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Intermediary Selection

The vast majority of business owners have never sold a business. That being the case, most business owners will benefit by learning what role the intermediary or broker plays and, as importantly, what the owner's expectations of the intermediary should be. Business brokerage in South Carolina is an unregulated industry so take great care in entrusting what is perhaps your most valuable asset to anyone but an experienced professional.

This short guide will provide guidance on the value intermediaries provide to business owners; provide guidance on what your expectations should be for your intermediary, and provide substantive action you should take in evaluating your prospective intermediary.

We will take eight added value attributes your intermediary should provide one-by-one followed by our suggestion as to what specifically you should expect from your intermediary and how to obtain concrete evidence that your intermediary has the skill set to meet those expectations.

#1. Managing the Sales Process. Intermediaries are the quarterbacks of the entire transaction process. They are the ones who are responsible for properly presenting your business for sale, coordinating all of the different aspects of the transaction, integrating professional advisors (Attorneys, CPAs, Bankers, etc.), managing the due diligence process and keeping the transaction moving forward to a closing.

Expectations: Expect your intermediary to spend a good deal of time in analyzing your business prior to engagement and beware of the intermediary who asks what price you want for your business and says, "great", sign here.

Action: Were you referred to the firm by a reliable source? If not, obtain references. When talking to references the two questions that are most important in managing the sales process are 1) tell me about their communication skills (did they communicate in an accurate, timely manner; were they responsive to requests...) and 2) tell me about their ability to manage the complexities of the sales process (did they put in the time upfront to understand and properly package your business; how did they interface with your advisors; and did they manage the due diligence process with clearly defined written objectives and responsibilities and hold all parties accountable).

Tip: And, in addition to conversations with references, trust your gut on this critical expectation based upon your personal interaction with the intermediary, the quality of your personal communication with

the intermediary and their people skills. Excellent people skills are a must in navigating the complexities of a transaction when emotions can sometimes run high.

#2 Negotiating the Transaction. Intermediaries typically should take the lead in negotiating the terms of the sale.

Expectations: Require that your intermediary possess excellent negotiation skills in not only negotiating price but also the terms and conditions, timing, process and other major considerations of the transaction.

Action: Ask your intermediary what their negotiating philosophy is and to provide some examples of past negotiating success.

Tip: Does their interaction with you provide you with confidence that you would like to have this intermediary in your corner negotiating the terms of your deal?

#3 Structuring the Transaction. Transactions can involve various forms of consideration such as cash, equity, seller notes, earn outs, third party financing and other forms of contingent consideration. Intermediaries can structure the transaction to address the needs and desires of both sellers and buyers and often provide solutions to potentially conflicting transaction objectives.

Expectations: Expect your intermediary to have excellent third party financing contacts and to be able to fully explain the various forms of consideration. And expect your intermediary to ascertain from you your preferential deal structure prior to taking your business to market so that all packaging is designed to attempt to funnel prospective purchasers in that direction.

Action: Simply discuss with your prospective intermediary their depth of SBA contacts; how they would utilize SBA financing, if available, in structuring your deal; whether seller financing is an option for you, and just what an earn out is and how it is structured.

Tip: Your intermediary should be able to clearly articulate the various forms of consideration so that you can provide direction to the intermediary on your preferred deal structure. They should also demonstrate knowledge of how business acquisition financing sources operate and general underwriting guidelines. They should have a plan to submit your business for “pre-qualification” for financing through business acquisition financing sources and, as importantly, strong enough relationships to independently qualify prospective purchasers prior to the time and expense of due diligence.

4. Adding Credibility to the Seller. Engaging a quality intermediary illustrates to all of the parties involved that there is a genuine commitment to successfully complete a transaction and that through the intermediaries' professional representation there is an increased likelihood of a successful closing.

Expectations. Expect professional representation from your intermediary that starts with thorough investigation of your business prior to engagement, continues with professional presentation and ends with the closing of a successful transaction.

Action. Request references for your intermediary from individuals who were on the other side of the aisle with the intermediary (i.e. buyers or buyer's representatives). You will quickly find out if the intermediary assisted the buyer in gaining confidence in the transaction or, in fact, hindered the transaction.

Tip. You, or an associate, should email the intermediaries firm. You can get this information from their web site or through business for sale sites. Do they respond the same day or, at the very least, within 24 hours? You may be surprised. And, separately, ask the intermediary for sample blind profiles and Offering Memorandums. The quality of their work – which instills confidence or kills confidence – will be readily apparent in their work product for other clients.

5. Enabling Owners to Run the Business. The transaction process is an intensive process for sellers to endure especially as they are trying to run the day-to-day operations of their company. By properly vetting your business prior to going to market a professional intermediary can take on most of the day-to-day work with a goal of allowing you to focus on managing and growing your business.

Expectations. Expect your intermediary to spend a great deal of time acquiring as much knowledge of your business as is possible prior to going to market. Beware of the intermediary who meets you and says they can take you to market "next week." First, your business will not be properly and accurately presented to the market and, secondly, expect your phone to ring off of the hook with questions from the intermediary once the sales process begins unnecessarily disrupting your business oversight.

Action. Simply ask the intermediary what the process will be in taking your business to market. Is the engagement agreement the only intermediary generated document they require in the process? Or do they require considerable written documentation and input from you prior to going to market?

Tip. Simply request copies of the intermediaries required "pre-due diligence" documents that will be required for you to complete. Those documents should be thorough.

6. Educating and Coaching the Owner. The vast majority of business owners have never closed a business sale transaction. Quality intermediary firms have managed hundreds of transactions and can bring the benefits of that experience to you.

Expectations. Expect your intermediary team to be experienced, professional and skillful in human relations.

Action. When evaluating your intermediary you should be able to quickly gauge how your intermediary will engage with you during the vetting process. Are the answers to your questions delivered confidently and with clarity? Does the intermediary make suggestions as to areas of your business that may hinder a sale along with suggestions for possible action steps in those areas? Does the intermediary provide you with an opinion of value based upon market data, financial and industry analysis, and a thorough analysis of your company operations, assets, and financials?

Tip. Experience matters; but so do people skills in educating and coaching owners. Your intermediary should be able to deliver news that you do not want to hear in a manner that is straightforwardly honest but respectful. After all, the demeanor of the intermediary in interacting with you is exactly what prospective acquirer's will be interfacing with.

7. Preparing the Company for Sale. Sellers are rarely prepared for the intense scrutiny they will be subject to by buyers and their advisors. Intermediaries can assist business owners with this preparation in thoroughly doing the needed homework prior to going to market and acting as a buffer between the buyer and their advisors in a professional manner.

Expectations. Your intermediary should be thorough in their preparation in taking your company to market. And expect this to take a reasonable amount of time. If your reaction to the information and analysis required to prepare your company for sale is not "this is a lot of work" then you probably have the wrong intermediary.

Action. Simply request an outline of the intermediaries' business preparation process and the documents they require to be provided and completed in preparing your company for sale.

Tip. Look for your intermediary to analyze trends and to request follow up clarification for further analysis especially in identified areas of weakness or concern. Rest assured that all businesses have some area in need of improvement and if those are not identified and addressed prior to going to market then you can be certain they will be identified by prospective acquirers to the detriment of the deal and to your company value.

8. Finding Buyers. Intermediaries supplement the owner's knowledge of their markets and potential acquirers by tapping into their professional contacts and networks, prospective purchaser databases, and expertise in identifying and connecting with interested buyers.

Expectations. Your intermediary should have a broad network of buyer contacts. However, keep in mind that the digital age has leveled the playing field where, no matter the size of the firm, all intermediaries have access to web based platforms where buyers are plentiful.

Action. Discuss with your intermediary target acquirers and the methods your intermediary will utilize to identify prospective buyers for your own comfort level.

Tip.. We believe from our specific experience in this marketplace that finding a buyer is the least important service. While this may sound counter intuitive to you, businesses in our area are in demand and would-be buyers are plentiful. The real issue is can your intermediary professionally fulfill the seven value added services outlined above? If not, then finding a prospective buyer will not result in the sale of your business.