

How To Be A Highly Effective Business Broker

Course Module 2 What's A Business Broker? (Frequently Asked Questions & Answers)

by Glen Cooper



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What are you getting yourself into?

-This is more complicated than it appears!

- Residential real estate brokers sell 98% of their inventory. Business brokers don't
- Commercial real estate brokers have multiple repeat buyers and sellers. Business brokers don't.
- The work is fascinating. But, it's tough to discipline yourself to make money.

-The sales ratios are really tough!

- Only about 2% of the buyers who inquire about a business-for-sale every buy one!
- For reasons almost all beyond your control, many of the businesses you list won't sell. The ratios of brokers vary widely, but studies have shown it can be as low at 10%. A common industry figure is only 25%. The personal experience of the author of this course over 36 years is just 40%: 60-70% in the good times, 10% in bad times.
- Your ability to differentiate your services from competitors and to position yourself properly with clients and customers you serve make big differences! Choosing to specialize in an industry niche can work to improve the ratios, but is risky.

Participants: (L-R) Suzanne De Lucia, Michael Marks, Dennis Smith, Glen Cooper, Jim DeShayes, Rogelio Rodriguez and Tom Lindahl.



What are you getting yourself into? (Continued from page 1)

-Your attitude, philosophy, care and ability to qualify prospects are key variables!

- A “take-any-listing” approach will often lower your success ratios. You have to turn down many seller prospects who ask for help. This is hard. Yet, in the beginning of a career in business brokerage, especially, a broker’s tendency is to take what he/she can get for training and to have some listings to talk about to get started.
- Some brokers have minimum commissions and/or up-front fee retainers. These policies can make it possible to take smaller listings and/or even more types of listings than would otherwise be practical.
- One of the hardest parts of the process is dealing with all those people you aren’t going to do business with!

-It’s all-too-easy to be a hard-working but low-paid business broker!

- If you don’t keep track of your own ratios, you can mistake activity for productivity.
- If only 2% of buyers buy, you have to have a process that weeds 98% out quickly, OR you have to convert more than 2% to buy.
- If only 25% of your listings are going to sell, you need 4 times the number of listings than you otherwise might think! If you come from a real estate background where 98% of listings sell, it’s easy to doubt reported business brokerage industry ratios. When you go through a period where you sell all of your listings, it’s easy to think that this will last.

-Education, training and experience are keys to success!

- Real estate continuing education classes required for real estate license renewal are totally insufficient.
- An education in sales and business financial analysis are the two major keys.
- Years of experience count, especially when you know your own ratios.

“Know that you are not going to sell all of the businesses you list. Some brokers, in some periods, sell just 10%. Some think the industry average is about 25%. My historic average is 40%: 60-70% in good times, 10% in bad times.” – Glen Cooper

What's Your Sales Ratio?

What kind of brokers or intermediaries are there?

Note: Each area of brokerage has its own unique terminology, with its own unique ways of selling, accounting and managing its activities. It's a common mistake for a new business broker (especially one who comes from one of these other areas) to think that the same rules apply. They don't. There are significantly different markets and selling ratios in each area.

-Residential Real Estate Brokers

- Handle sale of homes
- Sell 98% of their listings to 40% of the population?

-Commercial Real Estate Brokers

- Handle sales & leasing of commercial real estate
- Repeat sellers, repeat buyers

-Business Brokers

- Handle "Main Street" business sales
- Usual definition of "Main Street" means "owner-operated"
- Entities w/under \$5-10 MM in sales and/or assets, but not always
- Also specialty industry brokers (like Hotel/Motel brokers)
- 90% sales to one-time, first-time buyers
- Sells only a portion of their "listing" inventory

-Mergers & Acquisitions (M&A) Intermediaries

- Handle "Mid-Market" with professional management level, but not always
- Can be divided into "lower middle market" and "upper middle market." Lower is \$2MM to \$10MM; upper is \$10MM and up.
- M&A label often used to avoid being called a "business broker". Probably less than 10% of business brokers also handle the "lower middle market" as M&A Intermediaries
- Also are in specialties (like Nat'l Assoc. of Physician Recruiters)
- May/may not sell a higher percentage of their "engagements" than business brokers sell of their "listings"

-Investment Bankers

- Institutional Intermediaries who handle large corporate sales
- Usually over \$100MM in sales or assets
- Everything, including the sale of publically-held companies

"It is clear that the number of listings you sell is dependent upon your attitude . . . your philosophy . . .

"One philosophy is to take any listing. It's all about numbers. It might sell.

"The other philosophy is to be very careful and qualify what you agree to sell.

"Some people are good about that and can say 'no' . . . and there are those who can't say 'no'. "And, sometimes, we all do that."

"In commercial real estate, it's more solid. You've got factors that are simpler. It's more complicated with businesses."

Michael Marks
Business Broker

How does a business broker obtain leads for potential seller engagements (listings)?

-Referrals – 50% of volume?

- Sellers' professional advisors (lawyers, CPAs, financial advisors, etc.)
- Previous seller clients
- Leads from marketing outreach efforts (seminars, networking)

-Direct Solicitation – 30% of volume?

- E-mail marketing, telemarketing and direct mail
- Networking, special events and follow-up

-Advertising & Directory Listings – 20% of volume?

- People will call from ads you are running for similar opportunities
- Directory listings (like CABI, BizBuySell.com and IBBA broker lists)

What kinds of businesses sell more easily?

-Ones that have:

- Current positive cash flow – it makes money
- A unique and simple niche in the marketplace, preferably “scalable”
- A central or attractive “lifestyle” location in the marketplace
- Anything that looks like easy and/or pleasant work
- It's currently the “hot” trend
- Anything that appeals to current buyer prospect fantasies (as in: “I've always wanted to own my own fill in the blank business.”)

What kinds of businesses DON'T sell easily?

-Ones that have:

- Recent financial losses or negative trends
- New competitors or markets that are difficult to understand
- A limited growth potential in the eyes of the buyer prospects
- A location that is NOT attractive for an entrepreneurial “lifestyle”
- Anything that looks like it requires too much training or expertise, or with which buyer prospects just can't identify

“You can make more money by saying ‘no’ than ‘yes’. I don't totally disagree with your ratios, Glen, but it depends upon what your practice is.

“I'm selling lower-level M&A and upper-level “Main Street” . . . and a good full-time broker can sell 5 listings per year (and maybe even 10 if they're killing themselves and get very lucky).

“I tell my brokers that, of the leads they get, they should only take one in 10 or 20 as listings. The hardest part of the process is how you're going to manage all those people that you aren't going to do business with.”

Suzanne De Lucia
Business Broker

Basic Facts & Observations About Business Brokers:

-Average Business Brokerage “Firm”:

- Probably about 40-50% Solo-Practitioners
- Probably less than 5% of business broker entities have more than 5 agents
- Average urban brokerage “firm” is only about 4-5 brokers
- Sells only 25% of their listings (10% in bad times, 60%-70% in good times?)
- Sells to only about 2% of all buyer inquirers who contact the firm
- About 60% belong to a professional brokerage trade association
- Only about 3,500 brokerage “firms” in the United States

-Average Business Broker with Experience:

- Is a really a part-timer and could do better with a disciplined schedule?
- Is a 55-year-old white male. There is an opportunity for younger and/or female
- Has little or no sales training background, which is essential to success
- Has 4-5 exclusive listings at any one time; could handle 10-20
- Sells 3-4 businesses per year; could be much more. Selling rate of a successful broker in the long run is 30%-40% of their listings?
- Represents sellers – and probably should stick with that?
- Handles 20 buyer prospect contacts per month in an uncreative way?
- Meets with only 4 buyer prospects a month?
- Sells an “average” business of only about \$225,000; could be higher?
- Makes less than \$50,000, when it could be much more?

-In My Opinion:

- Danger in the industry is that no one has an interest in telling prospective business brokers just how difficult this business can be. Very few firms even keep this data
- Failure rate in the industry is much higher than one would expect
- Profession may be too small to ever get “professional”
- Room for performance improvement is significant
 - Effective training remains almost non-existent
 - CE credit courses meet state’s needs, more than broker needs
 - Training is most needed in sales, time management and appraisal
 - Brokers who have high-level sales AND analytic skills are rare

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