The Business Buyer Advocate®

Showing People How to Buy the Right Business the Right Way

Business Buying

These tips can help business buyers, sellers and advisors avoid mistakes.

Who needs a *Business Buyer Advocate*?

A knight returned to his king after a successful campaign. "Your grace," he said, "I have waged war in your name these past months, and conquered many foes. I have led assaults on castle after castle. Their lands and riches are yours. Your enemies in the east have been subdued."

The king, having taken the first part of this message with great excitement, suddenly widened his eyes. His jaw dropped. He sputtered, "But I have no enemies in the east!"

The knight swallowed and quietly replied, "You do now."

Buyer enthusiasm isn't enough.
In fact, it can lead to a fatal case of buyer's fever.

We tell buyers to be careful if they act on what they know, because if they are wrong or don't know everything they should know about purchasing a business, they can make big mistakes.

Who needs a Business Buyer Advocate?

Everyone on the playing field of small and midsize company M&A.

The goal of a *Business Buyer Advocate* ® is to facilitate the safe and profitable transfer of businesses, as quickly as possible—so every party to the transaction gets a win-win deal.

Which professionals compete with Business Buyer Advocates?

Other than a few people who occasionally arise (and then disappear), posing as a *Business Buyer Advocate*, no other professional advisor or player on the M&A field need fear competition from a *Business Buyer Advocate*.

The safest, fastest, most economical way to grow a small or midsize business is by mergers and acquisitions. It's also the most profitable growth strategy.

Who benefits?

The buyer.
A *Business Buyer Advocate* does not divert buyers away from brokers. He advises the buyer to include by-owner sellers in the search, because this expands the buyer's choices to all the businesses for sale. A competent *Business Buyer Advocate* does not disrupt deals; asks reasonable questions; does not under-value a business, but will base a business valuation on reality.

The seller because a sale occurs.

Business broker, because a buyer who understands the buying process can expedite due diligence and dealmaking. (An uninformed buyer who regrets his purchase is likely, after buying the business, to blame the broker for problems that arise with the business.)

Attorney, Accountant, Appraiser
Business Buyer Advocates position their clients (buyers) to work well with other professionals. This means other professionals can have a lower exposure to liability; they don't have to cope with unrealistic or unprepared clients. The advisors on the opposing team, which represent the seller, benefit because a properly prepared and represented business buyer makes it easier for the seller to sell and the seller's advisors to facilitate a done deal.

Source of financing
Bankers and other sources of financing can get a reality check on the sensibility of a potential buy/sell transaction before funding the deal. The *Business Buyer Advocate* is not trying to sell the business, does not work on commission and is looking at the quality of the deal in the context of alternative transactions.

The distinction

A *Business Buyer Advocate's* mission is to get the buyer the best value on the most lucrative terms.

A *business broker's* mission is to get the seller the highest price on the most lucrative terms.

Let's look at a scenario.
A business buyer discovers, after purchasing a business, that he bought the wrong business or bought it the wrong way. Maybe he is in over his head and can't manage the company as he thought he could. He regrets his purchase. So, what does he do?

If he shares his grief with a lawyer, the lawyer will probably advise him to look for ways to rescind the transaction by looking for someone to blame for the buyer's mistake—someone like the seller or the seller's advisors. A business broker, for example, makes a very good victim.

So, the buyer and his attorney go over every document that the seller and broker produced or should have produced.

If the seller or broker failed to disclose a material fact, the attorney suggests filing a claim of misrepresentation, fraud or unfair business practices. If the buyer can't prove his claim, so what? It doesn't cost much to file a lawsuit, and a negotiated settlement is usually possible.

The buyer, actually, has nothing to lose by pointing a finger at the seller or broker. After all, the buyer has the seller's cash machine – the business – to pay for his attack on the seller or broker.

But as you can see, this scenario really benefits no one. Yet the brokers we work with say it's all too common.

When it comes to buy/sell transactions, few advisors have sufficient experience and expertise. Prudent ones refer their client to a *Business Buyer Advocate* who specializes in issues that concern business viability, potential and valuation.

WHY AN ADVOCATE?

First, an independent *Business Buyer Advocate* enables the seller's advisors to (wisely) avoid dual agency (trying to serve both sides of a buy/sell transaction).

Our work for buyers may also protect the seller and the seller's advisors. A buyer does not have as strong a claim of misrepresentation against a seller or business broker if the buyer has his own, independent (and competent) business acquisition advisor.

A *Business Buyer Advocate*'s job is, to some extent, to take the monkey off the back of the seller and broker.

When to Act

Most of our clients are sophisticated business people. They want a real business, one that can substantially increase their net worth. The good news is they have the money and talent to buy and manage a business. The bad news is they raise to an art what's known as "analysis-to-paralysis."

Some see themselves as master negotiators. They can drive a seller and broker nuts. That's where we come in.

Our buyer clients think they have many choices. Some act like loose cannons. Our job is to bring them down to earth, so they behave in a practical way.

Here is an example: "Price is the amount at which a business changes hands between a willing seller and buyer when the seller is not under any compulsion to sell and the buyer is not under any compulsion to buy, both parties having knowledge of relevant facts."

The above definition is the textbook answer that, of course, rarely appears in the real world.

In reality, compulsion works both ways: Sellers try to create buyer competition, and buyers look for owners who must sell.

The appraiser's job is to create the range within which the buyer and seller (and their advisors) negotiate a fair price. Competent and legitimate appraisers abide by standards of appraisal promulgated by professional appraisal societies. Documentation must support the appraiser's opinion.

The appraiser has a duty to investigate, not merely accept the client's representations. Multiples and rules of thumb are a poor substitute for a proper appraisal.

DUE DILIGENCE

Business Buyer Advocates say it's better "SAD" now than sad later. They seek **s**ubstantiation, **a**ccountability and **d**isclosure.

Ask people who purchased a small or midsize business or merged their company into another company. Ask them about the morning after.

One of the best-kept secrets among advisors to buy/sell transactions and company acquirers is the astonishing fact that most business acquisitions do not live up to the buyer's expectation.

What a buyer bought is generally not what the buyer expected to buy.

The reasons for buyer disappointment can be traced to one or more of four deficiencies:

1. The acquirer bought the wrong business.
2. The acquirer bought the *right* business the *wrong* way.
3. Insufficient *amount* of management transition assistance.
4. The acquirer did not employ street-smart post-acquisition *techniques* to handle the transition into management of the business. An example is an acquirer that does not properly and promptly (1st week) communicate with employees, key customers and key suppliers.

Warning Signs

According to the April 28, 2007 *WSJ* article, "Warning Signs for Mergers & Acquisitions," some acquisitions are hugely successful; others are disasters. Knowing the warning signs can help you enjoy the former and avoid the latter. Proceed cautiously before you acquire or merge with a company if these warning signs are present:

- Abusive earnings management
- Company with unrealistic growth-by-acquisition strategies
- Deal-happy executives
- Fast-track integration
- Hot growth industries
- Industries (and companies) that predict or have promised (but did not achieve) an earnings turnaround
- Industries whose accepted accounting practices are questionable
- Initiation of a deal comes from outsiders you did not hire
- Lack of experience with acquisitions
- Off-strategy rationale
- Preoccupation with "bigness"

DISASTER WAITING TO HAPPEN

Business buyers not fully aware of the realities in the buy/sell arena risk buying a company from an unprepared seller, which exposes the buyer to additional risk unless the buyer's advisors know how to evaluate the company and structure the deal.

According to "Want to Sell a Business? You May Not Be Ready." *Wall Street Journal,* January 8, 2008 . . .

"Buyers are getting more demanding than ever. Seven of 10 midsize businesses will transfer ownership during the next decade, and at least 90% are now ill-prepared. When entrepreneurs are ready to sell, they should get professional help to figure out how much the business is worth and how to handle the sale. Owners often think the company is worth more than it will really fetch in the market, which makes them ill-prepared to sell."

WE CAN HELP YOU . . .

Authorized *Business Buyer Advocates* ® employ our proprietary ***Street-Smart 22-Step Acquisition Sequence***.

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WE INVITE YOUR IDEAS

Send us your comments, suggestions and articles you would like us to publish in our e-newsletter.

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