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RE: SELECTING A BUSINESS BROKER

When the time comes to buy or sell a business, one of the most crucial decisions will be your choice of a broker to assist you in the process. Here are some guidelines to help you in selecting the person who will be best for you.

1. Interview candidates. Call your attorney, accountant, banker or business associates for referrals or simply search the Yellow Pages and Internet or ask the International Business Brokers Association (IBBA) for the names of business brokers serving your area. Set up a meeting with at least two business brokers and interview them the same way you would interview a potential employee. Pay special attention to whether the candidates are more concerned with your needs or simply earning a commission.

2. Experience counts. The sale or purchase of a business can be extremely complex, requiring various approaches to different problems. An experienced broker understands both the emotional and practical issues involved in creating a "win-win" transaction and resolves any problems with time-tested solutions. Ask each candidate how long he has been in business, how many transactions he has handled (especially those involving similar businesses) and if he specializes in business sales. Due to the potentially litigious nature of business transactions, any errors, omissions or loose ends can end up creating unnecessary courtroom drama. Most professionals understand and appreciate the need for specialization.

3. Demand honesty. Beware the broker who only tells you what you want to hear! If your sales are faltering or if you have been "skimming" from your business, an honest broker will suggest that you operate the business for at least another year in order to show the business in its true light, rather than take a quick listing at an indefensible price. The same broker will only quote the listed price when asked by a prospective buyer, "How long do you think they'll go?" It takes an honest broker to tell you when your price and terms are out of sync with the market and give you concrete examples to prove his point.

An honest broker will show prospective buyers what they can afford to pay for a business and not take them down a fantasy lane ending in an impossible negotiation with frustrating results. If you have \$50,000 as an equity investment, an astute broker knows better than to show you million-dollar businesses.

4. Expect pre-sale confidentiality. Having your customers, employees, vendors and/or competitors know your business is for sale can be disastrous. Conversely, if you are a potential buyer, you don't want your current employer to know you are considering a career change. The marketing and screening policies employed by credible business brokers assure that only qualified prospects receive proprietary information on a specific business opportunity and that all identities are protected.

5. Ask for references. Any professional should be willing to provide the names of past clients as references. Don't accept the excuse that all sales information must be kept confidential. After the successful consummation of a sale, most sellers and buyers have no problem with a public disclosure as long as the terms of the sale are not divulged. The only real "proof of performance" is through such disclosure; so don't let a broker hide behind a cloak of confidentiality. If a broker is telling you everything you want to hear, assume he is doing the same with the other party to the transaction.

6. Local vs. national brokers. Some sellers believe that the only way they can receive national exposure is by listing with a national company. If this was true in the past, it certainly is not true today. The Internet has become the great equalizer in business brokerage, affording local companies the same international audience as agencies with offices throughout the U.S.

People moving to Albuquerque from other parts of the country seldom contact a national broker. Instead, they contact the Albuquerque or Hispano Chamber of Commerce, local realtors, a local newspaper or a personal acquaintance to acquire the information they seek. Through these contacts, they are often referred to the professional best suited to their needs. The primary advantage local brokers have over national firms is a knowledge of the local market, from zoning laws to licensing requirements, recent economic news to local business customs. Hiring a broker who knows the "lay of the land" and is the beneficiary of local referrals can be very advantageous to both the buyer and seller.

Another key difference between local and national brokers is the fact that most national companies charge up-front fees, ranging from a couple of thousand of dollars to tens of thousands of dollars, to prepare expensive appraisals and marketing pieces. An additional fee is charged if the national company is able to sell the business. On the other hand, most local brokers only get paid for result, and if a sale doesn't occur, no commission is paid.

7. Pay the piper. Most local business brokerage specialists charge a commission of 10-12 percent of the total sales price. A minimum commission ranging from \$7,000 to \$9,000 is also observed because of the vast amount of time it takes to complete any deal, whether it's \$20,000 or \$2 million. As is the case with most commodities and services, you generally get what you pay for, and an extra two percent can seem cheap if you are negotiating a complicated \$500,000 sales with a 10-year lease, a seven-year promissory note, a five-year covenant not to compete and a six-month training and consulting agreement.