



They broker it You buy it

When Michael Stoltz was in the market to buy a business, he didn't go it alone. He worked with a broker.

Otis Florence, President and CEO of Business Brokers & Consultants Inc. helped Stoltz and his wife Melissa, finalize the purchase of their own business for \$800,000.00 in January.

"Working with a broker saved us a lot of time and legwork in tracking down businesses," Stoltz said. Stoltz, who worked as a business consultant for start-up technical companies prior to the acquisition added, "I don't know how I would have done it on my own."

Brokers guide both parties- buyer and sellers alike- through the complexities of transferring a business from one owner to another.

"Whether it's a small business on Main Street or a Middle-market acquisition, the details involved in transferring a business are many. And they are usually too many for either party to manage independently and still keep the acquisition process moving forward smoothly," said Florence.

The broker's job is to match buyers with sellers, assist with the sale, and help smooth the transition.

"When somebody first comes in, we try to assess their needs," said Florence, whose company is located at 13121 Eastpoint Park Blvd.

Although it was not the case with the Stoltzes, he said, "for the most part, buyers do not understand what their needs really are. It's our job to assess their skills, strengths, likes and dislikes, and then show them a variety of businesses suited to their needs and financial requirements."

Florence added, "Many people come in with the idea that they want to purchase a particular type of business, but don't account for whether or not it will also meet their financial needs."

Brokers services vary depending on their client's needs and whether they are stepping in to help an owner sell an existing business or to help an individual become a business owner.

A CLEAR PICTURE WHEN LOOKING TO BUY

Potential business buyers may consult a broker to help them get a handle on what is available and what matches their interests and skills.

For example, someone who always has worked as a mechanic might assume he or she should buy an auto repair shop.

"But that doesn't have to be their only option," Florence said. "Sometimes a buyer comes in looking for a liquor store and they end up buying a day care center."

For brokers, the front-end work may involve dissuading someone from buying a business.

Florence said he usually will level with clients to help them rethink priorities and examine their particular situation. This may include playing devil's advocate so clients will come to understand the more realistic side of owning and operating a business.

"Some clients have the mistaken perception that buying a business means you get to spend all day on the golf course," said Florence.

"That's usually not the case," he said. "You might be able to play golf, but you need to be realistic about the amount of time and commitment it takes to operate a business."

Before embarking on a business search, the brokers we spoke to said they also examine the potential buyer's financial resources and needs.

MORE THAN JUST SHOPPING AROUND

In the early stages of a broker-buyer relationship, a broker may show a potential client a handful of businesses.

"We'll hone in on one or two they like," Florence said, "and we'll try to take them on a tour of those."

After introductions, brokers then help the client analyze the business being presented.

"We go over the financial potential of the business and look at things like cash flow. That

way we can show the potential buyer what they can honestly expect as owners," Florence said.

Brian Mazar, President of Sunbelt Business Brokers gave this advice, "If you don't think you have better skills than the current owner to grow the company, then you shouldn't buy the business- unless it's an absolute cash cow."

"Cash cows are rare in the marketplace," Mazar was quick to add, "and they move very quickly."

Once a particular business becomes a serious candidate for purchase, brokers can help with the numerous financial and legal aspects and questions involved in planning the acquisition.

"One of the most valuable services we provide to buyers is help obtaining financing," said Florence. "We have long-term relationships with lenders who specialize in acquisition financing. We are familiar with SBA loan practices. We know what is involved in the approval process- and we're able to help buyers obtain financing when other's turn them down," said Florence. "Generally speaking, you cannot count on your local bank to help you fund a business acquisition."

SEEING FINANCES FROM THE SELLER'S PERSPECTIVE

Brokers also assist sellers by protecting their investment. This includes helping to weed out "lookers" who lack the necessary background and financial ability to make the acquisition work.

"When Business owners sell, they want to get the maximum amount of money they can," Florence said. But like buyers, Seller's need to be realistic about their financial circumstances and needs.

"Sellers often have the wrong ideas about what their business is worth," Mazar said. "Often they think it is worth double it's actual worth. A lot of times they need to be educated about values in the marketplace."

Business values can be determined using several calculations, such as a cash-flow analysis completed by the broker, or by independent certified valuation. The later is per-

formed by a professional accredited business appraiser and does involve some expense. While both yield a similar value, the certified valuation will carry more weight with banks and serious buyers.

"Generally, on larger acquisitions, Banks and The Small Business Administration require a third-party appraisal to complete the loan," Florence said. "Therefore, it's better to have your valuation done early on in the sale process. It's ready when lenders need it, and it provides leverage when negotiating with buyers."

OTHER STEPS IN THE PURCHASE PROCESS

There are a range of other services brokers can provide during negotiations and when arranging the terms of the transaction. For example, brokers assist in the due diligence process and can offer insight into industry trends.

"Sellers may deliberately hide problems when it comes to their financial reports," Mazar said. "We look for those kinds of things."

"A business needs to be relatively profitable," Mazar said, adding that typically buyers look for at least a 10% return on their investment. If the business is not profitable, a broker examines whether or not a potential buyer with a better set of skills would be able to turn that business around.

Documentation is another important facet in a transaction. "After we negotiate a Purchase Agreement, we work with the buyer to obtain all the documents they need," Florence said.

Typically these include tax returns for the past three years, financial statements, a resume, business plan and government forms and licenses.

Florence said he then shops the loan application among different lenders and submits the package only to those with the best rates and terms.

After approval from a lender, brokers said, they will work with an attorney to help the buyer establish the correct business structure, such as an S Corporation or limited liability corporation.

"Other details include obtaining employer identification numbers (EIN) from the Internal Revenue Service and double checking to make sure that licensing paperwork is completed," Florence said.

On the other side of the transaction, the seller also faces financial scrutiny.

"We are very particular about that," Mazar said. "We need personal and business tax returns and income statements."

Another important component that buyers and sellers may overlook is life insurance coverage, the brokers said.

"Banks want to make sure that if the owner

dies, the loan is paid for," said Florence.

DISCRETION IS CRITICAL

In addition to bringing parties together, brokers must also balance other concerns.

"Confidentiality is of the utmost importance," Fred Grimm, owner of Fred Grimm and Associates, noted.

Without it, business owners who are selling may lose valuable employees or loyal customers. Brokers work with buyers and sellers to complete confidentiality agreements which help safeguard against this.

Along with confidentiality issues, brokers negotiate non-compete agreements. "For example, the seller agrees not to compete with the person who has just bought the business from them," Grimm explained.

MAKING THE TRANSFER

Another of the brokers' duties is to facilitate a smooth transition between buyer and seller.

"Usually, the seller will train and consult with the new owner. They will introduce them to the employees, key customers and suppliers," Florence said.

In business brokerage, the buyer pays no brokerage fees. The seller pays a commission based on the sale price for the broker's services.

Fees vary from broker to broker, but Mazar said a percentage scale is sometimes used. For businesses listed at less than \$1million, the average brokerage fee is about 12 percent, he said.

Stoltz advised others buying a business to be aggressive. "Don't be afraid to ask questions," he said.

Sometimes brokers develop a strong connection to the companies they represent, Stoltz said. "As a result, they are so intimate with the industry, and the way things are done, that if you don't ask questions, they assume you already know."

In his dealings with Florence, Stoltz said, "I probably wore his ear out with questions."

He said he visited Florence about half a dozen times during the course of several months, getting answers and fine tuning all the details needed to complete the transaction.

In the end, having an experienced broker was beneficial, Stoltz said. "These people knew right up front what it would take to do the deal."

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Tips for Potential Buyers

1. Be committed to buying a business at a price and terms consistent with the market.
2. Understand your own personal goals, objectives and financial requirements. Be realistic about your expectations and financial resources.
3. As you review business opportunities, ask yourself:
 - Is this a business I would enjoy owning?
 - Do I think I can improve this business?
 - Do I have the financial resources for both a down-payment & working capital?
 - Does his business generate enough income to support my lifestyle, or could it with improvements I plan to implement?

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Steps in Selling a Business

1. Take time to understand how businesses are valued and the marketability of your own business. Only 25% of businesses listed for sale are actually sold, primarily because Business owners overvalue them and/or try to sell on their own.
2. Determine fair market value: Establish a fair asking price for the business— one that will bring you and the new owners a fair return on your investment.
3. Prepare your business for market. Keep sales, inventory levels and employees consistent. Be sure your financial records are up to date. Expect your broker to prepare a complete prospectus on the business.
4. Locate qualified buyers: Your broker will locate qualified buyers through referrals and a variety of marketing efforts. They should prescreen potential buyers to insure that your business is only shown to those who are serious and qualified to buy.
5. Negotiating and structuring the sale: Your broker will work with legal and financial experts to structure the sale that fairly considers tax liabilities and/or benefits incurred.
6. Closing the sale: After the seller accepts an offer, a broker will help the buyer obtain financing, assist with lease negotiations, and work with attorneys and accountants to prepare closing documents.

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