

Buying a Mid-sized Business: Private searches

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This is the first in a series of articles on buying a mid-sized business.

Have you thought about buying a mid-sized business? Do you know how?

Most first-time buyers surf multiple-listing services (MLS) that cater to “business opportunity sales.” An MLS is a market that brings buyers and sellers together. There are many, including BizBuySell.com, IBBA.org and BBNBrokers.com. Each MLS contains ads of businesses for sale. Most ads are for small firms.

Small business owners hire “Mainstreet Brokers” to promote, package and sell their businesses, and it is the broker who posts the ad. Tom and Ron West state in their 2004 Report on the Business Brokerage Profession that only 20% of a Mainstreet Broker’s listings ever sell. It follows, then, that four out of five advertised firms aren’t exactly winners. Can you tell the gems from the junk?

Most business buyers are smart people. Many have the industry experience, accounting knowledge and personal savvy to spot glittering gems. The glimmer stands out brilliantly on an MLS, and faster than you can say “bidding war” the selling price heads skyward!

That’s the goal of the seller’s broker: to have multiple bidders chase that scintillating gem. Prices may skyrocket, but more importantly, the multiple bidding creates a powerful bargaining position for the seller. An MLS is a marvelous tool for sellers of firms with abundant cash-flow. It is good for small-business buyers, too. These mini-markets do a great job of bringing together buyers and sellers of small firms.

If you want to buy a mid-sized business, however, then you should avoid the crowds entirely! Bidding contests never favor the buyer. Sole bidding does.

How does one become a sole bidder? You can try to find and convince business owners to sell to you, or you can hire a professional “Mid-Sized Broker” to conduct a private search exclusively for you. A private search will command more respect in the seller’s eyes. The purpose of the search is to uncover the hidden gems, those businesses that are ripe for sale but not yet listed. Once uncovered, you are in the best bargaining position as the only bidder.

A professional business intermediary will guide you through the entire buying process from start to finish. This can take five or more months from first contact to final closing. Some brokers charge an up-front fee to cover the costs incurred in the search. Others only charge a commission upon sale. Most will require a minimum fee to be paid regardless of the outcome.

A buyer’s broker, aka “selling broker,” will customize the search to match your needs, goals, industry experience and financial ability. Each of these factors is important for you to obtain funding and, later, for you to be successful. Brokers won’t make your decisions for

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you, but they will advise you, and they can help you to think through ideas, issues and perspectives you may not have considered.

For example, smart brokers understand the importance of uncovering the seller's hidden concerns and agendas. They will coach you to treat that seller with the utmost respect because you will need that seller's advice long after the sale is concluded. The broker will help you to create an offer and to foster a relationship with the seller that is founded upon a win-win scenario.

In fact your broker will perform hundreds of tasks on your behalf. They'll help you assemble an advisory team. They will walk you through the search, evaluation and offer processes. They can help you obtain funding, and they will help coordinate the due diligence and closing processes. Most importantly, their knowledge of the markets, pricing and seller behaviors is invaluable.

So which is the better method: searching multiple listings or conducting a private search? Let's compare.

Either way, a commission is built into the purchase price. The commission rate is likely the same, but the amount paid varies. On an MLS, bidding contests are intentionally encouraged, resulting in higher prices, higher commissions and an imbalance of negotiating power in favor of the seller.

In comparison, a private search often results in a lower purchase price, lower commissions, a smoother transition, and the respect and on-going support of the seller.

A private search is not for everyone. They work best for committed buyers of mid-sized and large firms, companies with annual sales over \$1 million. When you are ready to buy a mid-sized business, hire a pro to be on your side. They can be priceless allies and advisors.

Where do you find a broker who is qualified to help you? That's a good topic for next month.

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