secret – and the typical real estate model requires an average of 60 potential buyers touring a property before a sale can happen!

But fortunately, there is a much more efficient approach that works. And in this audio you'll hear how to make the kind of amazing (yet low-key) deals you've probably only heard about after the fact.

Michael: Hi. I'm Michael Senoff, founder and CEO of www.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's largest 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.

Michael: How did this all come about? Is there some kind of event that happened in your life where maybe you owned a business, you worked a business, and it was time to sell it and you couldn't sell it and you wanted to figure out how to do that?

Bill: Basically, I guess I have an attention span of maybe 20 years. I was in the insurance business for almost that length of time, and either it changed or I did. It was time for me to move on. I drew up a list of criteria. I asked what my new business would be, because I had no idea what I wanted to do. By making this list to get myself to recognize my perfect business, I found a business that did not exist here in the northeast when I went into this business of selling businesses.

Michael: That was the business you wanted to create for yourself, to be a business broker?

Bill: No. I had no idea what I wanted to do. All I knew was I didn't want to be in the insurance business anymore.

Michael: Were you a broker in the insurance business?

Bill: Yes, I was. A very good friend of mine was in the insurance business with me. He said if you want to find something and are unsure just what it is, it's not unlike going to the airport to meet somebody coming from afar. You can stand there with a sign, or if you have a description of what they look like, you can probably recognize them when they get off the plane.

So the same thing is to try to figure out what you want to do next, because George had been in the business selling insurance the same as I was, except he left and he went and bought a farm, an apple orchard up in northern Maine. I said, "George, how the heck did you do it?"

He was explaining to me that you have to make this list of the criteria, description of what the ideal business for you would be. Don't try to put a name on it, and so I did. One of things I wanted to do was to be in a business with people who would be better off, because I was there and wanted to be in a service business. I wanted to be able to have weekends free. I wanted to work 9-5. I wanted to serve the business community rather than retail community and so forth. The list went on and on and on.

By creating that list, I recognized business brokerage fit everything I wanted to do. In 1979, I became a franchisee of VR Business Brokers.

Michael: VR Business Brokers?

Bill: VR, yes.

Michael: So you bought into a franchise?

Bill: I did, yes.

Michael: What did it cost for a franchise back then?

Bill: Oh, golly, I think it was $7500.

Michael: Okay, so when you made that list and you were looking for businesses that would fit that criteria, was there anything else that you were considering besides business brokerage?

Bill: No. That rang the bell.

Michael: Okay, so perfect for you, so in your mind back in ’79, you saw business brokerage. How would you sum up what this business is going to be like for you? If you were to describe to someone who didn’t know much about business, what would you say to them? “I just got into a new business,” and tell me what you would explain to them exactly what you’re going to be doing in a nutshell.

Bill: Well, I was going to help folks obtain the American dream. Out of a very large percentage, 20% of the population at any one time wants to be in their own business, and it’s very hard to find a good business or even to know what it is you want to buy, so I saw myself as a catalyst for positive change to help people exit their business, and at the same time, put new blood in and have it just continue.

Michael: Where do you base that off of when you say 20% of the American population have dreams of owning their own business? I believe it, but could it be more or could it be less, and what’s the other American dream? I guess everyone dreams of having their own home, right?

Bill: Yes.

Michael: Do you think that's more so than everyone dreaming of having their own business or about …

Bill: Yes, I do. I don't think everybody wants to have their own business. It's kind of scary. In fact, you know you're on the right road when everybody tells you you're crazy.

Michael: Okay, so you're a VR Business Broker, you've bought into a franchise, what area were you covered with for the franchise?

Bill: Central Massachusetts. I was based out of Worcester area, Shrewsbury, Massachusetts.

Michael: How many franchises did they have at the time?

Bill: About 30.

Michael: 30. Was the business brokerage franchise something new in '79?

Bill: Yes.

Michael: Were they the first?

Bill: Yes, here in New England. Business brokerage was strong on the west coast and down through the sunbelt, but it didn't get into the middle of the country or eastern seaboard until, I'd say, the middle '80s. In fact, we spent our first two years saying to people, business owners, that, "Yes, in fact, you can sell your business. I know you don't own the real estate, but you can sell your business. Let me do that for you," so we learned a lot in those early years.

Michael: Tell me about your very first client. I'm sure you remember your first deal.

Bill: It was a coffee shop located in a town hall.

Michael: How did you get it? Tell me this story. You're now a business broker. How did you get that first client? Do you remember?

Bill: Well, I had a staff of 6.

Michael: What did your staff of 6 do?

Bill: I sent them out to knock on doors and tell people, "Here we are. We're here to save the day."

Michael: So they knocked on any business door and they walked in?

Bill: Yup.

Michael: What was their pitch? It was new back then, but what did they basically say? "Are you interested in selling your business?"

Bill: "Are you considering selling your business?" Yeah. What we found out, business owners don't want anyone to know they're considering selling their business and that businesses have to be sold under rules and conditions that do not apply for anything else that I can think of. #1: The business owner doesn't want anyone to know it's a sale. #2: Neither buyer nor seller nor their advisors have any real clue as to what the business is worth.

A buyer's potential opportunities, they don't really know what they want to buy, but as we hunt, they'll know it when they see it. Third parties refuse to gratify the wisdom of a person by participating in the financing. You can't finance good will. It's against the chatter, and the list goes on.

In summary, "Sell my business, but don't let anyone know it's for sale. Get me the highest price, and I don't have a clue what that is," and I guess you're going to have to sell to somebody who doesn't know if they want to buy it. That's how weird the situation is, but after a period of time slugging it out, I found out that the way that most everybody does business brokerage is wrong. It's not effective.

How can I say that? Well, look at the results. Business owners on their own attempting to sell their business on their own are successful only 2% of the time.

Michael: What's a traditional way a business owner will try and sell their business?

Bill: First off, the expectation is that whoever accepts, sell it. Only 20% think that they will be selling their business. The majority think they'll be turning it over to family or employees. Between 50 and 65% think they're going to transfer their business to their family. Only 15% do. 30-24% think they'll sell it to employees; only 5% do. Now 10% think they'll sell to outsiders or competitors, and that's about what happens, but of 100% that should be sold, only 40% are sold. That's a terrible, terrible thing, and if you take a look down at the bottom numbers, they'll sell for less value when they sell to competitors. I can tell you that selling to a competitor is the worst thing you can do usually.

Sometimes it's a good thing, but the overwhelming majority of the time, selling to a competitor is not unlike selling your assets. You don't get much of a goodwill price. You don't get a premium value. You would totally understand that, but it's because part of the value of a business is synergy, that, "Gee whiz, you can teach me something I don't already know. You have a secret sauce. You're already in the business."

Michael: Yeah, you reduced the intangible assets.

Bill: Exactly. Exactly. Right, so right off the bat, 60% of businesses do not sell, and those who are charged with selling it are only successful between 14-25% of the time.

I was bragging at a party one time. People ask, "What do you do?" I say, "Well, I sell businesses." People want to know about that, so I had an audience and they were still interested, and so I went on to explain that business owners selling it on their own, 2% of the time. If real estate brokers get involved, they're more successful; they're about 5% of the time, and that's based on surveys by *Business Brokerage Press*. Then if a business broker is involved, between 14-25%, and yours truly is at the top of that list; 25% on average. Yay, team! So everybody was happy. I got my congratulations.

On the ride home, my lovely says, "Is that true? You sell 25% or better of businesses that you list for sale?" I said, "Yes, dear. It is." She said, "Oh, my God. No wonder you're working so hard."

Michael: That's great. Okay.

Bill: That's what happens when you marry an intelligent woman. You don't always get the answers you want, but anyway, I said, "Son of a gun. She's right. Something's wrong with this picture."

Michael: Oh, so you really were working your ass off?

Bill: Oh, for sure.

Michael: You had a staff of 6 still at that time?

Bill: At that time, we were up to around 20.

Michael: 20, so what was eating up all your time?

Bill: My time was training the staff and running the deals.

Michael: Training them how to go out there and approach business owners?

Bill: How to do it, and I developed a firm ... Let's say I had two divisions; I had my merger and acquisition, [inaudible 00:10:13] division. I had my Main Street division. My M&A guy, Brian, came to me from Merrill Lynch, because he went through a reorganization. It wasn't working, and they couldn't afford the management team they had put together, so the top two guys came to me.

Michael: From Merrill Lynch.

Bill: No, from VR.

Michael: Oh, from VR. You mean their whole franchise deal was kind of falling apart?

Bill: Yeah.

Michael: Are they still in operation?

Bill: Yeah, 4 or 5 Rs later.

Michael: Are they the biggest one out there?

Bill: No, no. They're down to only 40 or 50. They were up to over 300 at one time, and then it all came unraveled, but the important part of the story is that they did attract some wonderful talent. In my mind, the top two talents they did attract was Bob, who came from Merrill Lynch, where he was in charge of mergers and acquisition of private companies. Then the other fellow was John, a wonderful friend who turned out to be like a brother. Unfortunately, both of those gentleman have passed.

Michael: So writing up all the deals and training your staff was eating up all your time, and you were really working hard, and so you wanted to change that, right?

Bill: I wanted to find the right way, so what I basically did was to re-engineer, start at what we had at the closing table and then how soon in the beginning of the process can we have that? I wanted to be a teacher as a young fella, but being the oldest of 7, I couldn't afford to go to college, so I guess I'm more of an educated salesmen, although I made my living selling. Then again, that's the most effective salesman [inaudible 00:11:47] anyway.

Here's how it happened. Bob, Brian and Merrill Lynch, they're business brokers. They just call themselves investment bankers, and they deal with the larger companies with multi-millions. I said, "Okay, now how effective were you in selling businesses?" "Well, I always sold essentially everything."

What we basically did was spend a year and a half, maybe two, changing the Main Street methods to be more along the Wall Street lines. We made Wall Street methods, the effectiveness of Wall Street, appropriate on Main Street. What is the difference, you ask? I'll tell you what the difference is.

Most everybody, including business owners, because you don't know any different, you don't have a model to go by, is Fire-Ready-Aim. That's the real estate model. As you list your business, I'm going to market ... Fire. Bring in the buyers … Aim. Okay, now that we have the buyer, we have a deal, let's do the inspections and so forth to sell it … Ready.

That doesn't work. What works, as you can tell, it's Ready-Aim-Fire. Ready means, "Let's stop the charging bull. Let's wait a minute. Let's take a look. What is this going to look like if you do go to market? What kind of value can you get?" What you have to do is to build a system based on the reality of the usual marketplace that business is sold within. If the buyer doesn't know what he wants to buy and nobody knows what the right value is and everybody wants the best value or the best price, it starts with nobody is a round ball. Nobody is equally distant in all directions. When you're good at something, some are not good in others. The best price is paid by the best buyer. Only the right buyer will pay the right price.

These are all things that you can rattle off, but what does it really mean? It means that when you're selling a business, the reality is the buyer doesn't want to buy your business anyway. They'd really rather have their own business, create their own, but it's a little safer to buy one that's already going. So what are they really looking for? What's the motivation?

The motivation is that not unlike adoption, you want to adopt something that you can shape into yours. You don't adopt a kid who has just graduated Harvard summa cum laude and has a wonderful job opportunity on Wall Street. That might be the best financial decision, but it doesn't attract a motivation.

Michael: Like a home. Some people like to buy a fixer-upper so they can fix it up rather than …

Bill: You start from scratch.

Michael: Yeah, so you found this is a real common denominator of business buyers. I want to know the mindset of the average business buyer, and that's really important.

Bill: You have to understand the motivation or you can't satisfy it. First you have to change the firing order. It can't be Fire-Aim-Ready. It's Ready-Aim-Fire, so what's the ready? The ready is as soon as these owners don't know what their business is worth, we don't know what kind of a buyer to attract. What we have found out is that the range of value that a particular business can demand is astronomical.

Michael: Well, how do M&A guys establish the value of these multi-million dollar companies? Are there not any formulas, or are there multiple formulas, or is it all just BS objective?

Bill: There's a formula for every day of the week, and part of the problem is that financial professionals go to college and other schools and are educated or trained in the public company protocol, not private company. They have trained Wall Street protocol, not Main Street. I can't tell you how many MBAs, PACs, JDs, etc. that went through my business and through my company working with me, that in the families that took, I may have an MBA, but I tell you, you give me an MBA on Main Street, I'll tell you that, it's a whole different world.

Michael: Are there a lot of brokers out there using the public company formula for evaluating Main Street businesses?

Bill: No, but there are a lot of accountants and CPAs who are, so that we bring a deal, they bring it to their accountant, and their accountant says, "Wait a minute. This is only one-and-a-half times earnings. That's not enough. It should be …" whatever.

Michael: And he's basing it on Wall Street evaluations.

Bill: Yeah, he has no idea what's going on. That's not a slam to the accountant. It's just the reality. Public companies, it's like you can find out everything and anything about the company about their earnings, except for maybe their proprietary formulas. Private companies are just the opposite. You don't know a damn thing. You're not going to find out. It's none of your business.

Public company CEO has to keep the books to impress the stockholders to increase the value of the stock. A public company CEO is more interested in the value of the company than the earnings, although they're important. Private company owners have no clue as to what the value is, and they focus totally on earnings. On the other hand, it doesn't do the private company owner any good at all to show a big profit. In fact, they get penalized showing a big profit.

Michael: Okay, so yeah, that makes sense. If a private company is penalized, they want to keep their profits as low as possible to avoid more taxation, right?

Bill: Exactly, and there are legal and not-so-legal ways of doing it. One of the main reasons that people buy a business is for the earnings, but the owner of the company and financial team are working as hard as they can to minimize earnings. How many things are sold, where the owners intentionally disguise major benefit of a purchase? It's just one of the elements of why buying a business is different than anything else and why the process has to be different. The process really has to be a more controlled one.

Ready: Let's make sure we know what we're doing. If only the right buyer will pay the right price, then how are we going to determine who the right buyer will be, and we do that, and I'll take a minute to explain. I mentioned a round ball, equally talented in all directions. Well, you own your company. I own mine. You're good at some things. I'm terrible at others and good at something else. Your company and mine will reflect us, will reflect our talents and our skills, and we'll be able to take it just only so far. Then even because we don't know how to or we don't want to, we're not going to take it any further.

Let's say we start by profiling the companies, what got you where you are. But more importantly, where are the areas of opportunity. What haven't you done yet? What haven't you done well? Envision a bell curve. At the top of the bell curve are all the things that you do well, and on either extreme are the things we either don't do or don't have a clue, are the areas of opportunity.

The way we define who the new owner or the new CEO should be is to reverse that profile so that now the areas on the extreme are the top of the bell curve, and the areas that were the top of the curve for the existing ownership are things the new CEO can maintain but can add something to it so that the new guy comes in, looks at the company and says, "Whoa! Why aren't they doing this? Why aren't they doing that? I got all the right things, the wrong … I'm going to fight hard for this turkey!" People can be excited. You don't buy a company because of all the things that were right.

Now, yes, 12 people at our business, you're going to get how many answers?

Michael: 12.

Bill: One of them is a spike answer, way up high. Wow! Now that's an intelligent person. These are all intelligent people. They're spending their own money. Why is this one so high? Well, because this person recognizes the most opportunity. Any perception of risk is lower.

Michael: This high price is what a seller wants to sell for or what?

Bill: No.

Michael: What a buyer wants to pay?

Bill: No. You just ask 12 people. This is business. What's it worth?

Michael: Okay, gotcha.

Bill: And one of those answers is a spike answer, typically. It's a spike answer, not because the person is a damn fool with their money, but because they see the most opportunity, and therefore they perceive the least amount of risk. Your accountant will tell you that capitalization rate are a multiple. The higher the multiple, the lower the percentage of risk.

Michael: It's worth what someone's willing to pay for.

Bill: Right. It's someone who sees the most opportunity who has the highest and best use for it will voluntarily pay the highest price.

Michael: Okay. As a business broker, does that come into play when you have a strategy for listing your business, what price you're going to list it at?

Bill: Well, that's why the first set is ready. There's basically three classic cases of buyers in the marketplace, and each group of the three … actually, there's four, but for private companies, there's essentially three.

Okay, there's the industry buyer, and the industry buyer is the guy across town with a business just like yours, and that's where most people go. They say, "Look, Joe, I'm thinking of going to Florida. I've had it. How about buying my company," and Joe's going to say, "Sure, no problem," and he focuses on the assets. He doesn't need that truck, because he has a better one, and he doesn't need that forklift, etc., so he buys selective assets. "Hey, what about your customer list?" "So what about your customer list? If you're going to go to Florida, I'm going to get them anyway." That's the base value.

Michael That's about as little as he's going to get, because the customers are where the real value is, but he's not going to give you anything for the customers. He's just buying your assets.

Bill: You got it.

Michael: Okay.

Bill: The second type buyer, let's call the financial buyer, and that's the guy who's looking to buy a job, willing to pay a fair price, and here's how that works. They're willing to put into play anywhere from 75-100% of what they can see what is earnings as their initial investment.

Michael: Give me an example.

Bill: $100,000 a year.

Michael: Gross or net?

Bill: Net.

Michael: Okay, so this is what the owner's taking home. This is the profit.

Bill: Right, that a buyer will be able to discern.

Michael: All right, so if a buyer sees a business, and it's making, what's our example? $100,000 a year?

Bill: Hundred, right.

Michael: They're willing to invest about $70,000?

Bill: As a down payment.

Michael: As a down payment.

Bill: That's typically a third of the person's price, and they're looking for a seller to verify the voracity of the business by taking the paper on the balance. That would sell for, let's say, $210,000 or $200,000 with $70,000-$80,000 down, on average. A typical small business with earnings of that magnitude, that's about what you can expect.

Michael: What was it, 70% of the first year's earning?

Bill: 75.

Michael: 75% of the first year's earning.

Bill: 75-100 is the down.

Michael: And he's got to put that money down, and the business owner gets that money. That's good-faith down payment.

Bill: Right, and the balance over a period of usually five years.

Michael: Is it ever longer than five years or usually five?

Bill: Oh, sure. Oh, sure.

Michael: So you could finance it however you want.

Bill: Well, no, because you're going to go to the bank, and you're not going to get a dime.

Michael: Oh, the bank isn't going to give you anything.

Bill: No. It might, depending on the type of business. Now, if you're a trucking company, the assets may be worth more than the cash-flow value.

Michael: Okay, so you're giving the example of maybe it can be a manufacturing, but typically you're looking at mainly service businesses this model, where there are not enough assets for a bank to finance it for the buyer?

Bill: Our assets, the bank's not interested in, and most small businesses do not have assets the banks are interested in.

Michael: What kind of assets are the banks mostly interested in, where they're going to be able to help finance it? Machinery?

Bill: No, not really. Things that can be used outside the business, and that's generally rolling stock.

Michael: What about cash flow and receivables? They can't finance receivables?

Bill: They can, but not to a significant degree, and so the bank will come in for the receivables. Let's just say in this particular instance $25,000. How much of that are they going to finance? Now it's almost 200 or 150 hanging out, and the bank is going to take first position. Why be behind a bank who's putting in 25 and have his 150 subservient to …

Michael: Is this the model of how smaller businesses are sold all over the world? It's usually financed by the business owner with a down-payment.

Bill: Yeah. They have, in operations, there was one period in the 90s, where the recipe came with a low-doc, a no-doc, a liar-doc. It didn't have to prove anything and didn't have to put up any collateral. Didn't have to do a darn thing, and they would give out money. Those days …

Michael: Are gone.

Bill: … shouldn't have been, and hopefully they won't ever come back, because nobody won. Everybody lost. Not all, but to the kind that I just described.

Michael: Okay, so typical model: Down payment 75% of the first year's earnings, and then it's financed by the owners. Are owners okay with that, or are they comfortable with that?

Bill: No.

Michael: Why?

Bill: Well, because what else do you buy or sell that you don't get all the money?

Michael: What if they stop making the payments?

Bill: If they stop making the payments, they don't want it back.

Michael: So from your experience, across the board, owners aren't real excited about that deal?

Bill: No, and they blame the business broker as the messenger.

Michael: They blame the broker.

Bill: Yeah, so here's what we've done to help alleviate these. I mentioned a little while back I wanted to be an educator. I ended up being an educator. My job is to teach folks how to buy a business and sell a business. It starts with what is the reality of the marketplace? Well, the first step is not Fire-Aim-Ready. It's Ready-Aim-Fire.

The ready is let's take a look at what our business looks like in the marketplace. What kind of buyers can we attract? If all we can attract is the industry buyer, because you get full value, it's less than your assets, that's going to make for an easy sale, and it may not even be made.

What can be done to enhance the value of your business before we go to market? There are a lot of things that can be done to make a company more valuable besides making more money. How you make the money so that the margin maintenance and things of that nature are clarified, documenting the concentration of customers to minimize the perception of risk that any one customer controls the business, etc. There are a lot of things that can be done to enhance the value and not have to make any more money.

Michael: Were you different from other business brokers, where other business brokers will just take the listing and try and hustle the business and just make your margins or whatever their commissions were? You would take a business. You knew that your bread and butter was the price that it sold for, and the higher dollar it sold for, the more you made, so you would work with these businesses from the beginning, getting them prepared to get their highest dollar before the sale occurs?

Bill: Actually getting them prepared to sell.

Michael: Oh, prepared to sell, period, and prepared to get the highest possible dollar that they could.

Bill: Exactly, but now you see, motivation wasn't always the highest dollars. Motivation was, "I want my family legacy to continue. I don't need a lot of money from the sale. I'm going to Cape Cod to be near my family and my grandkids. I made my pile. I don't need a lot from the sale of the business, but I want to put it into the right hands so that when I drive by the company, it's not a boarded-up building."

Michael: So focusing on the dollar amount was maybe more important to certain sellers than others, but the main thing was getting it ready to sell.

Bill: Well, yeah, and so the first step is, "Okay, let's take a look at the marketplace. Now the third type buyer is what we call a sophisticated buyer. The sophisticated buyer, he's been schooled in public companies, thinking he'll rely on a CPA for advice and so forth, and rightly so realizes that the value of a company is not necessarily found in its current earnings but what the expectation of future earnings are.

Now the financial buyer looks at future earnings as something that things go up, and they expect they will, that's money they've earned, and, "I'm not going to pay you tomorrow's price today, because it's my efforts that's going to make the company more valuable, so I'll pay you for what you've got on the table now."

Michael: So this is the attitude of the sophisticated buyer?

Bill: That's the attitude of the financial buyer. The sophisticated buyer expects to pay tomorrow's price today. Their evaluation formulas take projections into account.

Michael: Is this formula, the Wall Street formula for example, the website, Facebook, okay, how the company is worth billions of dollars but it's still not making any profits, but it's all based on evaluation of …

Bill: Based on future earnings and projections, etc. Right now, that same dynamic might work to your advantage on Main Street. Let's take a company that we used as an example that had the $100,000-worth of earnings.

Michael: Let me ask you this. Can you give me a real example that would fit this model, of a business that you sold, 1 of the 2000?

Bill: Real case study: A young lady, her dad called me. He'd just sold his company maybe 6 months earlier.

Michael: What kind of business was it?

Bill: I forget what his was. I'm sorry. This is a good example. Her dad called and said, "My daughter owns a nice little business that she started right out of college, and she's been approached by somebody who wants to buy her out, and she thinks she'd like to take it," but because Dad was familiar with our 3-step approach, Ready-Aim-Fire, he said, "I want you to take a look at her company for her and advise her as to what the values of her company are.

Michael: You don't remember what her business was?

Bill: Oh, sure. Yeah.

Michael: What was it?

Bill: It had virtually no assets. You know how you go into Wal-Mart and there are people standing there handing out samples?

Michael: Yeah.

Bill: That's what her company did. They provided a table to hand out samples.

Michael: Okay, so they were like a little employment agency for that.

Bill: Kind of like, yeah.

Michael: All right, and then was it making some decent money?

Bill: Well, yeah. She started the company right after college, and every year she'd set her goals and she either reached or exceeded her goals. She had a well-written, well-thought-out business plan and approach attack. The problem was she wanted to do everything, and here's where you get a little shaky, because you can't do everything.

Michael: What kind of money was it making a year?

Bill: Well, about $165,000.

Michael: She was keeping $165?

Bill: That was for her. That was for her.

Michael: Okay, $165,000. Dad calls, "Can you look at her business?" So you look at it. There's no assets whatsoever. Total service business. What did you do for her?

Bill: Well, we came back with our first-phase report. The type of person that she was dealing with was somebody already in the business, and we predicted that they'd be willing to pay about $165,000. However, if we went for the financial based on what was happening, we could go for $450,000.

Michael: So she was looking at a competitor, and she was going to get her lowest price from that industry competitor, so you advised her, "Forget that guy. Let's go for someone …"

Bill: "Here are the other two choices you have."

Michael: Review the other two choices.

Bill: Choice two is the financial buyer, someone who's looking for a job. We predicted they'd be willing to pay about $450,000.

Michael: And the other one was the …

Bill: Sophisticated, and we predicted they'd pay something in the range of $750,000. However, she was in a position at that point to attract the first and the second, the financial and the industry, but she had to do some work before she could attract the sophisticated.

Well, she had to have a semblance of a business, a structure, systems controls, and that's just that. Systems controls, maybe hire somebody to do some of the things that she shouldn't be doing anymore.

Michael: Yeah. Was she a sole proprietor? Was she incorporated?

Bill: She was sole proprietor.

Michael: Sole proprietor. She had no systems written down or anything.

Bill: Well, she had her business plans, but she didn't have systems in place.

Michael: Yeah, so in case she died or something, the business could continue.

Bill: Right, so Dad said, "I'd be happy to help my darling daughter put those things in place." Within 6 months, they had everything done.

Michael: So you told them exactly what they needed to get done.

Bill: Yeah.

Michael: Just give me 3 of the top things that they had to do that anyone listening who has a business, in case they died, that the business would die. What are a couple things that you need to keep in mind? What did you instruct Dad to tell her to do?

Bill: Well, Dad was in business for himself and had a very well-organized company. He understood that you have to have a corporate memory. You have to have systems. One of the things they did was develop an operations manual so the next person in wouldn't have to ask where the light switch was without using the policy manual and to hire someone to take care of the accounts receivable and payable. That's something that she shouldn't be doing anymore and things of that nature, to replace herself, to make herself as unimportant as possible.

Michael: Right, so the sophisticated buyer needs to see something tangible.

Bill: They want to buy a firm. They don't want to buy a job. They want to buy a firm.

Michael: Gotcha. That's really important. Okay, that makes sense.

Bill: Now in 6 months they have the job done. They call us back. By the time we sold it, earnings and the outlook for future earnings had improved, so instead of getting $750,000 for the business, we got her $1,250,000.

Michael: For a business that was only making her up to $165,000 a year?

Bill: Well, it was making a little over $200,000 when we finally came back.

Michael: How did you attract that buyer? How did you get him?

Bill: Well, there are more sophisticated buyers out there with the downsizing of companies, a lot at the top more than they are at the bottom. You have a lot of middle-management and upper-management people that are out there with terrific management and company-running skills that don't have a lot of money. They can't afford to buy a manufacturing and distribution company, but if they get an opportunity where they can take their management skills to the organization, etc. and still feel they can afford, "Wow! Yeah, sure. This makes a lot of sense."

Michael: About how many years ago was this?

Bill: Oh, 10.

Michael: 10 years ago, so you found a buyer for it. It went for $1,200,000?

Bill: $1,250,000, yeah.

Michael: What kind of down did she get on it?

Bill: Oh, she got 500.

Michael: She got 500 down, and then she financed the rest?

Bill: Yup.

Michael: Did the financing go good? Did they pay up?

Bill: Oh, yeah.

Michael: If they stop paying, is it all in the contract that she can take back the business?

Bill: Oh, for sure, in short order.

Michael: In short order. That's all structured.

Bill: Yeah.

Michael: So everything went good.

Bill: Yup.

Michael: You made a nice chunk of change on the deal. She got a ton of money for her business, a lot more than she would ever get with a competitor.

Bill: I don't think she would have gotten much on her own.

Michael: So your service helped her intellectually set all this up.

Bill: Well, it helped everybody. It helped her reap some reward for the life she poured into this business, and she virtually didn't … She didn't have a life outside of the company, so she had a heck of a job. She was a bright gal, but now she wanted a family, etc. Her employees all benefited, because the person who came in was going to take the company to a new level, and the person who bought it, "Wow. I found an entry-level corporation that I can take to a height that the current owner doesn't even know about."

Michael: Who showed you how to do this? Your mergers and acquisition guys from Merrill Lynch, did they teach this all to you?

Bill: The staff that I assembled. Several MBAs/CPAs, investment bankers, business owners. We all taught each other. It was a wonderful learning experience. It was exciting, because we're plowing new ground.

Michael: Right. No one else was doing the kind of stuff you were doing.

Bill: I didn't think they were.

Michael: Other than the big Wall Street guys?

Bill: Just for the big Wall Street … I found that there were a few others. I met a guy from Texas, who was doing very, very similar … The longer people are in the business of putting people into business, the more they switch closer to what we were doing. The only reason I was able to do it in a year and a half or two is because of the wonderful people I had on my staff.

Michael: What kind of commission do you make as a broker on a deal like that?

Bill: It depends on the size of the company, but let's say it's under $20,000,000.

Michael: Well, let's say that girl.

Bill: It would be a blended rate. Our rate was 12% on the first $500,000, 8% on the second $500,000, and then 6, 5, 4, 3, 2 on subsequent millions.

Michael: Does a typical broker make up to 10% on a sale?

Bill: Oh, sure. On small companies, it's usually 10 or 12.

Michael: 10 or 12%?

Bill: Yup.

Michael: Where did that benchmark come from, 10 or 12%? Was that just something that's been around, or who came up with that?

Bill: Well, I think it came from commercial real estate, because commercial real estate, for years, was 10%.

Please continue to Part 2.

Bill: Selling a business was originally handled as commercial real estate.

Michael: Do you have to have a license to sell a business?

Bill: In many states, you do. In many states, obviously, you don't.

Michael: You don't have to be licensed and regulated like a residential real estate agent?

Bill: That's the license that the licensing authorities want you to get, real estate license.

Michael: To sell a business as a business broker, you do have to be licensed?

Bill: With a real estate license in many states. It doesn't make any sense, but it's only because it looks like real estate.

Michael: There's a business broker I talked to. He says you need absolutely no license to broker a business.

Bill: He's probably right in his jurisdiction.

Michael: What about California? Do you know if California, you do?

Bill: Oh, California, you do, yeah.

Michael: What are a couple states that you don't?

Bill: Massachusetts, you don't. Maine, New Hampshire.

Michael: Let's say you're established in Massachusetts. If you're selling locally, you're okay. You don't need a license, but what if you're selling businesses in other states but you're operating out of Massachusetts?

Bill: Then you could need a license.

Michael: You do, so you've got to go through that whole real estate license stuff to be a business broker?

Bill: Well, yeah. I got one anyways.

Michael: Okay, that's a really good example. I want to go back to your first story, the coffee shop. At that time, did you have 6 people working for you?

Bill: I had 6 people, and we were bumping into each other, learning the hard way.

Michael: What do you mean by that?

Bill: Well, we thought we knew what we were doing. We were feeling our way a lot. This fella came in, and he had listed a coffee shop that was closed. All the stuff was there, but it was closed up, and it happened to be in the town hall and the landlord was the town. Somehow the owner came up with the number of $15,000. Well, we found a buyer who'd be willing to pay $15,000, and the selectmen were shocked.

At that time, our minimal fee was $5000, and they wondered where that $5000 was going, so they had a transfer fee of, I think it was $13,000, which basically told the business owner, the owner that … No, it wasn't quite that bad, but it was close to it. The selectmen wanted most of the money, so there wasn't much in there for anybody, but it was a learning experience.

Michael: What is, and what is proven to be your most effective way of finding business owners who are willing to sell?

Bill: Okay, that's always a problem, and here's why. I saw a focus group, who didn't really know what business I was in, and it was the first time we met. We were going to be at each other's offices over a period of 12 weeks. I was supposed to have a conundrum, a problem for the group to address. They started out in my office.

Michael: Help me understand. This is a focus group that started out in your office?

Bill: Yup.

Michael: The focus group was business owners, so you can determine the best way to get them to sell their business. Did you set up the focus group?

Bill: It was set up by [inaudible 00:38:57].

Michael: How many business owners were there?

Bill: 12.

Michael: Okay, so here's your focus group, and you're trying to figure out what the best way to approach them is, right?

Bill: My question to them was, "Were you to decide to sell your company, how would you go about it?" It was an eye-opener. The majority, all but 2, would do it on their own. None of them would do it through a business broker. "What? How am I supposed to make a living?"

Michael: What was the reason why?

Bill: "The business broker couldn't keep it confidential, and a business broker wouldn't understand my business. I have a drawer full of letters from people, who over the years, have told me they want to buy my company. I'd sell to the competitor across town," and a couple of them said, "I really don't know what I'd do," but everybody had an idea except using my services. It is what it is. My job wasn't to change their mind.

Michael: Is that attitude still prevalent today?

Bill: Yes. Yes.

Michael: Hasn't gone away.

Bill: No, no, and whenever we remember where we said the expectations, there's 80% expectation was that they were going to family, transfer to family or employees.

Michael: Yeah.

Bill: 10% said outsiders, 10% said competitors. Well, outsiders, maybe 10%, right, use a business broker. Here's what's wrong with the picture. When do you let go? Typically, business owners will hold on a little too long. Maybe 5% will sell while they're at the top of the game, and maybe another slightly larger percentage, maybe as much as 20, will sell as they're coming down, but they still have considerable value.

What business brokers run into all the time, the majority of business people they talk to don't have anything left to sell or not much. They've held on too long. They've taken their foot off the gas. They don't have it in them anymore, and they should have sold it two years ago. That dynamic is dramatically increased when there's a downturn in the economy like now. What's sad is that it's always a seller's market, no matter if it's a good or bad economy. Doesn't matter. In fact, a bad economy typically floods the market for businesses with more buyers than usual.

Michael: Are we in that right now?

Bill: Oh, yeah.

Michael: So you're saying there is a large amount of buyers looking for businesses now?

Bill: There's a larger amount of buyers looking for businesses in down economies than there is in up economies.

Michael: Because people are out of work and there are opportunity-seekers.

Bill: Right. They have to open something.

Michael: Back to the focus group. What else are you learning from the focus group.

Bill: Well, I'm learning that they don't want me/need me, and I'm going to have to get to them early on while there's still some value. I think the most important thing that business owners should know is that you can increase the value of your company without increasing earnings without showing more earnings simply by being able to identify and attract a better class buyer. That's one of the ways.

Another way, and this is part of the wealth building exit strategy program that I've developed. Unless you're in a down economy like now, there are a lot of companies that are getting by but not very well. The business owners have had it but don't want to sell, because they're not stupid; they're not going to get much for their business now. However, a white knight, in my experience in buying businesses that are not listed, buying businesses that are not for sale, when you approach business owners, the odds of being accepted are very, very high.

Michael: If there's people listening to our interview here and they're looking to buy a business other than going to a broker or looking for listings that you have, it would be ideal to find someone who has not listed their business for sale and ask if they're interested in maybe selling.

Bill: That's how I would do it, yeah.

Michael: You had a staff. You had up to 20 people on your staff. For your brokerage, what was your most effective way in generating listings?

Bill: Referrals.

Michael: Referrals was the most powerful way?

Bill: Yes.

Michael: So a business owner that sells his business and gets the price that they want are going to refer their other business friends?

Bill: The usually go to Arizona or Florida. They sell their businesses and take off. The referrals typically came from other people in the deal stream; attorneys, CPAs, bankers, all the places. The business owner's trust the advice. Even then, the last person to know that selling is … usually they come. It's hard to find a good business … Everyone knows that you don't meet too many. You can make a good living selling … It's not a retail business. We have to sell a business every day.

Michael: When you first started, you had people hitting the streets. Your people hitting the streets, were you able to generate some listings just by your people going out cold, talking to business owners?

Bill: Yes.

Michael: So that's effective if you get out and hustle?

Bill: Well, it's a waste of time and energy.

Michael: What about direct mail?

Bill: You might get half of 1% to 1%.

Michael: Do you use direct mail?

Bill: Yes, constantly.

Michael: Constantly, so maybe half a percent, you may get a listing.

Bill: Right.

Michael: Send out 1000 pieces. What's a half-percent of 1000?

Bill: It's not very many … 5.

Michael: Still, so let's say you spend $1 a letter, that's $5000, and you got 5 listings that work, right?

Bill: It still works. That's why we continue to do it. Let me just give you an example of a pent-up desire to sell that you may not realize. We were hired by someone to do a proactive search. We narrowed down, not unlike what I did when I wanted to figure out what to do besides sell insurance.

Michael: You hired someone to do a proactive search for what?

Bill: No, no. They would hire me.

Michael: Someone would hire you to search for what? A business?

Bill: A business, yeah, as an add-on to their existing business or occasionally an individual who wanted to buy a business for themselves.

Michael: Okay, so you had to find something that was not in your inventory?

Bill: It was out, right.

Michael: Wait. Let me ask you, with VR Brokers, were you networked with other brokers around the country? You were.

Bill: But it was not an advantage except for networking. You can do that through the International Business Brokers Association.

Michael: Because most everything was local, right? If someone wanted a business and they're in a local area, they want a business in their locale, right?

Bill: Yeah, 99% of the time.

Michael: You know how you have the MLS, you know, multiple listing for real estate? Is there something like that for businesses?

Bill: Yes, but it really doesn't work.

Michael: Is it listed in the MLS or other businesses?

Bill: Nope. No. Business brokers do not list in MLS. They'll have their own …

Michael: Their own network.

Bill: It really has never worked effectively.

Michael: Okay, let's get back to your story. Someone hires you to look for a specific business not in your inventory. What do you do?

Bill: The first thing we do, and the key to my job is foundational work, not unlike painting a house. You want to scrape it and prime it and all that stuff before you start slapping on paint.

Michael: How do you find it first?

Bill: First, what is it we're looking for? What's the criteria? "I want a pretty green tree." "Well, okay. How tall is this tree? Is it a deciduous tree? Is it a fir?" Let's have a complete description of the tree and what the tree's supposed to do for you. Once we have that, now if there's at least a hundred of those pretty green trees within the market area that they want to meet with, we have a pretty heavy chance of actually … can't guarantee anything, but I'd be surprised if we didn't have at least 3 companies that would agree to be purchased under their present terms within a 60-day period.

Michael: Okay, so your pretty green trees are prospects who maybe want to sell.

Bill: Or people who own pretty green trees that haven't listed and haven't told anybody they want to sell or anything. We sent out a well-crafted letter basically asking for an appointment to discuss buying that company.

Michael: Do you state in the letter you have someone interested in maybe buying their company?

Bill: I say … No, more than that, because that's a BS approach that a lot of business owners use.

Michael: Yeah, because every broker and their mother is sending letters like that, and business owners don't believe them. How do you get that business owner's attention that you really have a serious buyer?

Bill: One of the things I make sure I include in the letter is I will not ask them to list their company for sale with me. I will not attempt to sell the company or words to that effect. In other words, I am not fishing for listings. I will not list your company.

Michael: What does that do?

Bill: I get a response rate, on average, 30%.

Michael: By saying that, what's the psychology?

Bill: That I'm not a BS artist. "I have been engaged by yada-yada-yada, who has asked me to approach you to acquire your company. If it doesn't work out, I will not come back and ask you for a listing."

Michael: Okay, and you say that right up front so they know it's not a front.

Bill: Right up front. No messing around.

Michael: Are you using your letterhead or are you using an attorney letterhead?

Bill: Letterhead. My letterhead does not disclose that I'm a business broker, hasn't for many years.

Michael: Is that important?

Bill: It's very important.

Michael: So you appear as the financial institution, kind of.

Bill: Well, in the sub-headline is "Assisting businesses in transition."

Michael: Okay, interesting. Okay, that's good.

Bill: Kind of code word, right?

Michael: Yeah. Okay, so you'll send out a letter to green trees. 30%, you'll get a response, and out of that, you'll have 3 willing to sell under a certain price within 60 days, right?

Bill: Typically, yes.

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

Michael: What do you do with those 3? Once you establish that, do you get them to sign a letter of intent or anything like that?

Bill: We draw up a deal sheet. "Willing to sell to Client A under these terms and conditions," so much money up front, etc. My client agrees, and we go to the escrow company and have the documents drawn up.

Michael: When you're looking for those green trees and you send out 100, and you said that letter is trying to establish an appointment, let's say out of the 100, you get 30 replies. Are you going to sift through the most qualified ones and come out with your 3?

Bill: I'm going to go meet with every single one.

Michael: So you're meeting with them. Are you going to their offices, or are they coming to you?

Bill: They start by coming to me. The walls have ears, so we'll meet some place out of the company.

Michael: Okay, so when you meet with that business owner and he seems to be a pretty green tree, what's your goal during that meeting?

Bill: My goal is to understand the motivations.

Michael: Do you qualify him that he's got the money before you meet with him?

Bill: First off, the buyer retains me on a monthly fee.

Michael: So before you meet with him, he's got to retain you?

Bill: The buyer, my client, retains me to do a search. Yes.

Michael: Okay, so your buyer retains you. What do you need now to work with him?

Bill: Well, it depends on the scope of the assignment. Typically, it's enough to cover the expenses and, quite frankly, to make sure that we were all serious. I'm going to be giving up a good portion of my life.

Michael: This is real work, going to find something for him. What do you need, $5000 down, a monthly retainer like an attorney?

Bill: Yeah, usually $5000 a month, plus out-of-pocket expenses, so if I have to fly to Albuquerque or whatever, that's part of the deal, too.

Michael: Okay, so $5000 down, and then you start prospecting. You're looking for green trees. You use direct mail. You get 30%. They come back, you qualify them, and then you're meeting with them.

Bill: Yup.

Michael: Okay, so what's the goal of that meeting with the seller?

Bill: Well, first off to establish a rapport and understand that we're not wasting each other's time and to acquire the financial side.

Michael: Does he bring the financials on that meeting?

Bill: Or I'll go get them next time around.

Michael: What do you ask for? Last 3 years, 5 years? What do you need?

Bill: Initially, I just need 3-5 years. If you have 5, great, but the financials, I will tell them, don't mean an awful lot until I have a good understanding of operations, so what I'd like to do, if I could, would be for you to give me a tour of the facility. Let's say it's a manufacturing company. "Kind of walk me through what you do and how you do it, how you price your products, how you maintain the margins," all that sort of stuff. You're kind of looking for opportunity.

Then when I look at the financials … See, financials with a private company are really a mystery now. See the operations manual. You have to understand operations really thoroughly to really get the most out of the financials. To get to the financial stage, there's going to be more than just giving the financials and, "Okay, here's the deal we want to do," because I have to make sure that it really fits the business plan.

Michael: Aren't these sellers all liars, though?

Bill: Sellers are liars. Buyers are, too.

Michael: Out of all the sellers you've met with over all the years, how many of them are lying?

Bill: Well, there's different levels. I guess everybody is, but I would prefer to say they're not really outright lying, although those you can tell pretty quick.

Michael: How do you cut through the lies and the misinformation and the left out information and all the BS? This is where I would think most people get stuck in determining, "What the hell is this thing really worth?" if you're not an expert in the business. There's so many things that they could be keeping from you.

Bill: Yes, there are. However, I was told early on that this is really a business of gut.

Michael: Who told you that?

Bill: A fella with 20 years of experience.

Michael: Why did he say that?

Bill: Well, because I think it's true.

Michael: You mean gut feeling?

Bill: Yeah, reading body language, tones of voice, asking the same question four different ways. It's not unlike a police detective.

Michael: Have you've developed some techniques that you may be short-cutting the process in getting down to really what the thing's worth?

Bill: Well, yeah. I only have to ask 3 questions that determine whether or not you want to go any further, whether or not the business is going to be profitable or not. The first question is, "What level of revenue do you have?" if you know the industry, what the industry margins typically are. The next question is, "What are your margins?" That depends on any number of factors.

The real 3 questions: One, "How long have you been in business?" If it's 6 days or it's 6 years or 10 years, the longer the term, the better. "What's the level of revenue and what are you earning?" The last question doesn't mean anything. It's more a measure of whether they're telling you the truth, because as I was stumbling through earlier, you can know very quickly what the typical margins are and what the typical percentage for the bottom line is for any industry.

Michael: Because that data is out there.

Bill: Yeah. I have, for example, using IRS tax returns and agent field-audit guides, determined the real profitability of any business.

Michael: Is that public record stuff?

Bill: Yes. Yeah, it's something I've put together. It's public record, but I've pulled it together and put it on a CD.

Michael: So this CD, you could look up any type of business and get an idea about the margins of profitability.

Bill: Yeah. Right. What if I want to determine what's the most profitable business to be in? If I'm thinking of changing businesses, I can spend an afternoon just looking at all the different businesses and see which ones have the highest bottom line as a percentage of sales.

Michael: So you meet with these three buyers. Let's say we're talking about, you want to go see their plant. You set up that first meeting. He brings some financials, and then you ask for maybe a meeting at the business to look at operations. Take it from there. And then you go back. What's the goal of that meeting?

Bill: The goal of that meeting is to identify areas of opportunity. Remember, I talked about no one's a round ball. We're not equally talented in all directions. What I want to ratify is, "Where are the areas of opportunity in this business?" and, "Are those areas that my client can take advantage of?" That's the major goal.

Michael: Are you looking for intangible marketing assets as well? How much of marketing are you thinking when you go look at operations?

Bill: Well, generally speaking, marketing is the thing that is most lacking in the majority of companies.

Michael: Would you consider that a big area of opportunity for business sellers?

Bill: Only if my client has that as a strong suit, but typically sales and marketing is the weakest link in the majority of small businesses. Maybe that's why they're still small.

Michael: It's the only one that results in profit in sales. It's everything, too.

Bill: Yeah. Nothing happens until you sell something.

Michael: How much value do you put on a customer list?

Bill: Well, that can vary, depending on frequency of recurring revenue from that list.

Michael: Do you do a marketing analysis when you go in and look at operations, or is it mainly an operations type analysis.

Bill: More operations than it is the marketing analysis.

Michael: Can you think of an example? Let's go back. Think of one of these appointments where you're looking at operations and tell me a story or something real that happened where you identified some opportunities for your client.

Bill: A particular client, strong in injection molding.

Michael: Were they local?

Bill: Yeah. Not far from where I'm located in the plastics center.

Michael: Is this your client who's hired you to find them something, or is this a green tree?

Bill: Yes, my client owns an injection molding company and is looking for additional capacity.

Michael: So he was looking for another plastic injection molding company to run.

Bill: Yeah, he was really looking more for capacity than anything really sophisticated.

Michael: When you say capacity, what … more machinery?

Bill: Different kind of machinery.

Michael: And space.

Bill: Well, actually, this particular fella could meld in additional machinery. What we were really looking for was for a company that had the equipment or maybe a small customer base. It didn't have to be big. It was in a particular type of injection molding, because my client had customers who had use for that kind of molding that he wasn't able to do, so he was looking for a marginal company where he could buy the assets at a bargain, pick up some customers and some skilled labor and meld it into his company. That's what we did.

As I was about to say earlier, there was a plethora of opportunities of that same type nowadays, with so many sales down and what have you. If you can find a company and break even or you can afford to buy it and meld it into your own because of the wonderful dynamic that everything after break-even is profit, gross profit becomes net profit after break-even. So you can meld a company that on its own isn't doing too well, meld that into yours, then okay, you can pick up some profitability and perhaps buy the assets on a buyout type basis for X number of years, Y percentage of sales with your customer base will go to you. Would be a nice buyout kind of a thing. Doesn't hurt anybody. People keep their jobs, and it's all connected with some dignity and opportunity to seek and find some opportunity you take advantage of, and everybody wins.

Michael: Okay, that's good. Can you think of another example where we're talking about you meet with the seller, you establish that you've got some financial, you schedule another meeting to go meet at his plant where you're looking at operations, and you said for that meeting, your main goal is to look for other maybe assets in the operations? Can you think of an example where you've done that and you've spotted something for your client that's really worked out good?

Bill: Not necessarily so much assets, but areas of opportunity.

Michael: Yeah, lost opportunity. Right.

Bill: Yeah, exactly right. While I'm thinking of the machine shop, the fella was buying capacity, and what he noticed was the present owner was just sitting there waiting for the phone to ring, which is not uncommon when folks have been around so long. He'll often contact these folks and ask them, "What else can I do for you?" I don't do that.

Michael: You're giving me a marketing asset.

Bill: Oh, okay, if that's what you mean by marketing asset.

Michael: Yeah. Marketing assets is any marketing and sales processes that aren't being done by the owner who is waiting too long. That's huge opportunity.

Bill: There's another example of that. It was a furniture manufacturer up at the furniture capitol of New England.

Michael: Did you have a client looking specifically for furniture manufacturing?

Bill: No, I was looking to sell. In this case, my client was the manufacturer, was the owner, and they were looking for a buyer. What I was looking for in a buyer was someone who had a love for wood but also a strength in sales and marketing. When the potential buyer heard that the two brothers that owned the plant didn't do any marketing and no contact with their customers at all, because they hate to get the sales calls from salesmen, he couldn't believe it.

Michael: That had a huge value to the potential buyer.

Bill: All the right things were wrong.

Michael: And did he buy it?

Bill: He bought it.

Michael: Did he pay a premium?

Bill: No, because they let it go too far.

Michael: They let it go too far, and what kind of customer database did they have?

Bill: They had a good customer database, but they hadn't talked to any of them for …

Michael: Okay, so this is what I'm talking about. This is marketing assets. You told me you go in and look at operations and you're looking for hidden opportunities. I thought you were talking about something other than marketing and sales.

Bill: Well, my eyes are looking for anything I can see. Now there are a lot of things I don't know, I could be staring in the face and wouldn't recognize. I'm limited in my abilities and skills.

Michael: Let me ask you this. The guy who bought the furniture company, did he do well with it, do you know?

Bill: Oh, he did exceedingly well. Couldn't believe it. Christmas Day. He couldn't wait to close.

Michael: How long ago was this?

Bill: Oh, this was better than 10 years ago.

Michael: Did you hear back from him, though, after the close of business?

Bill: No. No. I'm just a broker.

Michael: Yeah, they don't need you. After it's done, they're gone.

Bill: Yeah. "Who's he?"

Michael: Give me another story like that. What's the craziest thing you ever sold, the most crazy deal that you made a good commission on?

Bill: Well, I'll tell you, it's a business I didn't realize existed. It's not necessarily whacky, but I didn't realize that there were sweepers that worked at night sweeping parking lots.

Michael: Street sweepers or people physically sweeping like with …

Bill: Street sleepers that did nothing but go around to different parking lots in the shopping malls and so forth and sweep the parking lot.

Michael: Bring me back to the game. How did this all come into your radar?

Bill: Well, this young fellow was referred to me by someone … I had sold their business, and so he called me. What he had was three trucks and a garage where he would maintain the vehicles.

Michael: And he wanted to sell.

Bill: He wanted out. He'd been there too long, and he was a doer. Every successful business has two people, two sets of skills; Mr. Inside and a Mr. Outside. I use, as an example, Sears & Roebuck. The story goes that Mr. Sears went to a pants manufacturer, a trouser manufacturer in New York and met with the owner and said, "Look, I need a thousand dozen of trousers, and I need them right away. How fast can you make them," and the trouser manufacturer said, "Hey, hey. What's the hurry?" He says, "You gotta sell them first, right?" He says, "No. You don't understand. I already sold these." Sears was a wonderful salesman. He was the ultimate Mr. Outside and if left to his own devices, he would have fallen under his own weight.

Enter Mr. Roebuck, who was Mr. Inside, the organizer. Left brain, right brain. He was the left brain, organizing all the SKUs, going all over the country. It was the model of selling, and this is all before computers.

Every business needs a Sears, and every business should have a Roebuck. Typically they don't. The street-sweeping fellow, he was the doer. He could keep the machines going.

Michael: Was he the inside or outside?

Bill: He was the doer.

Michael: That's what, the outside?

Bill: In this case, it was the equivalent of the inside. He was just doing a job. He had a job, and he had a couple of guys that would drive the other two trucks. He was turning down business left and right, because he was making all the money he needed. Let me tell you, talk about the most unusual business … I never realized how much money this guy was making. No wonder he wanted to sell. He made his fortune.

Michael: How much was he making?

Bill: We were never in a position where we could prove it. We had to do a little IRS audit to figure out what he was really making.

Michael: What do you think he was making?

Bill: On his three trucks, he was making better than 100 on each truck.

Michael: And that was mostly cash?

Bill: I don't know for sure.

Michael: That situation, you said you couldn't really verify what he was making. How do you go and sell a business if you can't really determine what the guy was really making?

Bill: Well, there are three things you need to know about any business in order to determine the profitability. One is the volume, the revenue. What's coming in? Second, what are the true and fixed expenses? What expenses will the next guy have, and included in that is three, the cost of sales.

The first and the second are pretty much verifiable through bank deposits or whatever. The expenses: Nobody hides expenses. They're pretty easy to verify. Cost of sales. Again, that's a management function. That depends on who's running the business.

If you're a sloppy operator, you might be running a restaurant in a sloppy way. You might be feeding your employees' families, or the waitresses might not be bringing in all of the money of the receipts if there's no control of what goes out and what comes in. The cost of sales is a management function and doesn't matter what the cost of sales with gross profit, what the margin is under this owner. The question is what's it going to be under you?

To solve that conundrum, I would ask the buyers to do a gross profit test. In a retail environment, again, I'm an educator. I'm not necessarily selling anything. I'm teaching people how to buy, so let's go into the liquor store, for example, with a pad and a pencil and take the prices off the shelf from a select number of products. Now let's go to the invoice that the owner will provide us, and we'll see how much they're buying it for. What we'll notice is that beer has a particular margin, and wine has another margin. The hard stuff has another margin.

Those margins typically fall into several categories, which are mirrored on the register, so you can figure out what it would be after yours. It might be on the tax return if the gross profit is zero or a dollar, because the cost of this is so high, but wait a minute. Is that right? Will it do that under your management? Let's go to the IRS field audit guide and see what the typical cost of goods are for a liquor store. Does that match with what your gross profit test came up with? It does. Okay, so make your offer based on what you think is fair.

Michael: All right. Let's go back to this story, so tell me what happened. That street-sweeping guy was making a fortune. He wanted out of the business. Did he hire you?

Bill: Oh, sure.

Michael: Did he give you a retainer?

Bill: That's how we started. "Let's take a look. Make sure you want to take this trip. When it's time, we'll announce the right time. We're not going to attempt to sell if he finds out he can't afford to because of debt levels or whatever it might be that would attract the right kind of buyer. In his case, we found that we had to attract a sophisticated buyer if we were to get a meaningful value. I was able to find a fella who was that.

Michael: How'd he find you?

Bill: Well, I'm in the business of selling businesses, and they responded to something that …

Michael: Did you list this listing?

Bill: Oh, sure. Yeah.

Michael: When you take on, you list it and you put it out there that I've got this for sale, okay, so that's how he found you?

Bill: No. No, no, no. The odds of a buyer coming in and buying the business that caused him to call you is 1 in 200. The odds of them buying a business in the category that they call you is 1 in 50.

Michael: All right. Say that again, because I didn't hear you. The odds of a buyer buying a business for what is 1 in 200?

Bill: They call you on Business A. The odds are 1 in 200 that they'll buy that business.

Michael: From a listing.

Bill: Yeah.

Michael: Okay, 1 in 200, and what's 1 in 50?

Bill: Within that industry.

Michael: Oh, within the industry, so how did you get the buyer?

Bill: He had called on light manufacturing and distribution type business.

Michael: Okay, and you told him about this one.

Bill: Well, I asked him to come in. There's no sense in him attempting to buy something just because I had something for sale. What I'm doing is interviewing replacement CEOs for my client companies.

Michael: So you ask him to come in and kind of apply for the business.

Bill: Apply for the presidency of my companies.

Michael: So it's positioning, right?

Bill: Yeah.

Michael: So you had a position, yourself, is you got this client. He's looking for someone to take over this business, and it's not like, "Hey, come in and look at my businesses. I want to sell. I want to sell. You positioned it differently."

Bill: I can't tell you what's a sale. I had to sell something without letting anybody know it's for sale.

Michael: Okay. He's looking for something light machinery or whatever. You can't reveal that you've got this street-sweeping business for sale. You can't do that, right?

Bill: I can't tell him of anything I have.

Michael: I understand, so you gotta come in. Does he have to sign confidentiality before you reveal what you have?

Bill: Well, I'm not even going to do that. Let me back up a couple of steps. The average buyer coming into a business broker's office, 1 in 20 will make an offer. One buyer out of 20 will make an offer.

Michael: On something.

Bill: On something.

Michael: But they have to know what's for sale to make an offer.

Bill: Oh, sure. A typical business, we'll take them on a tour, and they'll take you to one then say, no, you don't want and one that you might want but is too expensive, and one that you think you want to buy.

Michael: How do you protect the sellers from these shoppers looking at different businesses in your inventory? If the sellers don't want it known that it's for sale, where do you protect the seller?

Bill: By not using the real estate model and not doing what I discussed. We're working awful hard again, right? Twenty buyers, one offer, and a broker would have to take three offers to make one sale. That's 60 potential exposures to make one sale. That's not right. It's not doing what our client wants us to do in business, and our losses in doing it, we're working too hard doing it.

There has to be a better way, so we evolved to, "Let's make the buyer jump through a hoop or two." If you're serious, then you might just work with us, so first explain that we're going to interview future presidents and so forth and so on and that we hope that we have something in our inventory that will fit you. If not, we're not just going to show you something because we have it to sell. We'll only present businesses to you that fit your criteria.

Then we talk about the round ball, how the right things have to be wrong. You're going excel at things and you're not good at others, etc. Same thing we said to the business owner, we're now saying to the seller. Quite frankly, when I realized that the song we were singing to buyers was the same song we were singing to sellers, I knew that we were onto the truth.

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Bill: Again, now we decided that we're heading into the education business, and the first step was to give an overview of the process of buying. What does this look like? When do you get to see the tax returns, blah-blah-blah-blah-blah and all that stuff? Then we give them a workbook, some 32 pages of "I like to do this, but I don't like to do that. I know how to do this. I don't know how to do that. This is what I'm good at. This is what I'm not good at. This is what I liked about my last job," and on and on like that.

Then we ask them to mail that workbook back to us so that we can review it and score it according to our particular scale and then ask them to come back with a significant other, their spouse, a substitute or whatever, and have them correct us in our assumptions as we review just how we saw their profile.

If we had a company that was looking for someone with their profile, then we would make an appointment and go see that company in the next day or two. Generally, we didn't have anything that fit them and would tell them that when we did, we'd give them a call, and we expect that they would come and, "Bring a check in case you want to take it off the market," but we think that what fits their criteria for this reason and that without telling them exactly what it was, because we didn't want them to have preconceived ideas. We wanted them to react to the business when they saw it.

Michael: And this is what occurred with the street-sweeping guy?

Bill: Yeah. If I had told that fella that I was taking him to a street-sweeping company, he'd say, "The hell you are!" I can't tell you how many times that happened. I had one fellow, he haunted our offices. He was looking for either an insurance agency or a pharmacy, because he was licensed in both practices. We didn't have either, and this was for several months, so finally, after I got to know Arnie pretty well, we had a business come in, and I gave him a call. I said, "Arnie, come on down. I got your business for you." "What is it?" I said, "I'm not going to tell you, because you won't come down." "Well, tell me something." "All right." So I told him, "Here's what it is. You can operate it with minimum-wage labor. There's nothing that they're going to be able to steal. You can cookie-cut the thing across a landscape, and the margins are such and such. That's all I'm going to tell you. Come on down."

He was excited. He came down. I told him that it was a dry-cleaning plant. He was stunned. Ended up that he not only bought that dry-cleaning plant, but he bought four others within a two-year period. He sold that. The bum sold it on his own and then came back to us to buy another business. This time he ended up with a physical therapy practice. You talk about the buyers don't know what they want to buy. Started out wanting a drug store or insurance agency, bought a dry-cleaners. Ended up selling the dry-cleaners and went into the physical therapy business. Go figure. He was successful in both businesses, matter of fact.

Michael: You mentioned your brokerage has done over 2000 deals?

Bill: Yup.

Michael: 2000 deals.

Bill: Yeah.

Michael: That's a lot of deals.

Bill: Well, it took over 20 years to do it with 20 people.

Michael: So what are you doing now? How does your brokerage look now? Are you a one-man guy? Are you just doing the education or …?

Bill: I sold my brokerage company 5 years ago, and I'm spending a good amount of time on my publications. As I said, there's 7 books on buying/selling, valuing and increasing the value of businesses along with software that goes along with it. My passion right now ends up being the latest book, which kind of pulls all this together. Are you creating offers or just making money?

What I want to be able to do is get in front of the business owner, who doesn't want to sell quite yet. In a non-threatening way, not as a business broker … because I don't want to sell companies anymore. I had my share … help them understand the dynamics of a marketplace of smaller mid-size companies, who the buyers are in the marketplace, how they can increase the value of their companies without increasing their declared earnings or precast earnings, which is by positioning the companies differently. Or if it's still aggressive enough, how they can do acquisitions to grow their company so that it is dramatically more valuable. In a very short order, it can double or triple the value of the company with one or two strategic acquisitions in less than a year. That's exciting stuff. I would like to help people do that.

The second part of the equation is now that you've decided to sell, don't make the mistakes that the majority of business owners make when they attempt to go to market. It's not Fire-Aim-Ready. It's "Make sure you know what you're doing." It's a disciplined step-by-step approach and is designed to maintain confidentiality and to sell a business at the highest possible price quickly, quietly, for the most money. It's very straightforward, no highfalutin … It's just common sense stuff but put in the right sequence.

The two products I have, the one is the first step I do pretty well with just making money. It has software that identifies your present value as a benchmark with the different kinds of buyers in the marketplace, what you can do to enhance the value. The second part is the guide to selling a company quickly, quietly, and for the most money, including how to sell a business without letting anyone notice the sale. It really limits the value [inaudible 01:14:31]. It's also how you go about buying if it's not for sale. Decide what you want to buy and what does your business need to round it out to make it more firm, and then just go after companies that fit that description.

Michael: These books you have, these are basically your business brokerage system, a step-by-step guide to selling a business and how to sell it quickly but not to let anyone know it's for sale. This is what you guys did for 20 years.

Bill: That's right.

Michael: And then selling aids, buyer profiling matrix, forms, letters, contracts, worksheets, checklists, lists of buyers. This is all your intellectual property of your forms and everything that would need to be signed to do this?

Bill: Yeah, and it's designed to fit the system. It's not the real estate-based laws.

Michael: Right, and then the software business valuation and monitoring, successor identification, success evaluation, maximizer and transaction structuring software.

Bill: Yeah.

Michael: How long have you had these published, these ones that we just described?

Bill: Well, actually we just finished polishing them up right after Christmas.

Michael: Then part 5, how to find value and finance your ideal business, including buying a business that's not for sale.

Bill: Might want to do the roll-ups. You want to expand and make a company more valuable through acquisition of those.

Michael: So it's an acquisition strategy.

Bill: Right.

Michael: Give me an example from your case studies, how maybe you had a client, and you led them down that road, where you were able to quickly do some acquisitions to increase the value of the business. Can we talk about an example for that?

Bill: We didn't do too many of those, I'm very ashamed to say.

Michael: Are they hard to do?

Bill: No. No, no, no. They're not hard to do. Let's say a printing company.

Michael: Printing company.

Bill: Yeah, I did a lot of work with the NAPL, National Association for Printers and Lithographers, used to be. Now it's Printing Leadership.

Michael: Is this a real case study?

Bill: Yeah. The company wanted to expand and decided what it wanted to do was expand by offering present customers … They could not satisfy all of the printing needs of the existing customer base. As you are probably aware, buyers like to have as few vendors to deal with as possible, so if I have to have my letter stock done, I have to go to another for the, I forget the name of the machine, but a quick print kind of thing. Then another company from the annual report quality printing, and then maybe another for the fliers in the mail and newspaper kind of things. Those are all different machinery, all different customers, all different kind of printing.

They wanted to expand, but in this case, they wanted to provide mail order or direct mail fulfilments, so they wanted to provide a mail order house that they could then offer their service to the people who they were doing a lot of direct mail printing for. That worked out quite well. It was a small acquisition, but what it basically did would be to increase the overall value of the two companies combined.

Simply stated, if the multiple for the acquiring company before the acquisition was 4 and they were able to acquire the smaller company for a multiple of 2, they had [inaudible 01:17:35] scale to save $100,000 or so and meld the companies together. That way, it increased their earnings because of the economy to scale addition of the other business, but now the perception of the value of the company is a multiple of, say, 5-1/2. What's happened is they increased the value of the parent company by a factor of 1 or 2, whatever it was, and the value of the acquired company dramatically, because it's now melded in with the acquire. Does that make sense?

Michael: Yeah, that does make sense. It opens up a whole other customer base.

Bill: And never mind the additional customers you get from the business you can do with your current customers now from the same company. We have examples of that in many industries. I mentioned one was the plastics industry. This is the printing industry. Same thing in the machining industries. Essentially ever industry has segments that can be melded in to make the companies more valuable.

Another thing we did was a company in the Midwest, it was for a franchisor. This was a restaurant for a franchise of about 34 restaurants, all doing well wherever it was, in excess of a million. They were earning good money, but the owners had been franchisees for a long time, and wasn't the young bucks they were 20 years earlier, and then he's only thinking of selling, but they hadn't kept up the franchise. One wanted them to spiff up their stores. There was a lot of reluctance, so they brought us in, us being me, to point out what they could do to enhance the value of their individual franchises and putting the money in to improve as a franchise to make it worthwhile.

What we suggested was that they form an operating company to shore up the management of the individual stores. In other words, the owners were taking a little too much time off, so if they collectively hire this management company to allow them to do that but still maintain, or in many cases, improve the operation and ratios of the stores, what would happen is if they were selling their companies individually, because there was no real management depth, as they basically did not own all of the stores, there was no management depth that could take things over, but to inform the management company to brighten the places up and then agree to sell as a group instead of individually would be able to attract a different kind of buyer.

Individually, they could probably attract only financial buyers. As a group, they could certainly attract a corporate-style buyer or sophisticated buyer, and if they played their cards right and did the job right, they might be able to acquire a public company type buyer, the strategic buyer and acquire the whole group of them as part of their overall operation, so using the same dynamics but in different arenas.

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