

# THE SEVEN DEADLY SINS OF BUSINESS BUYING

*In 1993 I met a business buyer who stated he was serious. In 1998 he was still making all the usual rounds (answering ads and calling brokers). In early 2000 I met another business buyer who told me, "I don't buy into all that stuff about defining what you want. I'll know it when I see it." Did he ever see it? I don't know, but I do know that five years later he hasn't bought a company. Clients with focus are always successful and get there faster than those who "wing it."*

Commit these sins when buying a business and you will either delay your trip to heaven (business ownership) or never make it. While I take a few liberties tying the sins to pitfalls in business buying, they are serious issues. Just because this is a fun way to look at the obstacles buyers face (and create themselves) and how to overcome them doesn't mean you shouldn't pay close attention.

Business buyers come in all shapes, sizes and dispositions. Some are pleasant and some aren't (the latter have a tough time doing a deal). Operations people look for something to fix, be it inventory, distribution or production. Sales people look for a lean operation and the ability to use their sales and marketing skills.

In my first month in this business my mentor told me that business brokers are so tough on buyers because the 2x4 to the head separates the real buyers from the tire-kickers. An unfocused search is the sin of **Pride** when it comes to business buying. "I'll know it when I see it" rarely works because you will never know what you're supposed to see. A successful acquisition search starts with more than just saying you want a distribution company doing \$3,000,000-5,000,000 in sales.

Pride can rear its ugly head in another way. Don't think that showing up with money will get you a deal. Your number one goal is to build a relationship with the seller. People do deals with people they like. At a closing the seller told me that the most important thing I said during a "mediation" session was that it's tough for sellers to find a buyer they like who is capable and it's tough for buyers to find a seller they like who

*In 1994 when I asked a client where he wanted the business to be located he replied "I wish you would have asked me that six months ago before I wasted three months on a company only to realize I didn't want to commute and my wife didn't want to move*

*In the early 2000's I was hired by a business owner who had bought the company a year prior. He wanted help with some valuation and due diligence issues as he sought to renegotiate his contract (the price and terms). I did my work, pointed out some things and came away realizing there was really only one problem with his acquisition. When he bought the company his due diligence was not just sloppy it was almost non-existent. He liked the company and since the owner was old and sick he figured he would get a great deal (especially because he was referred to it by someone he respected). When I asked him the questions he should have asked before writing the check he had no clue. He got the fever and he got burned.*

owns a profitable company that meets their criteria. This made him realize he had the 'right package' and needed to get the deal done.

The more important criteria have to do with cash flow, location, your skills and what the seller does day-to-day, the employee mix and many more "soft" criteria. Then you won't have to be the square peg trying to fit in the round hole (the round hole being the one-and-only half-way decent business you've found).

"I'm so smart I don't need to do what I would do in running a company as I search for a company." Successful businesses have a plan: they seek out the advice of others and follow the plan and the advice. Numerous studies have shown how businesses with a plan perform incredibly better than those without. TEC claims their members grow 2.5 times faster than they did before joining. My search system is the best plan to locate winners.

The sin of **Envy** makes us want to have what others have and believe the stories of how easy it is to get. As one person wrote to me, "Buying a business, how hard can it be?" In the real world it's tough. That's why studies show that only 1-5% of those who say they want to buy a business ever do. Remember, no more than 20% of all businesses sold are ever advertised, put on the Internet or listed by a broker. Most deals happen because the buyer puts him or herself in the right place at the right time.

Just like in operating a business, having a plan, following it and taking action are true for business buying. My clients have a focused search, a game plan and they implement that plan. They find businesses many times faster than those without my system. More important, they find more companies, they can be fussier, and they close deals faster. It usually takes 6-9 months from the start of a search until a deal is closed.

From stories I've heard from others, many buyers spend twice as long or longer. I constantly get calls from buyers who have found a junk business that is overpriced. They realize it but still want to see if they can "make a deal happen." Once we talk they rarely pursue it. The shame is that too many buyers pursue mediocre businesses because that's all they can find.

At some point in our lives we all get the fever for something. Maybe it's a new car, computer, electronic gear or a business. Having the fever in business buying is the sin of **Anger**. Not that you get mad about it but that you lose control. You do things you wouldn't do without having that emotion raging inside of you.

And who gets the fever? Almost every business buyer. Common sense flies out the window. Emotion takes over. And for the real analytical it gets manifested in spreadsheets. They try to justify everything through the use of a spreadsheet. Martinka's rule #3 is that the bigger and more complicated the spreadsheet the less chance there is of a deal happening.

This one turns into a particularly deadly sin because when you act primarily on emotion you'll make a rash decision. When a buyer tries to justify the asking price by the numbers they will usually find a way to do so. And there's no going back.

A former client's behavior caused me to label his actions "the curse of Harry." You see Harry wanted to buy a business but also wanted to do so only if the deal gave him all the ultimate protections. He experienced the sin of **Lust** or wanting everything — the business, the favorable deal

and his money still in his bank account.

Those who get lust over the deal vs. over the business want a “deal from heaven” that includes an average downpayment, a seller note and an earn-out that gets the seller to the “full-price” if everything (and I mean everything) goes better than planned.

In other words, the seller, not the buyer, will feel any hiccup. These buyers don't look at what the business can do; they look at it from the perspective of “how is my butt covered if the sky falls, if I'm not as good as I think I am or if the market changes.” You buy a business based on a combination of its history, the potential you see and the value you bring to its future.

There is risk in business ownership and where there's risk, there's reward. You have to make sure the risk is manageable and the reward is greater than the risk. But you won't find the perfect business or the perfect deal. If that's a buyer's goal, they won't ever be happy (and probably never close a deal).

There's a very funny scene in Monty Python's “The Meaning of Life” where John Cleese plays an incredibly obese man (about six feet in diameter) who tells the waiter that if he eats one more bite he will explode. The waiter tempts him with truffles, he takes one and, sure enough, he explodes. **Gluttony** is an equally deadly sin to business buyers. In this scenario, I refer to being a gluttonous negotiator. Always asking for more will make your deal explode.

Negotiations must be based on logic, facts and common sense and not on emotion. If you're not in the ballpark after a couple discussions you're probably not going to get there. A huge part of this is the seller's degree of motivation. “Anything is for sale for the right price” is a phrase that causes me to want to run. The chances of a deal being struck are slim unless the buyer wants to overpay.

Money is often equated with **Greed**. Especially by those who don't have it. Creative finance is often ignored when buying a business. That's because too many people think it's financial hocus pocus or wishful thinking. Buyers hit stone walls when they ignore other options besides the seller carrying a huge note. Naïve buyers regularly call me saying their goal is to find an elderly owner of a profitable business who will finance them because that seller has no other options. Au contraire. That owner has a multitude of options and most of them don't include 90-100% seller financing.

Creative finance is simple. It's using the business to pay for the business. Not just the profits to make debt payments, but the assets and/or the cash flow. Rather than discuss techniques, let me give you some recent examples.

- The seller had a number in mind. It was high but it meant something to him. Among other things, the buyer put a consulting contract in the deal, getting a full deduction for those payments.
- The business had too much inventory and the buyer was an inventory and purchasing expert. He bought 40% of the inventory and the other 60% as needed. In other words, the seller was his supplier.

*Harry also built incredible spreadsheets, including one that ranked the tangible and intangible factors of the business. Relevant things like working capital needed and growth potential to more esoteric things like does it save the world (on a 1-5 scale) and is the office environment suitable for my dog. The tipping point was when he pursued a business he didn't like because the spreadsheet said he should like it. My comment was, “I'll bet that means there's a dog run behind the office.”*

*I vividly remember a client asking me, “Do you think he'll want to haggle a lot?” When I answered that no, I didn't think the seller would want to haggle, a look of disappointment appeared on his face. He wanted to haggle! And haggle he did. He blew a deal by always asking for more. More questions, more demands and always wanting something extra. It started while I was on vacation, I had cautioned him, his attorney cautioned him and the seller's attorney called me to discuss his style. To no avail. To show he wasn't discriminating he did the same thing on the next deal even after we had a heart-to-heart talk about exactly what not to do. To him, the hunt was truly more exciting than the kill.*

*It was the middle of June. My client had just come to agreement with the seller on price, terms and conditions. He called to ask what I thought of delaying the deal until September so he could have the summer off. I didn't laugh. I did tell him that he knew me well enough to know that it is my firm belief that the longer things take the less chance there was of a deal happening. He immediately shifted modes, asked if June 30 was feasible. It wasn't, but we did close in July.*

- The accounting was a mess. The buyer agreed to take over all the AR and AP. He was glad he did when before closing they found \$100,000 of completed work that was still unbilled (and was his money).
- Cash talks, no matter where you get it from. Banks are just another form of creative finance. One client got a 15% drop in the price by increasing the downpayment from 25-50% with a bank loan. Another got a 30% drop by increasing the down from 20% to 70% (70% of the lower price). Both got longer terms and lower payments as “compensation” for the larger downpayment.
- Take over the AR and AP, as quite a few clients have done (see above). This helps solve your working capital needs and has the seller to finance the working capital over a long period of time.

Often deals bog down. Sometimes there's a feeling of “we're almost there” so the urgency disappears. The deal gets overtaken by **Sloth**. Once a valuation is completed, a price agreed to or you're pretty sure the deal will happen the buyer and seller need to sit down and create a timeline. What do they each have to get done? When can they get it done by? Will they agree to do their best to achieve those deadlines?

Buy-sell deals are like anything else in business. They generate momentum and you don't want to do anything to slow up or stop that momentum. There are enough roadblocks and speed bumps in the process. You don't need to create any more. That said, if it's meant to happen it will happen this week or next week. It's managing the process just like you will manage the business.

The Seven Deadly Sins. Seven obstacles buyers' face that will either derail or slow them down. The overriding message here is that these sins will get you if you don't watch out. There *is* a better way. You need a proven plan and an experienced guide. You need to follow the plan paying attention to all the details.

I have the proven plan. I invite you to review my systems for locating a company, due diligence, creative finance and valuation. These systems work — they've been proven hundreds of times. They include:

- The Street-Smart Way to Buy a Business
- Business For-Sale Locating System
- Tactical Search Game Plan
- Business Acquisition System
- How to get all the money you want for your business – without stealing it
- Business Valuation Kit

People using these systems buy a company faster and safer than otherwise. For more information, call me 425-576-1814 or see my website, [www.johnmartinka.com](http://www.johnmartinka.com). You are invited to review my system; it's the winning game plan for safely acquiring a business.