SUNBELT®

The place to go to buy or sell a business.

INSIDER TIPS ON BUYING A BUSINESS IN CANADA

Greg Kells

President,

Sunbelt Business Brokers, Inc.

World's No. 1 Business Brokerage Firm

Insider Tips on

Buying a Business in Canada

Based on the "At the Broker's Table" article series

Greg Kells

"Anyone considering buying or selling a business must read Greg Kells' book(s). If anyone has 'been there–done that' in business, it's Greg. It is down-to-earth, nitty-gritty material. I repeat – don't even consider buying or selling a business until you have read every word of Greg's book(s)."—Tom West, author, founder of International Business Brokers Association, owner of Business Brokerage Press

"Greg Kells is a knowledgeable and sincere relationship expert who brings experience, background and genius to the business of brokering. He builds honest relationships, with and between business sellers and buyers and helps them, through both education and process, to get to their goal line. He is the best in the business."—Ed Pendarvis, author, founder of Sunbelt Business Brokers, dean of Business Buyers University

"The greatest compliment you can pay someone is that when a client of ours wants to sell or buy a business, we refer them to Greg Kells and his organization. We trust him and he really knows what he is doing. Now he's decided to share his knowledge with everyone by writing *Insider Tips*. Wow."—Bruce M. Firestone, Ph.D., author, founder of Ottawa Senators, Entrepreneur-in-Residence at Telfer School of Management, owner of Century 21 Explorer Realty Inc.

Insider Tips on Buying a Business in Canada

First edition

Published by
Sunbelt Business Brokers Canada
Web site: www.sunbeltcanada.com

Editor: Karen Runtz

ISBN 978-0-9917421-5-8
This book is also available in print.

Table of Contents

Acknowledgments

The concept behind the series that spawned this book—"At the Broker's Table"—was to sit together with a group of experts in various disciplines and, as a group, to provide advice to prospective business owners on purchasing a business.

I brought the expertise in business brokerage. I have helped more than 400 prospective buyers to acquire a business that worked for them and their family; I have also helped some 4,000-plus to decide that owning a business was *not* right for them. This direct experience, compounded by training hundreds of business brokers over the past 12 years, has enabled me to learn what works in the buying of a business and what does not.

With this guide, we encourage people to look at small business ownership as a way to build wealth, independence, security and respect, and to involve and support a family.

We hope that, equipped with a better understanding of the process, prospective entrepreneurs will be able to overcome the fear associated with purchasing a business and make the decisions that are right for them.

I am fortunate to have had two great mentors in my business brokerage career: Ed Pendarvis and Tom West.

Ed Pendarvis, who founded Sunbelt Business Brokers and built it into the world's largest and most successful business brokerage network, has been a generous and kind mentor. He has shared his experience, time and energy to build our industry and to help many hundreds of business brokers to launch their careers. His humility and care for others along with a keen understanding of the small business mindset enabled him to understand how to help business sellers and buyers achieve their goals and win/win outcomes. I was one of the many students fortunate enough to benefit from Ed's tutoring. Ed has written two books of note and continues to help business buyers and sellers through BusinessBuyersUniversity.com and through his brokerage in Charleston, S.C.

Tom West is the grandfather of business brokerage in North America. He shares with Ed a very generous spirit, which manifest itself in launching and nurturing the International Business Brokers Association (IBBA), which provides training, mentoring and resources to our industry. A Fellow of the IBBA, I have benefited greatly. I have also gained from Tom's personal tutoring and from reading the many helpful publications and training materials issued through his firm, Business Brokerage Press.

The third person I wish to thank for their help is Karen Runtz. Karen kindly and expertly edited each article and kept me working in a timely manner to meet the newspaper deadlines. She has helped with our web site www.sunbeltcanada.com , my blog "The Real Deal", our monthly newsletter, social media and with the editing and formatting of this publication. This book would not have happened without her.

The team assembled to provide advice for business buyers and sellers included: Adrian Spitzer and Glenn McLeish from Valpak (Marketing), Dianna Larkin from McCay Duff (Accountants), Jay Humphrey (Lawyer), Randy Harrison from Advanced Planning Group (Wealth Planning and

Life Insurance), Rob Tanner from Tanner Insurance (Property and Liability Insurance), Ray Joseph from Conner Clarke Lunn (Investment Managers), Grant Mellow from Action Coach (Business Coaching), Jeffrey Edwards from The Inner Circle (Peer Mentoring) and the staff of the Ottawa Sunbelt office–Chris Skowronski, Olga Nadjakova, Khaled Bitar, Mitch Murphy, Patrick Ryan, Gavin McLintock, Chris Strang, Jason Kells, Susan Langmack, Amin Karimi, Mark Cullen, Heman Hui, Francois McDonald, Mike Dunn, Hewitt Roberts and Laura Gagnon. Each has made a valuable contribution.

Our many clients have kept us in business and each has increased our understanding as have their lawyers, accountants and professional advisers, and for this I am grateful. I am also grateful for the sharing of experiences and knowledge among the many Sunbelt office owners throughout the world. Without their help I would not have survived the first few years.

Most of all I would like to thank my wife, Gayle, who has put up with the evenings and weekends devoted to building Sunbelt, to increasing the professionalism in our industry, to educating business buyers, sellers, and brokers, and to this project.

Introduction

Insider Tips on Buying a Business in Canada is written for **buyers.** It is what they need to know to buy a business that is just right for them.

Like our award-winning book for sellers, this new book is based on *At the Broker's Table*, an article series we launched in 2010 in the *Ottawa Business Journal*. We have also included some "extras"—tips on partnering in business, seasonal businesses, what baby boom buyers should know, and our *Top 10 Tips for Buying the Right Business for the Right Price and Terms.*

We start with the very first decision a prospective buyer needs to make—do I really want to become a business owner? If so, what type of business do I want to own—will I start my own business, buy an existing business or buy a franchise? We review the issues related to each option.

We examine the lifestyle issues of owning a business—demands upon the owner, personal interactions, personal growth, skills development and earnings. We look at how different sizes of business may yield different results in terms of risk, earnings and lifestyle.

We reveal the value drivers of a business to help you understand the real value in the different businesses you look at, with the focus on how you find the right business for you. It is also important that you understand the characteristics of small business and how owners do their financial reporting. Every buyer wants to know how much they can make and we will, of course, speak to what you need to look at to make the right determination.

We address ways of financing your purchase—looking at the risks and requirements of each option.

Negotiations are often difficult for first-time buyers. We give you the advice, direction and tips you need to negotiate a deal that works for you while preserving good relations with the seller.

Due diligence is never fun or easy, however our guidance and roadmap will ensure that 1) you are getting what you think you are getting in your purchase and 2) you are getting what you need.

We also provide direction on closing the deal and the issues related to taking ownership of the business, such as risk mitigation, structuring, tax planning, insurance and legal issues.

And as you open the doors as the new owner, we're there too with tips on how to make the business even more successful in the years that follow.

I am a great believer in small business ownership as a way to support one's family, build wealth, enjoy one's life, contribute to the community and achieve personal development and growth.

As a small business owner I practice what I preach; however, owning a business is not for everyone. *Insider Tips on Buying a Business in Canada* will help you to decide if it *is* for you and if so, what you need to do to make your dream of successful business ownership a reality.

Greg Kells; President
Sunbelt Business Brokers Inc.

Do You Really Want to Own a Business?

Some have "floated" into business ownership, working alongside parents or other family. But most have had to jump into deep water to get the keys to their own business—establishing a start-up, buying a new franchise or purchasing an existing business. We'll talk about these options later. But first we need to ask, "Do you really want to own a business?" The answer can have a huge impact on the rest of your life.

Let's start with the benefits of owning a business.

Many people choose to own a business because they do not enjoy working for and being directed by others. They may feel underappreciated, believing that their talents could and should generate greater returns based on the significant effort they are putting in. They feel that they are making someone else rich and that perhaps it's time to start doing the same for themselves.

The financial rewards and the community acceptance that comes with owning a business *can* be significant. For many, these are the greatest factors in their decision to get into business. The ability to substantially enhance the value of a business then sell it tax-free is a great addition to the regular income and dividends that ownership of a small business can provide.

Yet, although a great incentive, financial rewards are not the main reason people get into business. Many are seeking personal freedom—the right to control their own destiny, to work with family members and to use the business as a means of enhancing their skills and abilities. Often the motivation relates to boredom, lack of personal development and the feeling of being stuck in a rut at their current job.

Others have a passion to work in a particular field and to pursue personal goals related to that field. Still others see business ownership as a means of personal growth and achieving a desired lifestyle.

Impact on others

Each of these benefits is a valid reason for considering business ownership, but you must also look at the downside. It's often said that "the worst day of business ownership is better than any day working for someone else." However, with business ownership come responsibilities. Those responsibilities are to employees, to clients, to suppliers, to financing sources and, of course, to family.

Many small business owners work long hours. Fortunately for most there is real enjoyment in what they are doing and accomplishing, and even though in the early days the hours may be long, it somehow doesn't seem like work. But these long hours can have an impact on family relationships, on community involvement and on friends.

Businesses typically go through four stages:

At the **entrepreneur stage,** the business owner is directly involved in every aspect of the small business.

As the business grows and matures, it moves to the **supervisory stage** where employees are responsible for most functions in the business; however, the owner is looking over the shoulder of each of those supervisors and is actively involved in almost all decisions.

During these first two stages, the demands on the business owner are significant, both in time and energy.

Fortunately, many businesses evolve to the third stage of a **managed business** where managers are responsible for the various business functions and able to operate in a relatively autonomous way, with the owner involved in development of the systems and processes that are being managed; only on an exception basis does the owner get involved in decision-making.

The wise owner who gets his business to this third stage can enjoy a very rewarding life. That life can include much free time, greater community involvement and the rewards that come from assisting in the personal and professional development of those they work with. There are also significant financial rewards at this stage if the business owner has done a good job.

At the **enterprise organization stage**, the organization can began expanding into different areas, such as leveraging the client base with other services or expanding geographically.

With all these benefits, what prevents so many people from becoming business owners? For some, it's an aversion to stress and risk along with the pressures of having to make decisions. For others, it's limitations in their education, experience, skill, energy, organization, or financial resources preventing them from taking the plunge. And for many, inertia—coasting with the status quo—seems easier than change.

Do You Really Want to Own a Business? (Part Two)

Is business ownership in your future? *Should it be*?

Owning a small business is, in fact, how most millionaires got to be millionaires. But while the benefits of owning a business are many, not everyone is equipped to shoulder the effort required.

A supportive family is essential. Unlike the income that comes with a steady job, the cash flow in a small business is inconsistent. This changing income can put great stress on family relationships as can the effort and hours of the early years. If you plan to embark on business ownership it is essential that you have the understanding of what this may involve *and* the support of your family. I have been very fortunate over my many years in business to have a wife who rode the financial ups and downs and put up with the long hours and extensive travel with understanding and without complaint. I believe that without this support at home it would have been impossible to have achieved the same business success.

Attributes for success

You need to be completely honest in assessing your own attributes. While most business skills can be learned, low risk tolerance, communication skills and self-confidence may be valid reasons for not wanting to own a business.

The ability to inspire confidence is perhaps the greatest determinant in business success. In order to attract good employees, build positive relationships with suppliers and engage clients' trust, you have to inspire confidence in yourself, your product or service, or your idea or vision.

Self-discipline is the second requirement. A business owner must address many things that may not be exciting or fun, but simply need to be done. Successful business owners tackle these without hesitation and without postponement. If you lack self-discipline, business ownership is not for you.

The third required attribute relates to attitude. Optimism, enthusiasm, a positive attitude and applied faith are needed for business success.

But perhaps even more important is vision and definiteness of purpose, without which success is improbable. A mastermind group (typically other non-competing business owners who work together confidentially to achieve greater success in each of their businesses) can be invaluable. *The Inner Circle* is a quick way to develop such a group and should be considered by new entrepreneurs.

What else? High energy helps as does a pleasing personality and the constant desire to go that extra mile. Personal initiative is another trait you should find demonstrated in yourself, along with the ability to focus and direct your faculties to a desired goal. Imagination and creativity are useful but not necessary—many business owners have succeeded without them. Interestingly, it is not so much the brightest or smartest individuals who succeed, but those who best use the skills and abilities they have.

Ways to become a business owner

There are generally four ways to become a business owner, each with their own level of risk.

The most obvious is to simply *start your own business*. As 65% of start-ups fail, this is a very risky way to become a business owner.

The second way is to ***take over a family-owned business***. While this *can* be successful, all too often the transfer produces poor results. The most common problems result from the "child" not having the skill or passion of the business founder.

We mentioned the ability to inspire confidence and the need for self-discipline, attitude, vision and definiteness of purpose. Without these, the business will falter. In many cases, running and growing the business is not the "child's" dream, but taking it over from the parent is the path of least resistance. In some cases the basic skills have not been developed and the business is of a size where these skills are required.

Sometimes selling the business is the better option for both parent and child. I highly recommend getting professional advice prior to making a decision about transferring a business from a parent to a child.

The third way to become a business owner is to **buy a franchise**. The success rate of new franchise purchasers is around 80%. While the risk is not as great as starting your own business, the rewards may not be as great either. You may find that you need to own multiple franchise operations in order to make significant income. For example, a typical franchised hairdressing salon will make $25,000 to $50,000 per year. Although this may not seem appealing, many operators own multiple locations and owning 10 or 12 locations that each make $50,000 per year may, in fact, be quite attractive.

The fourth way to become a business owner is to **purchase an existing operating business** with trained employees, existing client and supplier relationships, a proven concept and location, plus training and financing from the previous owner. The success rate when purchasing such a business through Sunbelt Business Brokers Canada is greater than 98%. If you were betting your life savings and the future well-being of your family, this is certainly the best approach—minimum risk and the potential for significant financial return.

As with a start-up, the purchase of an existing business may require significant effort and long hours over the first few years of ownership, however you do have a head start and very low risk.

What Size and Type of Business Will Work for You?

What size and type of business will work for you? This depends, to some extent, on your previous experience and your financial resources, lifestyle aspirations, family support and skills. But more than anything else, it depends on what you enjoy doing. Imagine a day as the owner of a business. What do you spend the day doing? With whom do you interact?

A day in the life

Many people come to Sunbelt wanting to purchase a franchised fast food business. When I ask them what they think their days will be like, I draw a blank. I then suggest that they will be responsible for employing and managing a significant number of minimum-wage employees who see their job as transient and who are not necessarily motivated nor perhaps inclined to take their responsibilities seriously. Their customer interaction may consist of "Would you like fries with that." The owner will be on call 24-hours per day dealing with equipment breakdowns, false alarms, staff who do not show up to work, suppliers who are late with delivery and a myriad of other issues. They will be responsible for the payroll, purchasing, bookkeeping, recruiting, staff training, cleanliness and all the other tasks that befall the owner of a fast food franchise.

In trying to determine what size and type of business will suit you, think about the skills and attitudes of the staff you will be managing and the personal development that will come from interacting with them. Do the same exercise for clients. Think about the nature and the complexity of that interaction—the challenges you will face, the personal development you will achieve and the personal satisfaction you will gain from serving them well.

Working *in* or *on* the business

You must also decide where your focus will be directed: working *in the business* (self-employment) or *on a vision of what the business will become*. The vast majority of existing business owners work *in* their business. They make a good living, support their family and contribute to their community. Such owners are comfortable running a business that achieves moderate growth.

Others have grand visions of what they can achieve by turning their business into a self-operating cash machine. These owners free their time to focus on the growth of their business and the achievement of their vision.

Still others are serial entrepreneurs who buy underperforming businesses that they can then turn into highly successful businesses and sell at a substantial profit. These individuals repeat this approach with other businesses, applying their business development and management skills to achieve great wealth.

Decide at the start of the process of buying a business which of these routes you wish to take in life. Rely on good professional advisers—every business needs a good accountant, lawyer, insurance broker and wealth planner. If your plans are to achieve a grand vision or to become a serial entrepreneur you will also need a great business coach, a great investment adviser, a great business broker and a great tax and transaction lawyer. You will need other members on your team as well—the quality of your team will make a difference in your success. You will also want to get involved in a mastermind group such as *The Inner Circle*.

An experienced business broker will guide you through the self-analysis and early decisions about what will work for you. If you don't have confidence in your professional advisers, particularly the business broker who is guiding you through the buying process, replace them.

Most business buyers who come to us do not know what they want. Our job, in the early stages, is to help you clarify your vision. Once you have a clearer idea of what you want to do with your life your broker will help you make it a reality. Lay out a plan to achieve your long-term vision and start to work on it one step at a time.

Franchises Provide a Business-in-a-Box

Business brokers concentrate on connecting buyers with businesses where they can be successful. For some, the solution is the purchase of an existing operating franchised business with a known name, system of operations, track record, trained employees, existing customer base and cash flow—a business-in-a-box.

Most people associate franchises with fast food yet there are franchises in almost every line of business.

Sunbelt represents some 50 franchisors in Canada and franchised businesses represent one out of every 10 businesses we sell.

Franchising is a fast growing area. According to *Fast Facts* of the Canadian Franchise organization, franchised businesses account for 40% of all retail sales in Canada. That number is even higher in the United States, where franchise consulting and development company FranStop says that nearly 50% of all domestic retail sales in that country are from franchise businesses.

Sunbelt is itself a franchise—we license the use of the Sunbelt name and the Sunbelt system of business brokerage that we feel works better than any other. We combine that with training, IT and operating systems, branding, marketing collateral, business forms, etc., and ongoing support, enabling franchisees to achieve great success.

For certain buyers, a franchise is a good fit. Franchising is a method of being in business *for yourself*, but *not by yourself*.

A franchise is a known name and a system of business operation that teaches you how to produce and sell your product and/or service throughout your market territory. It is a proven system of business success that is teachable, trainable, reproducible and repeatable and that the marketplace responds to by purchasing your product or service. The individual franchisees are local owners/managers—a tactic to ensure that the system is followed faithfully, allowing the success in one area to be duplicated and repeated in other areas.

A franchise's success rate provides a very strong underpinning of value, which also corresponds with a lower risk. Remember that there is a much higher rate of success based on buying an established business compared to starting one:

- Starting a brand new business, 35% are successful
- Buying a new franchise, 80% are successful
- Buying an existing business that has shown profit for three years, greater than 98% * are successful *Sunbelt Canada Business Brokers rate of success

Franchises are not created equal

When you start investigating the options, you'll soon find out that not all franchises are created equal.

Under the standard arrangement, franchisees pay franchisors a royalty of a few per cent of their gross sales for access to an operating system and a brand name, which is how franchisors make money.

Yet the franchise fee can be substantial, ranging from several thousand dollars to hundreds of thousands of dollars. Other costs can include rent, equipment, start-up inventory, operating licensing fee, insurance and possibly a grand opening fee to help promote your business.

Keep in mind that you will still need working capital and a reserve for unforeseen expenses once you're open for business.

With some franchises, like Tim Hortons and Canadian Tire, you're only buying an income stream. When it's your turn to sell, you will only get back what you paid, not market value. Most franchisors allow you to sell the business at market value.

You need to understand the dynamics at work *before* you walk down the aisle. Talk to existing franchisees about their experiences. Ask them: "If you had to do it over again, would you buy this franchise? Are you happy with the franchise and are you making a living?" Keep in mind, of course, that your own results will be affected by factors like your own management and location.

Be aware that you are really dealing with two sellers when you buy an existing franchise. The seller (franchisee) can only sell you his or her rights to the business and franchise with the agreement of the franchisor (the parent company). The parent company may try to sell you a *new* franchise, with a significant increase in risk.

There is often a transfer fee and requirements for training before a new license or franchise agreement is issued to you, the buyer.

Your ongoing relationship will be with the franchisor. The franchisor, who knows more about that franchise than anyone else in the world, will have a vested financial interest in your success and they will help you to learn how to manage and operate the business successfully.

So, can you follow a system and do it their way? Are you comfortable managing inside the box?

An experienced business broker will assist you in selecting the most appropriate franchise system and in navigating the financing and approval process. Use their services to make the choices that work best for you.

Is Buying a New or Used Franchise Right for You?

For certain buyers, a franchise is a good fit. Individual franchisees are local owners/managers who apply a prescribed system of business operation to produce and sell specific products/services throughout a market.

Franchising is a fast-growing area. There are franchises in almost every industry from recruitment to landscaping to building maintenance to consulting services to metal supply to education to retail sales, and the list goes on.

If you have a specific franchise in mind, find out what you need to invest and the skills you need to be successful. What is the experience of current franchisees—how much support do they get from the franchisor? What is the lifestyle of a franchise owner—what does a typical day as an owner of this franchise look like? What is the future for this product or service?

Keep in mind that:

- Some franchises require sales, marketing, and management skills to be successful and will make the owner $400,000 plus per year.
- Some require training or coaching skills. Others require operations and supervisory skills.
- Some deal with the public and some are business-to-business franchises.
- Some will make the owner a decent living if he/she is lucky.
- Some are good for part-time or absentee owners and some require total commitment.
- Some are great for multiple location owners and some are not.

Assessing the risks

Do your diligence before you buy. The franchisor is required to provide disclosure documents with contact information for current franchisees as well as those who have left the system. Make use of this information—meet or speak with many of the current owners. Check for litigation and disputes within their system.

One of the primary risks of purchasing a new franchise from a successful franchisor is the new location. Other risks are working capital, market dynamics, staff availability and your skills.

A good broker will help you assess each of these and guide you through the process.

Typically some 80% of new franchise sales are successful depending upon the franchisor and the risk factors. Contrast this with the fact that more than 98% of the time when we sell an existing business with a history of profit, a proven location, trained staff, immediate cash flow, seller-provided financing and training, the business works out well for the purchaser. Some of these sales are existing operating franchises.

If betting my life savings, my future and that of my family on a business purchase, I like these odds much better.

For some, though, a new franchise purchase is the right choice.

Consider the many benefits: proven product or service; ongoing marketing support; ongoing training—owner and staff ; well-documented systems; peer mentoring from other franchisees; ongoing investment in processes, systems, and products, at no cost; brand recognition; existing support services such as websites, customer relationship management (CRM) and point-of-sale (POS) systems; recruiting tools; financing; legal documentation and support; technology and equipment advice; best practices training and communication; and more.

Nothing comes free of course—your ongoing payments of fees and royalties support all of this. But in the case of good franchisors, what you pay is a small fraction of the cost of developing these services on your own. That is why franchising works. The costs are shared by many.

Some franchisors are very rigid in enforcement of their operating procedures. Others give the franchisee latitude to adapt to local situations and personal styles. Franchise agreements are typically very one-sided, requiring the franchisee to have faith that the franchisor will act in the best interest of their franchisees. This is not always the outcome, hence the need for validation and first-hand information from existing franchisees.

It helps to use a good broker who knows the franchise system and is discriminating about the franchisors they represent. Does their company validate a franchise before taking it on? Do they keep validating them to ensure that they are delivering appropriate services and support to their franchisees and that their franchisees are being successful? Do they participate in their annual meetings? And what if you decide that buying a new franchise is not in your best interests? Can they provide you with other options—existing small businesses with a proven track record of success? Look at all these factors as you consider who will help you make the best choice for your future.

Re-inventing Yourself: Tips for Baby Boom Buyers

No matter how successful you have been in your previous work life, becoming a first-time small business owner can be tough.

And with the many business buyers in Canada born in the baby boomer era, it's worth taking a closer look at the typical challenges from their perspective.

But first, some background.

A 2011 BusinessesForSale.com survey of business buyers across Canada, the U.S., U.K., Australia and South Africa found that male or female, in Canada or globally, their top reason for buying was the independence of owning their own business. Others were looking to expand or move into a new area of business and still others had a dream of escaping the rat race.

Now let's go back to our tips for baby boomers buying a business as their second career.

Look 360^{o} before stepping out

Many first-time business buyers who have worked in government, NGOs, or mid-sized to large companies do not realize how much energy is required during the first few years of owning a small business. As a new business owner you will *have* to put in the effort—failure is not an option.

It is important to eat well and exercise to keep up your energy level. On the plus side, it is much easier to put in the effort when you are enjoying what you do. That said, it is important that you purchase a business you will enjoy. To make that decision you need to realistically assess what you *do* enjoy, your personal goals for the coming years, your personal strengths and your weaknesses. Make sure that the day-to-day effort in your business will be fun for you. Getting up every morning and being excited about the coming day makes the workload seem light.

You may not be able to afford your current lifestyle during the first few years of paying for the business. Do a financial plan to make sure you will have enough cash flow to live in an acceptable style and still have some cash available. Things may be a little bumpy during the first few months. Buyers sometimes fail to anticipate the need for working capital or capital expenditures as they grow the business and they fail to arrange sufficient financing for the same.

Baby boomers are often "sandwiched" between competing demands from children, grandchildren, and aging parents. Make sure that in planning your business you allow time to meet the demands that family put on you. After all, the business is there to support your lifestyle. Too often owners do not realize this. Stress is largely caused by overcommitting your time.

An owner's role

An owner's role is to focus on the future while bringing in the money (revenue and profits) for today. This is a balancing act that starts right from the initial purchase. As time goes on, less of your effort should be required to bring in the money.

As you start out in your business build a strong and reliable team of professional advisers. If they do not inspire your trust, change them. You need a team you can trust.

You must be able to seek out and take advice and keep learning. As a small business becomes larger, the value you can gain from professional services advisers such as accountants, lawyers, financial advisers, insurance agents, HR specialists, marketing specialists and business coaches increases.

All of the above points are representative of the issues we cover with potential buyers as we work with them to assess their skills, interests, financial resources and experience as well as their personal and financial goals. That lets us pre-screen businesses to find the ideal fit.

Look for an existing business with a proven track record of success, with trained employees, an existing customer base and an immediate cash flow. But it must be a business you will enjoy.

As theologian Howard Thurman has said, "Ask yourself what makes you come alive and go do that, because what the world needs is people who have come alive."

Owning a Seasonal Business: the Pros and Cons

As you read previously, a seller's price expectation needs to be in line with market reality. Most financial statements of small businesses are prepared to minimize the tax burden for the company and its owners. To reflect the company's true earnings, we need to recast/normalize the balance sheet and income (profit and loss) statement.

What about owning a business that only operates at certain times of the year—say a tour boat line in Canada? I saw an article recently about owning a seasonal franchise and it prompted me to put together my own list of pros and cons to owning a seasonal business that buyers should be aware of. Being the former owner of a tour boat line in Canada *I have lived through them.*

Owning a seasonal business: the pros

1. During the off season the owner can work on business planning, marketing programs, operating systems and procedures, documentation, research and so on without the pressure of managing the day-to-day operations.

2. The off season provides time for rest, contemplation, leisure travel and activities, and to get re-acquainted with family and friends.

3. The off season provides time for meeting with industry peers, trade associations, suppliers, strategic partners, and travel to research potential business improvements.

4. The off season may allow the owner to escape unpleasant weather conditions.

5. Recruiting and training can be done in advance of the busy season when there is time to do these tasks well.

6. Servicing and upgrades to systems and equipment can be done during the off season without time pressure.

7. Some people thrive on being the hare rather than the tortoise.

Owning a seasonal business: the cons

1. Start-up at the beginning of the season requires working capital in excess of what a non-seasonal business would require.

2. The start-up requires a significant expenditure of energy is a short period of time.

3. The resources allocated to the business are only earning a return during part of the year.

4. A system or machinery breakdown during the busy season is more costly and thus the risk is higher.

5. It is more difficult to retain good employees in a seasonal business.

6. The level of activity in a seasonal business must be much higher during the season to offset the slow or down time and so may require long hours and greater endurance from the owner.

7. The level of stress dealing with a flurry of activity during the busy season can be high.

In the end, owning a seasonal business is a personal choice based upon the owner's **values** and what he or she enjoys.

Buying a Business: the Process

You have a good sense of the size and type of business you want to buy and how such a business will help you accomplish what you want in life. You're ready to make your vision a reality.

When you first meet with your business broker they will ask you to sign a confidentiality agreement. Confidentiality is critically important in the buying and selling of a business and your broker will explain what's at stake if word gets out.

They will have you complete a questionnaire that provides them with information about your goals, aspirations, history, resources and skills. They will discuss some businesses that may be suitable for you at this stage in your life, zeroing in on the best matches for your needs and means.

They may send you to visit some of these businesses as a mystery shopper on the understanding that you will come back after you have had a chance to review information on the businesses they have selected for you and have visited those businesses, if they are open to the public.

You must take your role as a business buyer seriously. Good businesses do not stay on the market for a long time. Do your mystery shopping in timely fashion.

When you reconvene with your broker tell them what you liked and didn't like about each business you visited. This will help them in narrowing the choices to one that will work for you.

There is no perfect business. In the end you will select a business believing that all things considered, this business is your best choice. Once you have selected a business you believe will work for you, your broker will arrange an after-hours meeting with the owner, at the business.

Where to focus

You will be given fairly detailed information about the business. Use it to prepare questions prior to meeting the owner. The meeting is not a negotiating session or a time to discuss price and terms. Use it instead to gain a full understanding of the business—its history, its revenue and costs, its market, its suppliers, the systems that drive the business, the employees who run the systems, the clients who provide the income, the competition, the industry and its trends, and the skills required to successfully operate and grow the business.

Spend some time with your broker immediately after this meeting. Raise your concerns and discuss the possibilities. Is this a business in which you are prepared to invest further time and effort investigating? Discuss what you would do differently if you were its owner.

At this stage, your broker should give you a sample offer for review along with detailed financial information about the business, including a go-forward forecast. Have the broker explain these documents and figures, then take the information home and sleep on it. If, the next day, you are still enthusiastic about becoming the owner of this business, meet with your broker to develop a non-binding, highly contingent offer based upon the information that has been provided.

The goal now is to determine if, based on the supplied information, you can come to a set of terms that both you and the owner can live with. Do not waste your time and money on lawyers and accountants at this point in the process. The offer is completely non-binding and the deposit that will accompany the offer is refundable. If you cannot come to terms now there will be no deal and you will have saved substantially on the cost of legal and accounting advice. If you do come to terms, your financial and legal advisers will become involved in the diligence process and in drafting the agreement of purchase and sale. Your broker can recommend professionals to assist in this.

How to Choose One Business Over Another

We have shared how a good business broker will guide you through the process of buying a business once you've determined you have the skills, interests, resources and aptitude for success in business.

But what makes one business better than another for *you*? Some of the considerations are obvious. Others are not. As you explore the business landscape, keep these 12 markers in mind.

Location: Is the location of the business convenient i.e. close to your home? Is it in an area where you wish to live? Is it easily accessible? Does it offer room for expansion or growth? How desirable is the location for prospective and existing clients? Keep in mind changing demographics.

Are the premises rented or owned and, if rented, what are the lease terms? Are they consistent with other similar locations? Are they affordable based upon the business cash flow? Is the lease cost in line with standards for this industry? How long is the lease? Can it be renewed or extended?

Is the facility profile consistent with your vision of what you want the business to become? Will you have to relocate in the future and at what cost?

Furniture, Fixtures and Equipment: In what condition are the furniture, fixtures and equipment? Are they adequate to support the current and future operations of the business? What capital expenditures will be required in the future and when? Are they obsolete from a technology or maintenance and operating cost perspective? Are parts and service readily available?

The product or service: Will there be continuing demand? What are the differentiators that keep clients coming back? Will you be proud to provide the product or service? Can you add value? Can you depend upon the supply? Is there room to increase margins by cutting costs or increasing price?

Inventory: Is the inventory current and salable? Is it excessive for the industry or in line with industry standards?

Trained employees: Does the business have competent, experienced and motivated staff? Is the compensation in line with industry standards?

Will the staff stay? How will you recruit and train new staff? Is the business overstaffed or understaffed?

Is the corporate culture consistent with your values? Are you compatible with key employees?

Existing customer base: Can existing clients be retained through the ownership transition? Can the client base be expanded? How?

How loyal *are* the clients? Are they happy with the current product or service offerings? What additional products or service do existing clients want?

How does the business communicate with existing clients? Can you improve on this?

Established suppliers: How does the business relate to its suppliers? What are their credit terms? Can you sustain or improve upon the relationship? Does the business have exclusive arrangements/rights? Is there a dependency on any single supplier? *Exclusive arrangements with suppliers can be a significant asset of a business whereas dependency on a single supplier can represent risk.*

Competition: Who are the competitors? What differentiates this business from theirs? Is this business vulnerable? Is theirs—if so, are there minor changes you could make to secure the patronage they currently enjoy and increase the revenue and profit of *this* business? *We often find unused distribution channels that can be highly profitable.*

The industry: What are the prospects for the industry at a macro and a micro level? How will they be affected by changing technology, lifestyle and demographics? Consider video rental businesses or corner stores and how technology and changes in the grocery industry have affected them.

Established cash flow: Will the cash flow be sufficient to service your debt, support your family and lifestyle *and* provide a return on your invested capital? Is the cash flow consistent or erratic? Can it be maintained? Can it be increased? How?

Do not confuse a business that does not report profits with one that is unprofitable. Small business owners do their record keeping to minimize tax. Your business broker will have recast the income statement to illustrate seller's discretionary earnings. This is the amount of cash flow available.

Financial records: Does the business maintain a complete and accurate accounting system that you can rely upon? Are the accounting records current? Are financial filings current?

Small businesses do not have audited financial statements. Base your decision upon the records that are available. With some businesses you will have to look at purchases and cost of goods sold and standard margins to determine actual revenue. *In most businesses the recasting will remove expenses that were incurred to support the lifestyle of the owner and not necessary to operate the business and generate revenues.*

Systems and procedures: Does the business have systems—documented "ways of doing things" to achieve consistent predictable results? A business with well-documented systems has greater value than a business that is operated by what the owner and his/her key employees keep in their heads.

Systems reduce risk and liability, result in shorter training times, improve employee performance, and focus energies and activities on the business objectives.

How to Choose One Business Over Another (Part 2)

Seller financing is a gate you want open on your road to business success.

You may have made it past all the other checkpoints, but if you're unable to secure financing for the business you want to buy, your journey ends here.

What you are going to do with the business after the sale has a direct relationship to your perceived value of the business. If you can develop a realistic plan of action to improve the business after your acquisition your likelihood of success improves considerably.

However, none of that matters if you can't get the financing you need to buy the business in the first place.

The truth about bank loans

It is a common misconception that banks provide loans for small business acquisitions. They do not.

If an acquisition is structured as an asset purchase it may be possible to obtain a loan under the Canada Small Business Financing Program (CSBFP) under which banks can provide financing up to a percentage of the appraised value of furniture, fixtures and equipment (FF and E). The percentage of financing available varies from 75% to 90% of the value of the FF and E depending on the bank.

The first downside is that the seller is unable to take advantage of the lifetime $750,000* capital gains exemption; the second is that the allocation of purchase price to market value of furniture, fixtures and equipment triggers a recapture of depreciation and a capital gain. This is unattractive to sellers and will result in a higher purchase price. *For the 2014 and subsequent tax years, the Department of Finance Canada budget proposes to increase the LCGE from $750,000 to $800,000 and to index the LCGE after 2014 for inflation.

Business Development Canada (BDC) is another source of acquisition financing however they typically base the financing on the reported cash flow and do not finance restaurants or retail businesses. Their interest rates are high and they typically insist that the seller financing be subordinate to theirs and remain unpaid until their loan has been retired. Such terms are unacceptable to most sellers.

The result is that neither program works very well.

Look to seller financing

When the seller is willing to finance a significant portion of the sale both parties win. The buyer has more confidence in the information provided and in the business knowing that the seller has sufficient confidence to lend their own money.

The interest rates charged by sellers are generally lower than elsewhere and in today's market range from 5% to 7%.

The seller's note typically has a right of offset protecting the purchaser against fraud and misrepresentation. It also protects the purchaser against claims related to operation of the business prior to their acquisition.

Seller-provided financing typically represents 20% to 50% of the purchase price. This means of financing enables a share sale resulting in lower taxes for the seller. It may also increase what a purchaser is willing to pay. The purchaser realizes lower risk, better terms and a greater commitment of the seller to ensure the purchaser's success.

Personally I would not buy any business if the seller was not prepared to finance at least 20% of the purchase price.

Earn-outs, another form of seller financing, base a portion of the valuation on actual future performance. They can be used to bridge the gap between a buyer's perception of the future and risk and the seller's perception of the same. While they reduce a purchaser's risk and provide incentive for the seller to ensure that the purchaser has success, earn-outs may in fact increase the cost of the business, should it prove very successful.

The availability of seller-provided financing and the considerations we described in Part 1 are all factors in the value of any given business on the market.

But in the end, your choice of business should come down to one final factor—whether or not you can you see yourself in the business.

Successful business owners share a common trait—a passion for what the business does i.e. the provision of the product or service, or a passion for building and operating a successful business. As the purchaser, you too must have one of these passions. If you don't, it's time to look at another opportunity, keeping in mind that "there is no perfect business."

Learn what you can from observation, from the documentation your business broker provides, from meetings and discussion with the business owner, and from your industry and market research. In the end, *you* will make the choice. You will never have all of the information you would like to have in order to make an informed choice but will conclude that, all things considered, "this business might work for me."

Considering a Business Partner?

A small business partnership is like a marriage—you need to choose your partners wisely.

Especially in business, many do not.

While you may have a stellar track record when it comes to your life partner, maintaining a lasting relationship with your business partner may prove much more difficult. I have been married to my wife, Gayle, for 40 years and we are still enjoying life together. And I've successfully brought people together to partner in buying a small business. But when it comes to the partners I've had in my own businesses, I've not been as wise.

One of my partnerships worked for 15 years; the others unravelled after two or three.

In the longest lasting one the partners were compatible, of the same age, capable, smart, honest, hardworking, each making great contributions.

But as time passed, our personal goals took us down different paths. One partner wanted to retire; one wanted to focus on their young family, minimize risk and maintain the cash cow while I wanted to continue to grow the business.

In other instances, I found out the hard way that the individuals were dishonest and, in fact, stealing from the business. The temptation was there and we didn't have proper controls.

What happened to me is not uncommon—more business partnerships fail than succeed. Yet some thrive. So how can you reduce the risk and set the course for success?

Evaluate the needs

A partner can help share the load, bringing in financial resources, services, property or skills that you lack and need to "complete" the business. Sharing the decision-making may not come easy. Making their own decisions, after all, is one of the perks small business owners enjoy. But splitting the areas or aspects of the business and related responsibilities and authority is easier when the partner's skill sets or talents are complementary to yours.

Screen your prospective partners and get to know them well. Make sure they are aligned with your values and goals. Do you both want the business to get to the same place, the same way? When it comes down to it, which will they place first—the best interests of the business or their own?

One model I've seen work well is where an owner or prospective owner brings in a younger partner who will eventually take over the business—almost like a parent-child relationship. In one example, the owner wanted to keep a guiding hand in the business, but clear more time for himself, shedding the day-to-day weight of operational concerns. In another of the more recent instances where I brought two clients together to purchase a business, the older of the two contributed wisdom and resources, while the younger brought energy, drive and field management skills.

Formalize the details

Have everything spelled out in a legal contract. Set out contributions, roles, rights and responsibilities. Set out who is contributing what—cash, property or services—and what ownership percentage each will have. How will profits be allocated? How will decisions be made and by whom? What will happen when one partner leaves the business? Can an ownership be transferred?

A buy-sell agreement protects each partner by requiring a sale under certain circumstances e.g. a partner becomes disabled, gets divorced, or dies, and specifying the terms, including the valuation, beforehand.

I've done valuations under a shotgun clause, where one partner makes an offer and the other has to accept or buy the offering partner out at the same rate.

Buy-sell agreements are essential in keeping everyone honest.

While a new business or partnership starts out with much goodwill and the excitement and energy of common goals, things can and will diverge over time. As a recent article from the Sunbelt Texas office says,

"Good business partnership agreements are all about the 'what ifs.' Sit down and talk about all the outcomes and how they will be addressed."

It is just as important to have everything defined and agreed to beforehand when your partners are family and friends. Success has a way of changing people.

Regular communication is essential

Like a marriage, a business partnership takes work**.** Remember to check in and report back**.** Keep your communication open and honest. Don't put off difficult discussions—share your opinions, deal with and resolve the issues. Work through your differences. Use your operating agreement for clarification.

"Remember that every vacuum in communications can be filled with negative assumptions, so keep talking and drill down into issues so that agreement can be found," says Paul Reicks, founder of *The Inner Circle* mid-Atlantic.

Each individual wants to be treated fairly, respected and rewarded for what they contribute. A good partnership will work to those ends for all involved.

Making an Offer

We have talked about how to go about selecting a business. You get that none are perfect and that you will never have enough information to feel 100% confident about your choice. You have decided that all things considered—after reviewing the documentation provided by your broker, your meetings and discussions with the business owner and your personal visit to the business—a business will work for you.

It is now time to make a *conditional, non-binding offer*.

Yes, now… before due diligence.

There is no point in wasting your time, money and energy conducting diligence on a business without a reasonable agreement on the price, terms, closing date, training and transition program, vendor financing, security, assets being conveyed and other issues. Accept that the recast financials and other details your broker has provided about the business are correct. You have met with the owner and had an opportunity to ask many questions about the business prior to reaching this point.

What goes into an offer?

Whichever its form—an Offer to Purchase, a Letter of Intent (LOI) or a Memorandum of Understanding (MOU)—the offer will be dated and signed, provide a time frame for response and commit both parties to confidentiality. The offer will:

—lay out the price and terms the purchaser is prepared to offer;

—set a date for closing, with conditions and timelines to be met before closing (and perhaps some for after closing);

—specify how and when the purchase price is to be paid and under what conditions;

—set out expectations for the seller's responsibilities after closing, such as training of the purchaser or continuing employment.

Your broker will help you in drafting the appropriate terms and conditions. Our offers always contain a clause making the offer *conditional upon structuring the transaction and drafting an agreement of purchase and sale that is acceptable to both parties and their legal advisers*. The offer then has no more enforceability than a Letter of Intent or Memorandum of Understanding. Its purpose is to set out the terms for a legally binding agreement of purchase and sale that will be subsequently drafted by the lawyers.

This allows the parties to negotiate, through their business broker, to reach details acceptable to both parties without spending money on legal advisers until later in the process.

About the deposit

A deposit will be required as proof of a bona fide intention. The deposit will be held by the business broker in trust until there is an accepted offer; it will be refunded if the deal doesn't close. In Ontario, business brokers must be licensed realtors and the trust fund is guaranteed by the province.

This is true in other provinces as well. Where this is not the case, or if the broker is unlicensed, the deposit is generally held by a notary or lawyer acting on the transaction. In such case the deposit needs to be accompanied by an escrow agreement stipulating that the deposit will be repaid to the purchaser if the transaction does not close and specifying any conditions associated with such repayment.

You have probably been told that in negotiation you always want the other party to make the first offer. *Not so in purchasing a business, where your offer serves many purposes.*

The offer begins the negotiating process and indicates the seriousness of your intent. There is nothing wrong with making your first offer well below the asking price, if there is one, for the business. You have to start somewhere. Asking your broker what the seller will take is fruitless—they will not really know until the seller accepts an offer.

What to offer

When I started in business brokerage I was naïve enough to think that I knew what a seller would accept. However, having had many sellers refuse offers that I thought they would take and many sellers accept offers that I believed they would refuse, I learned that my crystal ball did not work.

The only way to establish what the seller will take is to make an offer and find out.

The offer also helps us gauge the terms and conditions that you and the seller would each like.

Putting the terms and conditions you would like on paper, lets the seller then come back with their preferences and priorities. The offer and subsequent negotiations are done through your broker—not directly. When the deal is done, you and the seller will have to work together for some period of time. You need to remain friendly and cordial. Given that you each start with opposing goals, you must work through your broker.

The offer will be conditional upon financing on terms acceptable to the purchaser and upon completion of due diligence—financial diligence, operational diligence, market diligence, legal diligence, and so on—to the satisfaction of the purchaser.

So the offer is a starting point for negotiations and provides an opportunity to learn what is important to the seller. Your broker will present the offer to the seller, discuss it with them at length and assist them in preparing a counter offer.

Rarely is a first offer acceptable. Be open-minded to the seller's concerns and do not be shy to put forward yours. The goal is not to beat the other side, though, but to arrive at an acceptable set of terms and conditions that will work for you *and* the seller.

Too often buyers miss out on great businesses because they are overly concerned with beating down the price. Keep in mind that most businesses increase revenue by 15% to 30% the first year after purchase. This is not because buyers are more experienced or know more than the seller. It is because they bring energy, a new perspective, different skills and enthusiasm to the business.

Negotiating the Offer

Guided by our business broker, we have made a conditional, non-binding offer to purchase a business at a price (below market) and terms that would work for us. We set out a time for response, a closing date, financing, training and transition, what was included and excluded, and provided a deposit for the broker to hold in trust.

We have now received a counter offer and are into negotiations.

The negotiations will be conducted through our business broker—not directly. Brokers are experienced in business acquisitions and can guide us through the process with advice and impartial sober thought.

We need to understand what is behind the seller's changes—he or she may have changed the structure of the purchase from assets to shares.

Purchasing assets or shares

Buyers usually prefer to purchase the assets of the business—intellectual property, the right to use the name, telephone number, websites and all the tangible assets. If purchasing the assets at market value we may be able to achieve a greater depreciation expense going forward and reduce our taxes in future years.

If we purchase shares rather than assets we inherit liabilities. An audit next year of last year's tax return and financials may result in a liability to Revenue Canada. A previous employee may sue the company for wrongful dismissal or for an injury sustained on the job. There may be product liability issues.

Sellers tend to prefer a share purchase. Provided their business qualifies, this structure enables them to take advantage of the $750,000 capital gains exemption* and potentially save considerable taxes. *For the 2014 and subsequent tax years, the Department of Finance Canada budget proposes to increase the LCGE from $750,000 to $800,000 and to index the LCGE after 2014 for inflation.

We may be prepared to accept the possibility of hidden liabilities if the seller is prepared to provide significant financing for our purchase and we include a right of offset in the note. To some extent this will depend upon the exposure and risk we are assuming. If the seller has been conservative and meticulous in their record keeping and taxes, we are in a position to negotiate the structure of the transaction. For instance, in return for us agreeing to accept a share structure, we may negotiate increased financing from the seller and, perhaps, a lower price. This enables us to share in the benefit the seller achieves through a share sale.

Giving to get

The general rule in negotiating is that we do not want to give up concessions without getting concessions in return. Even though the concessions we are making may be unimportant to us they may have significance to the seller. We may not know which items are important to the seller.

If we will be highly dependent on seller-provided training going forward we should insist that the seller protect us in the event that they are unable to provide the training and mentoring. Protection may take the form of critical illness insurance and life insurance on the seller payable to the company we are acquiring.

In exchange for adjusting to the seller's preferred closing date, we may negotiate items that *we* want, such as a longer training and transition program, a lower interest rate on the seller-provided financing, modifications to the payment plan allowing us a grace period after closing, and so on.

Everything is negotiable BUT our goal is to acquire a business on price and terms that enable us to earn sufficient income to support our family, to service the debt to pay for the business over a reasonable period of time and to provide a return on our invested capital.

We must be prepared to walk away from the opportunity if we cannot negotiate terms that work for us.

Be mindful of the goal

Our offer contains many conditions related to the diligence we will go through after agreement on the offer. Our goal at this point is simply to arrive at an agreement that works for us. Many failed negotiations result from buyers who think that the goal is to get the lowest price and the best terms possible. *If the deal does not work for the seller it will not work at all*.

Listen carefully to your broker. He or she will provide as much information as they can on the seller's motivations and can help you arrive at a deal that works for you and the seller.

Your broker will typically make adjustments or modifications to the offer, have you initial the changes, and take it back to the seller for discussion or they may redraft the Letter of Intent (LOI), Memorandum of Understanding (MOU), or Offer to Purchase, and take the revised version to the seller for discussion.

Offers may move back and forth multiple times—each time you will learn something further about the seller's priorities and concerns. Once you have agreement, it is time to start the next phase, which includes planning due diligence and arranging financing.

Conducting Due Diligence

We have successfully negotiated agreement upon an offer to purchase based on the information our business broker and the seller have provided. This offer included many conditions that we must be satisfied with prior to closing or the offer becomes null and void and our deposit, refunded.

We must now plan and execute a reasonably thorough analysis of the business and the information provided. Our goal is to identify any fatal flaws, verify that the information is reasonably accurate and confirm that this business will really work for us. Professional advisers can assist us with this process, called due diligence.

Our business broker will help us develop a diligence plan and coordinate its execution, but he or she will not do our diligence, which is *our* responsibility as the purchaser to carry out to our satisfaction. Keep in mind that we will have to work from whatever the current owner has as records.

We may want to have an accountant help us verify cash flow, assets, liabilities, financial history and projections and review tax filings, associated risk, corporate structure and potential tax issues resulting from our purchase. If we want them to, they can also review financial control systems and make recommendations we can employ when we take control of the business. Involving them in the preparation of our business plan and financial projections may help in securing financing.

We will need legal advice. An experienced tax and transaction lawyer will give us their findings and advise us on the risks and the structuring of the transaction *and* the business after our acquisition. They will also review the ownership and transferability of the intellectual property. Keep in mind that there will always be some risks and that **we** are the buyer(s)—not our accountant or lawyer. Listen to their advice and that of your business broker but the decision to proceed or not must be yours. I have rarely heard an accountant or a lawyer recommend that a buyer proceed with an acquisition. Their job is to keep you from making a mistake or taking undue risk. The only way to avoid risk is to do nothing. You must decide if the risks are acceptable.

Most purchasers buy a business with the intention of growing revenues and increasing profits and cash flow. During their first year of ownership, most new business owners see revenue increase some 15% to 30%—a result of new energy, different skills and the assistance and support of the previous owner.

We need to focus on long-term growth. Typically, increasing profits requires increasing sales leads, improving the conversion rate and increasing the number of transactions per customer, the average sale value and the margin on each sale. Can we do better in one or more of these areas? To determine this, we need to assess many aspects of the business beyond the financials and legal diligence.

Will the business meet your needs?

We must confirm that the business can generate sufficient cash flow to 1) support us, 2) do the debt servicing to pay for the business over a reasonable period of time and 3) provide a return on our invested capital. If it is falling short, we must have a vision of the changes we can make to ensure it meets these needs in the future.

Assess the market—its size, desires and how it is being approached. The level to which the business's product or service is currently accepted may not be indicative of the future. We recommend surveying present satisfaction and future purchasing intentions of existing clients. Sellers who haven't tested sometimes misjudge and misrepresent.

Is there a future for the product or service? Changes in population, lifestyle and trends, legislation, interest rates and economic fluctuations and so on have to be considered. Can we improve leads, conversions and volume of sales? Do we have the right salespeople and processes, marketing and sales tools, testing and measuring systems? Can pricing be increased? Can costs be reduced? Do the changes require additional capital investment? If so, do we have sufficient capital or credit for these changes?

The first six months

For the first six months of ownership, we usually recommend that new owners operate the business the same as the previous owner ran it. Retaining current clients, skilled staff, existing supplier relationships and the confidence of the marketplace is important. Your experience over the first six months will give you a better understanding of the systems and processes already in place and form a basis for benchmarking changes you may then wish to make.

Systems, combined with the competence and attitude of the employees who operate those systems, are at the core of most good businesses. You will be able to review both during due diligence. While the need for confidentiality makes it hard to assess employees before closing the purchase, you can learn much about them from the current owner, from seeing how they are currently performing and from your customer survey. You should review the files the business has on each employee as well as HR systems and policies.

You also need to assess their technology. Is it adequate? What can be improved? Review the existing facilities and related agreements including leases, maintenance, warranties, current suitability, expansion potential and future options. Are licenses and permits current and transferable? Are furniture, fixtures and equipment serviceable? Can they support the business in the future? With equipment, technical and economic obsolescence is an issue—sometimes a perfectly good piece of equipment should be replaced by a newer version with lower operating costs or more desirable features. You may need the help of a knowledgeable technician to make such an assessment.

Conducting Due Diligence (Part Two)

By now, you are getting the idea that due diligence is an important and complex part of the purchasing process. As described in part 1, our goal is to identify any fatal flaws, verify that the information is reasonably accurate and confirm that this business will really work for us.

At our brokerage, we organize a due diligence planning meeting inviting the seller, the seller's accountant, your accountant, you, and any other advisers you believe will be required during the diligence process. There will be a subsequent meeting with you, your broker, and your lawyer to deal with legal diligence issues and with the drafting of the agreement of purchase and sale, and related documents. However, in order to minimize your costs given that you may not proceed with your purchase, we recommend that you delay the meeting with your legal adviser until after other forms of diligence have been completed.

At this first meeting you will establish a diligence plan including an understanding of what documentation exists, what is required to be reviewed, who will be providing the items and when, and who will be reviewing them. Your broker will assist you in developing your plan and ensuring that the documentation is provided.

Keep in mind that you can only review what exists. You may wish to see audited financial statements but it is rare for a small business to have audited statements. Physical inspections of plant and equipment and inventory are typically done during off hours when employees are not present at the business.

Once financial, operational, market, and HR diligence have been completed to your satisfaction it is time to begin the process with the tax and transaction lawyer you have retained. Their goal is to arrive at a structure that works for both parties as well as drafting the documentation to implement your agreement. They will also undertake the appropriate searches to ensure there are no undisclosed liabilities, that corporate filings are current, that the minute book is up to date, and that the tangible and intangible assets being transferred are free and clear.

Use a specialist for this. Most lawyers are focused on other legal practices and not familiar with tax and transaction and intellectual property law. Get an estimate of fees from your accountant and your lawyer prior to embarking upon the due diligence and closing process. Your broker can provide referrals to a number of experienced accounting and legal professionals who can assist you.

Sequencing and timing

The due diligence process can take anywhere from two to six weeks depending on the complexity and availability of documentation. The legal diligence and drafting of agreements will require an additional two to four weeks. Allow sufficient time to do a thorough job without putting unnecessary pressure on your professional advisers.

Typically one of the conditions in your offer relates to you being able to secure appropriate financing for the transaction. At the completion of your first stage of diligence you will be able to prepare a business and financing plan. The eventual structure of the transaction and of the business must take into account the financing plan so it is prudent to secure a conditional commitment for your financing prior to beginning the legal diligence and drafting.

At the completion of due diligence there will still be doubts and fears however you should have enough information to decide that, all things considered, this business will probably work, or not work, for you.

Expect buyer's remorse—it will set in about two weeks before closing. You will be nervous about the cash flow, about the impact on your lifestyle and about your ability to successfully manage and grow the business. This is perfectly normal. Talk it through with your business broker.

Likewise, the seller will be experiencing seller's remorse. They will be nervous about your ability to successfully operate what has been their business. They will be nervous about the change in their lifestyle and worried about the financing they are providing to you. They may find it emotionally difficult to let go of their "baby." This may be a good time to meet with the seller and your broker socially. *Your job* will be to alleviate the fears and concerns of the seller. *Their job* will be to alleviate *your* fears and concerns. Everyone's goal is to make sure this is a successful win/win transaction for all parties.

Closing Your Purchase

The load most business owners carry on their shoulders is a heavy one. Immersed in daily operations, it can be hard to see avenues for a better business and life beyond immediate responsibilities.

We have completed the financial, operational, market, HR and other relevant diligence and we are satisfied that this business will work for us. We now need a lawyer who specializes in tax planning and structuring. You'll soon see why.

Your business broker will work with you and your lawyer on the legal diligence, transaction structuring, drafting, negotiations and closing. The negotiations *here* relate to representations and warrantees that you and the seller make, such as the wording of the Agreement of Purchase and Sale (drafted by *your* lawyer), the non-compete non-solicit agreement that the seller will sign, and the training and transition agreement. They will also encompass the structuring of the transaction—terms of the seller financing note, compliance with the Bulk Sales Act (the sale of the assets , Ontario), the share escrow agreement (share sale), personal guarantees, postponement to 3rd party financing and limits thereon, lease assignment approvals, license transfers and much more.

Your lawyer will review the seller's minute book to ensure that they are compliant and current with their filings, with the right to enter into the transaction. They will do Personal Property Security Act (PPSA) and property searches to verify clear title to the assets. They will also guide you on staff severance issues.

Your lawyer will talk with you, your business broker and the lawyer for the seller. Your lawyer will not talk directly with the seller. The seller's lawyer will talk with the seller, the business broker and your lawyer, but not directly with you. *The only person communicating directly with everyone is the business broker*. Instruct your lawyer to run *everything* by your business broker before it goes to the seller's lawyer and the seller will give similar instruction to his lawyer.

Your business broker will not draft the legal documentation or "play lawyer"—he/she knows the thinking and the values on both sides. Their input can help you and the seller over many hurdles.

I learned the hard way many years ago that deals can be lost through miscommunication and misunderstanding—I had a deal collapse after a lawyer changed the term on a non-compete agreement from "the City of Ottawa" to "within five kilometres of the business location". The lawyer thought he was protecting his client, the seller. To the buyer, it was a red flag that the seller wanted to steal clients and set up six kilometres away—he ripped up the agreement and walked. The business eventually sold for $150,000 less than the original offer.

The seller had no intention of competing. Had his lawyer run the change through me, the broker, I could have stopped the change before it reached the buyer and saved the deal. Keep your business broker involved throughout the drafting and negotiation process!

Your lawyers job is to advise you of risks and protect you. The only way to avoid all risk is to do nothing. Remember that *you* are making the decisions. I have yet to hear any lawyer actually recommend to his client that he accept a deal and proceed without some caveat relating to risk.

Tax planning and structuring

Your lawyer should also be providing you with structuring and tax advice. In many cases you will want to incorporate a holding company, lend the cash you are putting into the purchase to the holding company and have that company acquire the shares or assets of the business. That way you can take your cash out through non-taxable dividends from the operating company to the holding company and tax-free loan repayment from the holding company to you.

Tax planning and structuring are complex issues and you want your lawyer to be knowledgeable and experienced in this aspect of business acquisition. Your accountant should also have input, but keep in mind that most are not experienced or skilled in this area. Likewise, your business broker is not a tax advisor—we know enough to raise the right issues but we are not tax experts. Use a tax lawyer or an accountant who is a tax specialist. The money you pay for good professional advice will come back to you many times over.

Get an estimate of cost prior to starting the legal work. I am a bit reluctant to put a number on the fees because they vary with the size of the acquisition, the complexity of the transaction, the fee structure of the law firm, the skill and experience of the lawyer, and the competence and level of cooperation of the law firm the seller has engaged. It is also influenced by *your* attitudes and actions and by how timely and diligently the seller provides documentation. Third-party financing requirements can also significantly affect legal costs. Fees can range from $2,500 to $150,000, but generally do not exceed $20,000 for transactions of $2 million or less. There are many excellent lawyers whose fees represent great value to their clients. Your business broker can recommend some to you.

You want to set a realistic closing date based upon input from all parties. The lawyers generally need a couple of weeks to do the searches, reviews, structuring, drafting and other such tasks. However, dates and fees can be affected by elements beyond your lawyer's control— an uncooperative, inexperienced lawyer on the other side, a financial institution with rigorous and unrealistic requirements, or a series of unforeseen obstacles related to liens, licenses or lease assignments.

Closing Your Purchase (Part Two)

We have completed due diligence on our desired business and our lawyer is drafting the papers to close the acquisition. Included are a lease assignment or new lease, any lender-required documentation, a franchise agreement (if the business we are purchasing is a franchise), and any assignments of capital or operating leases on vehicles and equipment. To put this documentation in place we will have to meet with the landlord, the lender, the franchisor (if applicable), and the vehicles and equipment lease(s) owner. We will also have to participate in the taking of inventory at closing. *Any of these areas of activity can kill our deal.*

Satisfying the landlord

Even in a share purchase with an existing lease in place, a change of control often requires landlord approval. In order to have the landlord approve an assignment of the existing lease or create a new lease you will have to convince the landlord that you are credit worthy and that the business you are purchasing will prosper under your management.

You will have to provide a resumé highlighting your experience and skills, a net worth statement and, probably, your business plan. The landlord will likely require a personal guarantee of the lease obligations.

Armed with a solid resumé, net worth statement and business plan, and accompanied by the seller and your business broker, you should meet with the landlord well in advance of closing to request the lease assignment and to let them get comfortable with you as the new owner.

The landlord may require you to pay their legal costs for the transaction.

Satisfying the lender

Your lender provided a term sheet or approval in principle for your financing prior to your lawyer beginning the drafting process. They will now require copies of the agreement of purchase and sale, the lease assignment, your updated business plan, and all necessary legal documentation prior to disbursement, including an executed copy of the franchise agreement if you are purchasing a franchise.

The lender typically needs all of this in advance of closing as it will be sent to their head office for approval before assigning the funds. *Allow sufficient time for the lender to go through this process ahead of your closing date*.

At closing, the lender will advance funds to your lawyer with the requirement that all closing documentation be properly executed prior to the funds release. Removal of liens can slow the closing process—during pre-closing searches we sometimes find old liens, some that can only be removed with payments out of the closing proceeds. It is wise to do the searches early in the process even if a second set of searches is needed at closing.

Satisfying the franchisor

If the business you are purchasing is a franchise, you will have already met with the franchisor and been disclosed and approved by them prior to starting the closing process. You may have been required to successfully complete their training program. It is not uncommon for the franchisor to require payment of a transfer fee and payment of any outstanding obligations of the previous owner. Make sure these are sorted out well in advance of closing.

Taking inventory

Just prior to closing, you and the seller should do a walk-through of the business to ensure that all the furniture, fixtures and equipment included in the sale are present and in good working order. This is also when you will take inventory. While it is sometimes contracted to a firm that specializes in taking inventory, more often this task is done by the buyer, the seller, the business broker and friends and/or staff.

Inventory taking can be very time consuming. I recall selling a computer sales and repair business where we began taking inventory at 4 p.m. the afternoon prior to closing. We finished at 8 the following morning. By then, the purchaser had gone home to bed and requested that we simply tell him the value when we met with the lawyer to close at 10 that morning. Your business broker will have experience in taking inventory—involve them in developing the plan.

As the purchaser, you want to ensure that the inventory you are purchasing is current and salable and that you are paying for it at cost (which includes shipping costs). Having the broker working with you during inventory taking can help resolve any associated conflicts that may develop between you and the seller.

Closing Your Purchase (Part Three)

The purchase of your business is now complete and you're ready to open the doors as its new owner. Don't set off any alarms, though! I have seen buyers do exactly that when they open the door on their first day of ownership. And to make matters worse, they don't know how to contact the monitoring service. Most businesses have a security system. You need to transfer authority for the service and understand how to use it. Similarly you need to transfer authority for the telephone account, the hydro account, any ongoing advertising arrangements, shippers, maintenance suppliers, and the myriad of other suppliers who service the business. There will also be various government agencies that need to be notified of the change.

There are many other arrangements that need to be made in advance.

You need to have banking facilities. In most cases you will have opened a new bank account in advance or taken over the existing account. In either case you must have met with the bank manager and made appropriate arrangements including ordering cheques and deposit books. You will also need credit card and debit card processing capability set up in advance. Purchasers generally remember this requirement but they often forget many others—such as having cash in the till to open in the morning.

Your business broker can help you prepare a list of all of the logistical issues and notifications that you will need to consider.

Meeting with staff, suppliers and key clients

You also need to meet with the staff to advise them of the transfer of ownership and alleviate their fear of change. This is best done accompanied by the seller. I have found that most employees are pleased at the change of ownership. The previous owner may have had health issues, been "coasting" or lost the passion. In such cases change is welcome if presented in a positive manner.

I do not recommend telling employees about the sale until after closing. Too many things can go wrong and you don't want to create fear of the unknown. If your purchase was conditional on retaining key employees you would have met with them prior to closing, however they would have committed to keeping the pending transaction confidential.

Take the time to meet with each employee soon after the closing to understand their personal goals and objectives and to ensure that these are aligned with *your* business objectives. Try to lay out a career development path and personal development program for each individual in keeping with their objectives. You will learn much from this exercise including what may be excellent ideas for business improvement.

The seller committed to a training and transition program and will work with you to teach you how to successfully run the business. They will also introduce you to key suppliers and to their clients. Do not take this lightly. You want to maintain the credit terms and favourable treatment from suppliers and the goodwill and loyalty of clients. Plan these introductions well and do them soon after closing.

Do not make significant changes in the business operations until you understand why things are done as they are now. This generally takes a few months.

Some post-closing adjustments cannot be dealt with until 45 days after closing when you have received all of the invoices for services provided up to the date of closing. Your accountant and your business broker will assist you and the seller in sorting these out. In some cases, the purchaser does not wish to alert clients of the change in ownership and arranges to collect their receivables on behalf of the previous owner if they were not included in the assets purchased. These financial logistics are usually easy to deal with.

As a new business owner you may require various services that you have not used in the past and you may not know which suppliers to choose. The seller and your business broker can provide valuable advice about the quality, reliability, speed of response and costs associated with various suppliers and can recommend the same to you. It is common for some purchasers to feel overwhelmed during the initial weeks. The seller will help you through this period and your business broker can steer you to any other resources you need.

And so you have embarked on your new career as a small business owner. It took perseverance, fortitude, diligence and unwavering commitment to your goal to get this far. You have overcome obstacles that thwart 90% of the people who dream of owning their own business. As you continue in your new business venture, there are many resources to help you succeed. Your business broker can help you to identify them as well.

You Own the Business: Now What?

You have just purchased a business. Your first goals are to:

- learn as much as you can from the previous owner,
- build positive relationships with suppliers and clients,
- understand the current systems and processes that drive the business,
- get acquainted with staff and consultants—their individual needs, strengths and preferences.

Fulfilling these takes time and effort, but only then can you set your objectives and plans for turning the business into what you want it to be.

Your purchase agreement required the owner to stay on to train you. This is a critical time and you need to take full advantage of their proximity. Make sure that they are not simply doing work around the business, but that they are teaching you everything that you will need to manage after they leave.

Devote time to meeting key clients and suppliers. Reassure clients that they will continue to receive the good service that has kept them clients; encourage suppliers to have confidence in the business performing as well as it has in the past. Have both parties suggest ways in which you could better serve their needs.

Get to know the landlord. Listen. Do not commit. You don't yet know what you can and cannot do.

Your staff's success is your success

While the previous owner is teaching you the systems and processes, make sure that all elements are well-documented and that the documentation reflects the current practices. Be prepared to either create or update documentation to accomplish this—it will form the basis of your systems going forward. It is important that you tackle this task while the previous owner is available to review what you are producing and to provide the input and feedback you need to get it right.

You will also need the input of each person who is involved in each business function. Documenting what they do and how they do it can further their sense of value and improve their commitment to excellence.

Meet with each key member of the staff (in a small business this means everyone) to get to know them individually and to understand why they are working here, what they enjoy and what they are good at. What are their personal aspirations? What style of communication works best with them? What are their frustrations? How can you align their personal and professional development goals with those of the business? How can you use their skills and talents to best advantage while challenging them to be their best?

Building from good to great

How does a good company become a great company? Jim Collins, in his book *Good to Great*, said you start by getting the right people on the bus. You need to develop a simple clear concept, your Big Hairy Audacious Goal (BHAG), and you need the systems, processes and focus to constantly work towards it. Before you decide on the goal(s) ensure you understand the people and the systems and processes that are already in place. Do not start making changes or improvements until you have a solid grasp of how everything works now and *why* it is the way it is. Only then do you turn your focus to the numbers.

To formulate your plan and BHAG you need to know which activities drive revenue, so make sure you implement tracking systems to provide the data you need—numbers relating to activities affecting margins (cost of sales and pricing), volume (lead generation and conversion to sales) and marketing costs (repeat clients, average purchase per visit). Without tracking the numbers you will not be able to make smart, informed decisions regarding improvements that should be made nor will you be in a position to shape your BHAG.

Business ownership brings new responsibilities. Employees depend upon you. Your suppliers and clients depend on you. Your family depends upon you.

These steps may seem overwhelming, but you don't have to do them all at once. With quiet confidence, and getting something done each day that moves you in the right direction, you will get there. And as you progress, the pace of accomplishment will increase. It will seem slow slogging at first, but as you and those around you see small steps being successful, the momentum builds to a rapid pace of business improvement.

Succeed With the Masters

Twenty years ago I had the good fortune to help First Nations communities develop successful small businesses. Of the 50 or so new businesses that opened over the course of a few years, 47 succeeded. The norm would have been for 17 or 18 to survive.

These new Native business owners were assisted by other experienced entrepreneurs and supported by key people in their communities. They were open-minded, willing to learn and had perseverance. But the biggest factor in their success was our training program. Although some of the training was industry-specific, taught by industry experts, most was based upon five great writers whose work is available to you today.

We started with Napoleon Hill and lectures based upon his great book *Think and Grow Rich* and summarized in the CD series *The Science of Personal Achievement*. Hill focuses on the basic principles and values for a rewarding and successful life.

We then introduced "Guerilla Marketing" training using Jay Levinson's book of the same name laying out an understanding of Marketing and the 100 free or very inexpensive ways to effectively market. We combined this with the market segmentation ideas that William H. Davidow presents in *Marketing High Technology*.

To teach sales we used D. Forbes Ley's book *The Best Seller*. After working together for a few years, Forbes and I became great friends. His book on sales was touted by the American Management Association as the best ever written on selling. I use his principles to this day and was flattered that he had me author one of the chapters.

Anthony Robbins' motivational CD's helped us reinforce the Napoleon Hill principle of faith, and strengthen the confidence, commitment and faith the business owners had in themselves—including the faith when they did blunder to forgive and keep at it—and their eventual success.

The lesson here is to work on yourself and on the business, or, as entrepreneur and motivational speaker Jim Rohn says, "Work harder on yourself than on your business."

The value of other perspective and expertise

It is also important to work across the areas of the business—acquiring and servicing clients, and ensuring efficient operations and good administrative order. Lasting growth and success requires good balance.

You don't need to be an expert at the business you now own, but you need to stay connected to others who can provide perspective, guidance or specific experience. When you get busy, caught up in the activity of running the business, you need to have people you trust nearby to get you back on track or to help make adjustments in response to a new challenge.

Consider that all of the First Nations' businesses referenced above were under-capitalized and run by first-time entrepreneurs with no business experience and a set of values not usually associated with business success. Yet succeed they did.

As the new owner of an existing business you have many advantages over these folks—a proven product, loyal clients, a location that works, trained staff and advisers who can help.

I encourage you to actively invest time to learn from past masters, those I have mentioned here or others. Choose wisely.

The substitute I recommend for coaching and industry expertise is the use of an experienced business coach with a great track record. I have personally used Grant Mellow of ActionCOACH for such services and would heartily endorse the folks at ActionCOACH in Ottawa.

I am sure there are many other good business coaches available in your local community. They can see the forest while you are working on the trees, they have a network of specialists who can help, and they force you to be accountable.

As business owners we answer to ourselves, yet we have responsibilities to our families, employees, clients, suppliers and others. A business coach can improve clarity and focus and force you to report your progress on agreed-upon tasks and goals on a regular basis.

Group coaching is usually available if you can't afford a personal coach.

The Inner Circle provides peer mentoring and works in very much the same way with the added benefit of helping to combine your life and business objectives into a singular vision to achieve a better business and a richer life.

Whichever help you choose, keep working on yourself and on the business.

Learning the Numbers

Three months ago you bought a business—"Snowstorm Consulting." You have a solid grasp of how everything works and *why* it is the way it is. Now it's time to go deeper into numbers and how they drive profit.

The five key profit drivers that exist in every business are:

- the **number of leads** multiplied by the **conversion rate**, which together result in the **number of clients**;
- the number of **transactions per client** multiplied by the **average dollar sale,** which results in **total revenue** and;
- the **margin**, which, multiplied by total revenue, will equal **profit**.

As Snowstorm's new owner, you want to increase profit. Start by learning about the current numbers.

Snowstorm provides services to small- and mid-sized companies in your city. The company has been moderately profitable for the past five years and has grown roughly 10% in each of the past three years. Leads are generated through direct mail, the company website, social media marketing, telemarketing, seminars and industry presentations, networking, and referrals from other professionals and clients. Leads are responded to by the eight members of your sales team whose job it is to convert the leads to customers.

Show me the numbers

What is the cost of generating a lead? You need to know the costs associated with each of the above-mentioned marketing strategies and track the results. Where do your leads actually come from? Are there differences in the quality of leads from different strategies? To answer this question and to identify areas needing improvement, you need to track the conversion rate of leads coming from each source for each sales person. Some industries such as automotive sales do this exceptionally well. Most small businesses don't do this at all and thus are unable to make informed and wise decisions regarding marketing, recruiting, training, sales collateral and sales support let alone customer-perceived value and pricing.

Next you want to track the number of transactions per client. It takes much less effort and cost to do repeat business with existing clients than to attract new leads and convert them to clients.

Track the average dollar amount of each sale and you will arrive at revenue. Increasing the average dollar amount per sale may be the easiest adjustment. This can be accomplished by up-selling, by increasing prices and by bundling additional products or services into your sale.

The next thing you need to track is margin. What is the cost of goods or services sold compared to selling price? Your business might be improved by reducing costs, increasing price or steering clients to products or services with a greater margin.

Tracking can be provided through simple forms-based data capture and reporting systems or through sophisticated computer-based Customer Relationship Management (CRM) systems.

Keep whatever mechanism you use as simple as possible, but collect all of the numbers you need in order to measure future changes against results.

Test and measure

Keep in mind the mantra of **test and measure**. Understand the current numbers first, then introduce and test changes one at a time to see if they improve or detract from the business. By isolating, testing and measuring each change you can constantly improve your business while limiting the risk. Test each change sufficiently to be comfortable that you wish to continue with the change before you consider making another. Do not make two changes at the same time as you will not be able to measure the results of either change. This will take patience but the result will be better decisions and a stronger and more profitable business.

Select and keep those changes that move you closer to your goal and eliminate those that do not—after 900+ attempts to invent the light bulb, Edison was able to eliminate 900 approaches that did not work.

Learning the Numbers (Part Two)

Respected marketing and advertising pioneer John Wanamaker said: *"Half the money I spend on advertising is wasted; I just don't know which half."* A century and half later, many companies are in this same position, watching their margins erode. It's a position they can't sustain. *This is the ugly*.

Media is changing so fast it's almost impossible to keep pace. When will we lose the Yellow Pages? How much time and money should we put into social media? Do we need a mobile-friendly website? Is TV a waste of time when many households have PVRs? And on and on.

Some companies *think* they know how to measure results. "I have tried insert media of your choice one time and it does not work for us," they say, or "We ask **all** our customers how they heard of us." Some are complacent with business trotting along slower and slower… then one day? *This is the bad*.

To illustrate *the good*, I am going to single out a company that has been measuring advertising success for over 45 years—Valpak, that familiar blue envelope that shows up in most Canadian mailboxes every month. Don't say you never open it; millions do. In fact, Valpak gets mailed across North America to more than 40 million homes a month. You don't get that big without delivering results, which in their case are visible and tracked by the coupons redeemed. Valpak offers many new ways of measuring advertising response, including call tracking, QR codes, landing pages and SMS texting.

A new advertising world

Call tracking (CT) puts a unique phone number on your ad, seamlessly capturing the caller's name, address and phone number while the call is forwarded to your line. You can also record every call to see how staff are handling leads.

By now everyone has seen print ads with the little black and white boxes with dots and squares. These are **Quick Response** (QR) codes—web addresses for smartphones. Think nobody has time to scan these? The audience for QR codes is growing *very* fast.

You can link your QR codes to mobile- and consumer-friendly content such as surveys, contests and much more. But be careful—linking a QR code to a non-mobile-friendly website will frustrate the potentially hot prospects who took the time to scan it.

Some 66% of consumers responding to an offline ad will go online for more information before calling or visiting the business that ran the ad. Why not send these consumers somewhere cool—maybe to a **landing page** where they can see a video about the month's special or download a coupon or request a quote.

Valpak landing pages come with special measurement tools to measure every click and can be designed to sell product as well as offer information. You may have seen a "squeeze" page, a long page offering something like the opportunity to "Click Now and Join" between promotional text and videos that get stronger as people move down the page.

Like QR codes, **SMS texting** allows you to measure various media by putting unique short codes on different ads, such as *Text "texmex" to 47056 to receive a $10 OFF coupon*. I think you get the idea.

Smart marketing pushes the envelope

How would all of this come together in a campaign? If you went all-in with Valpak, your print ad would include a QR code linking to your offer on their site or your own landing page, search-engine-optimized for your keywords. The campaign would include an SMS short code plus a call-tracking line to measure calls and build your database with the names of prospects you can contact by direct mail or email.

With the means to measure calls, leads and conversions, you can nurture your leads, testing different offers and the effectiveness of each medium relative to the other.

Measure and measure again.

Learning the Numbers (Part Three)

We have been exploring the numbers that drive the business you have purchased, the cost/benefit of your marketing programs and how to increase your bottom line.

Five and seven are also important numbers. These relate to the number of "touches" it takes to turn a prospect into a client. *After five touches or contacts the percentage of prospects who will actually buy from you is 50% to 70%. After seven touches or contacts it jumps to over 80%.*

Before purchasing, customers need to get to know you—your business and your staff. They need to know what you do and what solutions and benefits you offer. They need to trust you and your business. And they need to see how you are different from your competitors.

Too often, businesses rely on a marketing program that touches their prospect fewer than five times and thus leave sales and money on the table.

Reach out

Let's look at our mythical consulting firm, Snowstorm Consulting, and how they touch their prospects—businesses with more than 10 employees:

- They target direct mail to the businesses in their community with more than 10 employees.
- They have an excellent website (that 66% of prospects will check out before contacting them).
- They have alliances with other professional firms and deliver breakfast seminars via these firms.
- Their salespeople are members of various networking organizations including the local Chamber of Commerce, BNI groups, the Canadian Association of Family Enterprises, industry associations and community and church groups. Through these networking activities they get to meet many local business people.
- Their salespeople call business owners to invite them to Snowstorm's free seminars.
- They run regular advertisements in the local newspaper.
- They have a large sign on their office building, which is on a busy street.
- They are active in social media via twitter and a company presence on LinkedIn, Facebook and Google+.
- They write a weekly blog post with information of interest to their prospects.
- They publish a monthly e-newsletter distributed to people who have signed up from their website and other online channels.
- They contribute articles to the local newspaper that are of interest to business people.
- They host meetings and training seminars at their facility, supporting the professional firms they have alliances with and charitable endeavors.

- They offer free information packages to prospects who request them online, by phone or by e-mail.
- They are listed in trade directories as experts in their field… and the list goes on.

Be consistent

Each touch is an opportunity to present the company in its best light *if done well*—from the sign on the building, how the receptionist handles the phone call about the free information package, to the content and handouts from the seminars and presentations. *Each must convey the right image*.

As a new business owner, you need to ensure that every way in which your firm has contact with a prospect or client is handled well and properly presents the image you wish to convey.

You also need to build their understanding of how your solutions and benefits differ from the competition and their trust that you and your business will deliver what they expect.

The more often you touch a prospect via the right image the more likely the prospect is to become a client. This is true for all types of business.

As a new business owner, you need to develop and implement a marketing plan with actions that touch prospects at least five times, but preferably seven or more. Many will cost little or nothing. But they may require an investment of time, yours or that of your sales staff. While the means of contacting or touching your prospects may be different from those of Snowstorm Consulting, it is important that you strategize and consistently carry out your plan. For the key to success is consistency—consistency in the image you convey and in the actions you take in support of your strategy.

Of course in business, as in life, change is a constant, and as American philosopher John Dewey said, "Arriving at one goal is the starting point to another." As we've mentioned before, business owners must be able to seek out and take advice and keep learning. Stay connected with others who can provide perspective, guidance or specific experience. And remember to "pay it forward" when you have the opportunity to help others as well.

Congratulations for making your dream of successful business ownership a reality. May your new business become all that you want it to be.

Statistics show that owning your own business is the fastest way to financial independence, while also creating the lifestyle and liberty that goes with successful business ownership. And if you buy an existing successful business, there is a 98 per cent chance that the business will still be in business after five years (provided of course, that you buy it right). There is no perfect business—only some that are better for you than others. The key is for you to find the right opportunity to make it your perfect business.

TOP 10 TIPS FOR BUYING THE RIGHT BUSINESS FOR THE RIGHT PRICE AND TERMS

1. **Purchase a business that you will enjoy**. To make that decision you need to realistically assess what you do enjoy, your personal goals for the coming years, your personal strengths and your weaknesses. Make sure that the day-to-day effort in your business will be fun for you. Getting up every morning and being excited about the coming day makes the work load seem light.
2. **Never confuse a business that doesn't show a profit for tax purposes with a business that isn't profitable.** Private businesses prepare tax returns to minimize taxable income. Minimizing taxable income is part of the normal activities of private businesses. Small businesses don't have (or want) the level of detailed record keeping usually seen in larger companies. The taxable income reported on a small business tax return is rarely an indicator of the true earnings realized by the business owner.
3. **Expect and respect confidentiality.** Knowing that a business is for sale can set off alarms with employees, customers and suppliers and do permanent damage to an operation that might become yours. How so? For one thing, customers and skilled staff could go elsewhere, reducing sales and profits. Be aware of this if you see a business that's advertised publicly. If you're dealing with a business broker, you'll be asked to sign a non-disclosure agreement (NDA) protecting confidential and proprietary information about the business for sale and what might be your future prospects.
4. **Be prepared.** Timing is everything, so being prepared in advance to make a serious offer once you have found what you are looking for is critical. Get financial and credit facilities in order before you consider buying. Make sure that "soft" financial commitments from friends and family are firm before you start negotiating and include

these people in the process as appropriate. Define and refine your interests, capabilities and budget in advance, so you'll recognize the right opportunity when it comes along—then act!

5. **Be patient.** Negotiating the right deal takes time and effort, typically some three to nine months. Commit the time to accomplish the many tasks. Don't get discouraged if the deal doesn't work out. You may need to find more than one business to pursue.
6. **Don't over spend.** Negotiate only for terms that you can realistically afford. Don't overstretch yourself to your financial capacity. Leave sufficient rainy day and transition capital to ensure a cushion of safety.
7. **Insist on seller financing.** Make sure that your seller is providing a reasonable portion of financing. This allows you to buy a more valuable business with less money down. It also keeps the seller honest regarding financial projections and business potential.
8. **Choose the right professionals.** Every buyer needs a good lawyer and accountant on their team. Choosing the right professionals means finding experts who have actual experience in buying and selling businesses and who understand their role in the process. Recognize that MOST lawyers and accountants are not entrepreneurs or business experts. Understand that because their job is to protect your interests against all conceivable risks, the safest recommendation they can make in every situation is to not take a risk. Remember that you are ultimately the one who makes the business decision based on your talents, expertise, instincts and entrepreneurial goals.
9. **The terms of the deal are always more important than the actual purchase price.** Negotiating the right deal can take a considerable amount of time and effort. Understanding your seller's objectives and reason for selling is a critical part of finding the right opportunity and structuring the right deal. Above all, do NOT take the negotiating tactics of the seller personally, or get caught up in the emotion of the situation. Rely on the professional expertise of your intermediary to negotiate well and create win-win terms that work for both parties.
10. **Secure a non-compete/non-solicit agreement and a training and transition program.** You want to keep the seller around long enough to train you and to ensure a smooth transition for clients, suppliers and staff. If seller training is critical to your success, protect yourself by putting life and critical illness insurance payable to the business in place for the required training and transition period or use the seller financing to self-insure.

Glossary

Asset Sale:
An asset sale is a transaction where the buyer purchases the operating assets of the business, both tangible and intangible. The purchase price must be allocated among the assets purchased including goodwill. Allocating fair market value to the assets will often result in the seller having to record a recapture of depreciation with this amount being taxable as income to the seller.

Business Broker:
Business brokers are intermediaries who assist buyers and sellers of privately held small business in the buying and selling process. They typically estimate the value of the business; advertise it for sale without disclosing its identity; handle the initial potential buyer interviews, discussions, and negotiations with prospective buyers; facilitate the progress of the due diligence investigation and generally assist with the business sale. (WIKIPEDIA)

Buy-Sell Agreement:
A contract that provides for the future sale of a business interest. Essential protection in a business partnership.

CSBL:
Canada Small Business Loan. Provides financing for the purchase of assets, limited to a percentage of the value of Furniture, Fixtures and Equipment.

Due Diligence:
Review/Investigation to ensure everything is as it was originally portrayed. Verifying the details. Financial, operational, market, HR and legal.

Earn-Out:
In the purchase of a business, a deferred payment that bases a portion of the valuation on actual future performance. Often requires the seller to remain with the business.

Franchise:
Franchising is a business method that involves licensing of trademarks and methods of doing business. A franchise usually lasts for a fixed time period and serves a specific territory or geographical area surrounding its location. (WIKIPEDIA)

Franchisee:
The party in a franchising agreement that is purchasing the right to use a business's trademarks, associated brands and other proprietary knowledge in order to open a branch. In addition to paying an annual franchising fee to the underlying company, the franchisee must also pay a portion of its profits to the franchisor. (Investopia)

Franchisor: A supplier who allows an operator, or a franchisee, to use the supplier's trademarks and distribute the supplier's goods. In return, the operator pays the supplier a fee. (WIKIPEDIA)

Intangible Assets:
Include goodwill, patents, trademarks, database/mailing lists, licenses, permits, franchise agreements.

Intellectual Property:
Includes patents, copyrights, trademarks, trade secrets, and other proprietary information used in commerce.

Lifetime Capital Gains Exemption:
A tax benefit on the sale of shares of a qualifying small business corporation. The current lifetime limit is $750,000 per person (shareholder). For the 2014 and subsequent tax years, the Department of Finance Canada budget proposes to increase the LCGE from $750,000 to $800,000 and to index the LCGE after 2014 for inflation.

NDA or Non-Disclosure Agreement:
An agreement that creates a legally enforceable confidential relationship between the parties to protect any type of confidential and proprietary information or trade secrets.

Non-Compete Agreement:
A legal document to prevent key employees from setting up their own business in direct competition.

Offer to Purchase, Letter of Intent, Memorandum of Understanding:
A formal proposal to purchase. Documents that serve as a dated and signed offer to purchase the business with a time frame for response. Usually non-binding excepting confidentiality and perhaps exclusivity. Frequently includes a deposit.

Recasting:
Normalizing the financial statements of the business to provide a realistic value of the assets and liabilities and the true earning capacity of the business. Adds back expenses considered discretionary, extraordinary, non-recurring or non-cash.

SDE or Sellers Discretionary Earnings:
True earnings. Net income less interest, taxes, depreciation and amortization, owner's compensation (including salary and discretionary expenditures). Benchmarked as a percentage of gross sales.

Share Sale:
In a share sale, the buyer purchases the shares of the corporation. For the seller, the difference between the cost of the shares and sale proceeds is a capital gain.

Tangible Assets:
Include furniture, leasehold improvements, vehicles, machinery etc.

Vendor Take Back:
Seller-provided financing where the seller takes back a portion of the purchase price, paid off over time. Also called a seller's note.

About the Author

Greg Kells is President of Sunbelt Business Brokers, Inc., the Canadian offices of the world's largest and most successful network of business brokers.

Over the many years Greg has been in business, he has helped hundreds achieve their dreams.

Greg's first book, *Insider Tips on Selling a Business in Canada*, was a Top 10 and individual category winner in the 2013 Small Business Book |Awards.

Greg is a Mergers & Acquisitions Master Intermediary, Certified Business Intermediary, Certified Senior Business Analyst, Certified Machinery & Equipment Appraiser, Life Member of the Institute of Business Appraisers, Real Estate and Business Broker and an instructor for the International Business Brokers Association, the National Equipment & Business Institute and the Society of Business Analysts.

In addition to his management and training responsibilities, Greg continues to assist clients with the purchase or sale of businesses.

Greg can be contacted at:

Sunbelt Business Brokers Canada
2821 Riverside Drive
Ottawa ON K1V 8N4
Canada
Tel. (toll-free): 1-800-905-3557
Tel. (local): (613) 731-9140 Fax: (613) 526-0997
Email: gregkells@sunbeltnetwork.com

Sunbelt Business Brokers Canada Core Values

If we can help enough other people to achieve their goals we will achieve ours.

We cannot be successful until we have made the people around us successful.

How we treat people in business is how we treat people in life—with caring and respect. We revere honesty and welcome disagreement. We treat others as we want to be treated.

We continually strive to improve our skills, our systems, our policies, our technology, our knowledge, our focus, and our support to be the very best at what we do.

We develop and implement strategies to effectively deliver services that enable our clients, our peers, and us to achieve our goals.

We set goals and measure performance against them individually, as a team, and corporately. We take responsibility for the outcomes.

We modify our plans, strategies, and activities based upon measured performance and expanding knowledge.

We value the role and contribution of each person.

Making money is the reward and the catalyst for being the best in the industry.

THINKING OF BUYING A BUSINESS?

Let us help you

CHECK OUT OUR FREE RESOURCES

Get these great DOWNLOADS:

✓Secrets of buying the right business under the right terms and conditions
✓Strategic advantages of buying a business with Sunbelt Business Brokers

For valuable tips on buying, valuing or selling a business,
Sign up to get the SUNBELT CANADA NEWSLETTER.

Follow Greg's blog, the Real Deal.

Follow Greg on Twitter:

Visit the SUNBELT CANADA WEBSITE at sunbeltcanada.com for access to these resources and more information about our services.

Locally owned and operated offices across Canada

Advance Praise for Insider Tips on Buying a Business in Canada

"I have had the privilege to work with Sunbelt and to see their process in action. They do it right and provide the help and support business buyers need to make winning choices. "

Grant Mellow, business coach

"I have been a client of Sunbelt having both sold and purchased businesses with their help. They have looked after my needs and enabled me to achieve freedom and wealth while at the same time making sure the transaction worked for the other side. They have been diligent and creative and their system works. "

Ernie Toste, entrepreneur

"Buying a business was the scariest thing I have ever done. Sunbelt made the process easy and made me comfortable with each step. Since I took ownership they have continued to provide advice and assistance. I am now comfortable in the role of business owner and am making gradual but sure improvements in the business every week. Thank you! "

Steven Clyne, restaurant owner

"Sunbelt has helped many of my clients to buy a business. They have used insurance and financial vehicles to minimize risk, ensured good training and a smooth transition for the buyers, and guided them to the right decisions. They are simply the best at what they do. "

Randy Harrison, president, Advanced Planning Insurance Group, Dundee Wealth

"Working with many of Sunbelt's clients I have seen first-hand how Sunbelt has helped them navigate the challenging process of buying a business. Greg's in-depth experience helping hundreds of clients across many industries to buy businesses, places him in a unique position to share his insights with readers. "

Jay Humphrey, LLB, lawyer, specialist in corporate law, purchases and sales of private corporations, tax and estate planning

###