



"Partner" On-Call[®]
N E T W O R K
STREET SMART ADVISORS
SUPERIOR RESULTS

Buying a Business
*This information will help you
better understand the role of
a Business Buyer Advocate.*

What is a Business Buyer Advocate[®]

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As I prepared for a "Getting the Deal Done Breakfast Conference and Networking Event" at the Bellevue Club with Berntson Porter & Company, Frontier Bank and Peterson Russell Kelly I thought it worthwhile to explain, "What is a Business Buyer Advocate?" My business is primarily working with business buyers (individuals and companies) and helping owners properly prepare their business for eventual sale.

For over a dozen years I have been saying that, in simple terms, I help my business buyer clients locate, analyze and structure deals on small and mid-size companies. Here are some insights into this.

Locating an acquisition target

Working with business buyers I follow a proven and structured plan. Some of the key elements of our plan are:

- Qualify the buyer. I believe a qualified buyer has the skills needed to run a company in the size range he or she targets, the money to do a deal in that size range and has a good personality.
- Define acquisition criteria. Being able to succinctly describe what one wants is much better than, "I'll know it when I see it."
- Implement a proactive search plan.
- Be prepared, build a relationship with sellers and know when to say no.

- Consistently keep in touch with all the business brokers who list businesses in the size range the buyer is targeting. As an aside, numerous brokers have told me that my clients go to "The top of the list" because they know these buyers are serious and qualified.

Working with business brokers is a key element. The rest of this section and the following section are the value proposition and philosophy we at "Partner" On-Call Network use as we work with business brokers.

Everyone knows it takes two to Tango. And when the dancers are the best-of-the-best, it's wonderful to see. Some of us cannot Tango, but the Business Buyer Advocates at "Partner" On-Call Network and the top business brokers nationwide cooperate for the common good of their clients. And it's wonderful to behold our done deals! Here's the rest of the story.

Misinformed people see rivalry where none exists between Business Buyer Advocates and business brokers. Naïve people debate the relative importance of Business Buyer Advocates and business brokers. In reality, it takes two to Tango. Street-smart Business Buyer Advocates and business brokers (and the other professionals on the advisory teams of the seller and buyer) share the credit when, while working on the same buy/sell transaction, they facilitate a win-win done deal.

So, why does the misconception arise?

It is true: Business Buyer Advocates and business brokers, respectively, represent the "other side" of buy/sell transactions. But to achieve success for their clients depends upon how well they cooperatively strive for a win-win done deal. Ill-informed people think it is common for advisors and business brokers to "sell their client down the river" to achieve a done deal. The reality is any advisor or dealmaker will go out of business if s/he shortchanges the client, sometimes under an onslaught of criticism and lawsuits.

Differences: Business Buyer Advocates & Business Brokers

Business Buyer Advocates and business brokers share a common goal: Achieving a done deal. How they go about it differentiates a Business Buyer Advocate from a business broker.

- The business broker's mission is to get the seller the highest price on the most lucrative terms.
- The Business Buyer Advocate's mission is to get the buyer the best value on the most lucrative terms. The Business Buyer Advocate levels the playing field so the seller does not have all the advantages.
- The goal of "Partner" On-Call Network and its Business Buyer Advocates nationwide is to facilitate the safe, profitable transfer of businesses, as quickly as possible—so every party to the transaction gets a win-win deal.
- We do NOT compete with business brokers. "Partner" On-Call Network trains its

"Partners" to serve as a Business Buyer Advocate.

- We don't divert buyers away from brokers. We do advise buyers to include by-owner sellers in their search, so our clients have access to all the companies for sale.
- We don't disrupt deals. We do ask reasonable questions, so our clients can make informed decisions.
- We don't under-value a business. We do base our valuation on reality.

We guide buyers through our proprietary Street-Smart 22-Step Acquisition Sequence™.

Analyzing and understanding a target

First, I have a process I like to follow. Let me cover that and give three key areas in analyzing a company for an acquisition. (This is abbreviated; books have been written on this subject.)

I encourage my business buyer clients to follow a course of action that includes:

Building a relationship with the seller (and the business broker if there is one involved)

Asking some broad-brush but pointed questions about the business to uncover any red-flags

Review three to five years of financial statements and tax returns (both must be reviewed as recently we found dramatic differences between the two and it helped kill the deal)

Discuss value ranges and make an offer with full understanding by the seller that we expect due diligence to confirm what we have been told, not surprise us with red-flags or worse that should have been disclosed early

The above works well. It opens the doors that need to be opened without disrupting the business or wasting time on a deal that won't happen for basic reasons. What I also found over the last 15 years is that:

Buyers need to have a team including a business banker, lawyer, accountant and, depending

the deal, other specialty advisors like an HR person if there appear to be employee issues, etc.

It's important to have the right questions to ask and know the answers to get. This reduces the risk of analysis-paralysis. Many years ago one of my client's got the nickname of, "Columbo" as there was always, "One more question." It drove the seller nuts.

I have to balance myself on a fence with clients. Sometimes I am telling them what they want to ask is not appropriate at the time (to see a customer list before an offer is accepted) or that they really don't need to know what the receptionist does every minute of every day. Other times I have to encourage clients to ask more questions. Sometimes their reasons are buyer fever, "Let's get this done, I want it" and sometimes it's, "I don't need to ask about that, I trust the seller."

Structuring a deal

As I said in my recent talk, the three key factors in getting a deal done are motivation, relationship and education. By the time we start to structure a deal we should have determined if there is adequate motivation (on both sides) and if there is a solid relationship. Part of the educational process is what is the value of the business. When both sides understand, we're almost there.

What I mean by "understand" is that sellers can't think that because they read in the Wall Street Journal that a \$400,000,000 business in their industry sold for 11 times EBITDA that their small business will also sell for 11 times. On the flip side, the buyer who thinks they will buy a highly profitable business based on the book value of the tangible assets is not going to do a deal.

It then comes down to the components also known as price, terms and conditions. There is a relationship between price and terms. In a study of done deals, it was published that the seller who finances some of the deal gets about a 30% higher price. A seller

who finances 70% gets almost 50% more (than an all cash price).

In 2009, given all the conditions in the economy and banking, seller financing is more accepted than before. In fact, one advisor told me he recommended a client finance the whole deal so they wouldn't be in second position behind the bank (that was financing a small part of the downpayment).

Conditions, like creative financing options, vary from deal to deal. There could be a need for employment agreements, environmental checks, work in progress issues, vendor acceptance of the buyer, transition support, consulting agreements and more. My best advice is if there are any conditions that seem to stand out, deal with them when negotiating price and terms. If they are routine (like should the transition time be 60, 90 or 120 days) get the deal hammered out and then deal with them.

Conclusion

A Business Buyer Advocate is especially important in 2009 as there is a horde of [supposed] business buyers on the street. Many aren't focused, knowledgeable on the process or qualified. As one owner recently stated to us, "You have a qualified buyer? Most of the buyers that contact me aren't qualified to buy a car! But they lost their jobs so they think they should buy a business!"

Sellers are impressed when we describe how we work with buyers and that our clients pay us some money up front, meaning they are serious and there is a much smaller chance we will waste the seller's time.

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