

How to **Improve Your Chances of Success When Buying or Selling a Business**

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Old adages such as: “The obvious is usually invisible” or “Hide it in the open if you don’t want it found” usually have merit. Would staring at a glaring problem for twenty five years and not recognizing it be pushing these two adages to the extreme!?

What I discover was that buyers and sellers of businesses, on their own, are successful in finding each other only 2% of the time and that the help of real estate and business brokers improve the success percentage but not by a whole lot! The majority of large private and public companies are sold however, it appears that most small and mid-size businesses are closed and liquidated rather than sold.

Why did so many small and mid-size businesses simply close and liquidate their assets instead of selling? We were working very hard attempting to sell our client’s businesses. We were constantly told by our clients that we had done a fine job. But, were we doing it right? I can tell you from experience that selling insurance is easier than selling businesses. There must be a better way. There was and we were about to uncover just what the better way entailed.

Rather than overwhelm the reader with details and reams of statistics, our findings will be summarized in the following text.

How are most businesses sold?

Business brokers appear to account for most of the sales followed by real estate brokers and finally business owners themselves. Investment bankers, Merger and Acquisition (M&A) specialists and business intermediaries handle businesses with minimum sales of twenty million.

The statistics we have uncovered are: Business brokers sell between one of seven to one of four of businesses they list for sale. Real estate brokers are estimated to be successful in selling one of twenty listings. For Sale by Owner attempts by business owners appear to be successful in only one of fifty attempts! Investment bankers and business intermediaries or M&A specialists, have a success rate in the high ninety percent range.

To summarize success in attempted sales by those doing the selling:

	<u>Success Rate</u>
▪ Business Owners	2%
▪ Real estate brokers	5%
▪ Business brokers	14% to 25%
▪ Intermediaries and Investment bankers	90+%

If large companies could be sold ninety plus percent of the time why couldn’t small and mid-size businesses enjoy similar success? I wanted to find a way to become more effective helping people to buy or sell a private business.

Do most people attempting to buy a business find one to buy and how do they find it?

One has to interpolate this answer from the records of business brokers to estimate the answer as no other record of buyer activity currently exists. Based upon business broker records, one in twenty buyers in the hands of a rookie broker could be predicted to make an offer to buy a business. A rookie usually needs three offers to have one sale.

Success rates improved when experience brokers were involved to one sale for every twenty buyers. Intermediaries, dealing with individuals as buyers rather than corporate or strategic acquirers, usually place one of six buyers into a business. The ratio of individual buyers to sale could be as high as one of two, if in the hands of an exceptional intermediary.

To summarize success of buyers by those helping them buy:

	<u>Success Rate</u>
▪ Buyers on their own	estimate 2%
▪ With a rookie broker	2%
▪ Experience broker	5%
▪ Intermediary	17%
▪ Exceptional intermediaries	50%

Lesson learned

Business owners and buyers chances of success appear to be about 2% if acting on their own without proper preparation or education. Chances of success improve with level of preparation and understanding buyers and sellers have of the unique environment surrounding private company sales.

- Business owners and buyers do not understand how to buy or sell a business and we had to show them how
- Rate of success increased in direct proportion to the preparation and guidance we provided both buyer and seller
- Successful brokers/intermediaries are educators first and salespeople second
- Buying a business does not follow the usual buying/selling protocol
- The process of Buying/selling a business is unique yet straight forward

Action taken

We began a program to develop and refine tools, processes and procedures to assist in educating buyers, sellers and ourselves in becoming more effective buying or selling a business. The journey to more effectiveness took us (my office of twenty business brokers) over a year to complete and even longer to refine. The trip was worth it as eventually we were successful in selling essentially every business for our client companies and dramatically increased our success in matching buyers with the right business. The success rate of 50% matching of buyer to business was accomplished consistently by my top two associates.

Here's a concise summary of how we did it.

Sell side:

Wall Street Investment bankers and the Merger & Acquisition (M&A) people servicing very large private companies and public companies enjoyed a success rate of basically 100% in satisfying their client companies' objectives. My M&A manager came from Merrill Lynch where he headed up Merrill's M&A activities with private companies.

What we did was essentially adapt the successful methods employed when selling a large company to be appropriate for selling small and mid-size businesses. The result was that the selling process was broken down into two steps instead of the usual one. No longer would we take a listing and then right away begin the selling process.

First Step – purely advisory, with no “Listing Contract” involved. Business owner could decide not to sell, postpone sale, sell on their own, proceed with a sale or close down. They were free to decide whatever they decided was in their best interest based upon solid information.

A “**Pre Sale Audit**” is performed as part of the first step so as to identify:

- Characteristics of the Best type buyer to attract
- Identify Buyer types to be avoided
- Prices the different type buyers might be willing to pay
- Amount of third party financing available
- Amount of seller financing that might be required to maximize value
- Probable amount of cash at closing
- Estimated cash price if seller financing was refused
- Action items long and short term to increase value
- And more

Our report was designed as an educational tool and therefore included more than just numbers. The report writer and valuation software included with our products for Business Owners and Brokers produces this same report.

Second Step – Sale of company

The actual sale of the company became easier because we knew the type of buyer we wanted and therefore knew how to position the company so the opportunity the business represented would be fully recognized. Because we knew the type of buyer we were after we also knew where to “go fishing”, write the ads etc.

The two products we developed for selling a business are:

- For Business Brokers: [How to Transition to a Fee Based Practice](#) or How to become more effective selling businesses
- For Business Owners: [Sell Your Business Tool Kit](#)

Buy side

The buy side process was divided into two steps also.

Step One - Buyer Profile and Business Identification

We developed a workbook of twenty plus pages to assist our customers (business buyers) in identifying their skills, strengths, preferences, resources and needs. We wanted to help our customer identify just what the components of the ideal business for them might be. We explained that we were interviewing presidents for our client companies and they and the business they buy should be a match. The workbook would be mailed back to us prior to the second meeting.

There is something wrong with essentially every business and we realized that matching our customer’s skills etc to match the needs of our client companies would be the best way to

produce a win-win for them and a commission for us. The buyer would recognize that “All the right things are wrong” and our seller would be confident in the buyer’s ability to take their business to the next level and therefore more comfortable providing some financing.

The next portion of this first step was to understand what information and knowledge our customer required and then to provide the information or education before it was needed.

Second Step – Locate, analyze, value, finance and buy the business.

This is where the quality of the first step pays big dividends for everyone. Just as with painting a house, a quality job does not start with the slapping on of paint. We know what we are looking for so time is not wasted touring endless numbers of businesses simply because they are for sale.

When the right business appears to be found the ‘due diligence’, valuation, structuring, arranging for financing and the rest is relatively straight forward because the process is approached in the proper sequence.

The [Business Buyer’s Tool Kit](#) is actually a replication of the ‘buyer education’ and workbook used by my associates in helping business opportunity seekers identify and purchase their ideal business.

I sold my brokerage practice in December of 2002 and subsequently have spent my energies developing tools for business brokers, owners and buyers. My objective is to memorialize the efforts of my associates and staff and help all become more successful when buying or selling a private company.