

How To Be A Highly Effective Business Broker

Course Module 4 Understanding, Presenting & Defending Business Values (Part 2 of 2)

by Glen Cooper



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This module follows Part 1 of “Understanding, Presenting & Defending Business Values”.

In Part 1 (Module 3), we started with a very basic and simplified understanding of small business values. You should review that outline and that video before reading this outline or watching the Part 2 (Module 3) video.

In this, Part 2, we now discuss the ins and outs of presenting and defending our thoughts in front of sellers (mostly clients) and buyer prospects (mostly customers, not clients).

As with many topics, the more you know about it, sometimes, the harder it is to explain it to someone who knows nothing about it. Until, of course, you master it – not only master the body of knowledge itself, but master how to say it simply and clearly!

The job of a business broker eventually requires a mastery of understanding, presenting and defending our own business value opinions and the positions of any clients we represent.

Participants: (L-R) Suzanne De Lucia, Dan Pellegrino, Tom Lindahl, Glen Cooper, Jim DeShayes, Paul Chambliss and Rogelio Rodriguez.



Understanding Business Values:

-Important to start with your own understanding

- Take IBBA courses¹
- Take courses from business appraisal associations
- Read books on the subject

-Review the previous module

- Basic approaches & basic concepts of valuation.
- Get comfortable with simplified “rules of thumb”

-Consider how you will simplify your explanations

- When, how and to whom you “present” this information?
- When, why and how you “defend” a value opinion?

Presenting Business Values:

-When

- Seller asks you, “What’s my business worth?”
- Buyer asks you, “How do you justify the asking price?”
- You create an “offering memorandum” or some type of business presentation for your business listing
- You write the ads promoting the business for sale
- You are assisting the buyer and potential lender

-How

- Prepare and deliver(?) a report or summary sheet(s)
- Interactive process with proprietary software
- Interactive process without proprietary software

-To Whom

- Prospective clients
- Advisors of prospective clients
- Other brokers (either for inner-office or co-brokering)

“Mine is a two-step process. I first gather information and establish credibility.

“I then do as much as ten hours of homework and prepare a report.

“When presenting to a prospective seller, the first thing I do is explain the process.

“I go over the basic concepts of value and explain the various options of price and terms. I often use ‘real life’ stories to illustrate the points.

“I educate my sellers. It’s really almost a ‘101’ course . . .

Dan Pellegrino

Business Broker

Sales = Teaching + Leading.

¹ The International Business Brokers Association (IBBA) offers multiple courses relating to business valuation. Key courses are: Analyzing and Recasting Financial Statements (Courses 210, 211) and Introduction to Pricing Small Businesses (Courses 220 & 221). This brief outline and video course presumes that you have this level of knowledge.

Defending Business Values:

-When

- Seller challenges your methodology and/or conclusion
- Seller's advisor challenges
- Buyer prospect challenges
- Lender challenges

-Why

- Person really doesn't understand, but is your ally
- Person really doesn't understand, but is probably your adversary
- Person is definitely your adversary and is positioning themselves to negotiate with you/your client

"My first reaction to a buyer who says, "That's too much!" is . . .

"'Convince me. Tell me how *you* reached the conclusion that this price was too high.'

"And, what I find, in small businesses at least, is that, quite often, they don't have a reason. Many are just spring-loaded to respond, "Oh, that's too high a price!"

"If you are talking to a private equity group, they frequently will be able to roll out a business model that shows why they think it's too high a price.

"But, you have to keep in mind that private equity groups typically have a hundred different business models they are working with, and they're pulling out the one that most justifies their position.

"So I don't necessarily take that too seriously as their real opinion on the price.

"But, getting back to small businesses, I will ask a buyer why he thinks it's too high . . . and if he shows that he doesn't quite know what he's talking about, I will start walking him through the valuation process that I use."

Tom Lindahl
Business Broker

How – Really 4 Steps

- Recognize your role as that of a sales professional and advocate
 - Advocate professionally for your client (when you're their broker)
 - Implications of your presentation materials & ads
 - What you say to clients and customers
 - Advocate professionally for your own opinion (as an appraiser)
 - When talking to a trusting client or client prospect
 - When talking to a skeptical client or client prospect
- Recognize the situation by carefully reviewing your key assumptions
 - Adjust the appropriate level of detail needed by the listener
 - Review the assumptions of any report you offer
- Choose the process and approach you will use
 - Interactive process with proprietary software
 - Interactive process without proprietary software
- Be an advocate – recognize that advocacy is selling and selling = teaching + leading
 - Review the rationale and logical reasons
 - End with an emotional tie
 - People buy emotionally, but rationalize with logic
 - The value estimate is supported by
 1. Being less than it would cost to start it from scratch (cost approach)
 2. Being in-line with what other, similar businesses are selling for (market approach)
 3. Making sense economically (good job and good investment) (income approach)
 - But the REAL reason this makes sense for you is . . .
 1. Reduces stress to make decision now
 2. Saves time to make decision now
 3. Money reason (offers a financial benefit) – It's a value that won't last long
 4. Personal reason – Think of how it will feel to . . .

Participants:

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Glen Cooper
Suzanne De Lucia
Jim DeShayes
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Rogelio Rodriguez