

# How to find the right business broker for you

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When **Trisha and Larry Scheffler** decided to sell their small manufacturing company in Jasper, Ga. -- one they had founded 10 years before -- their first instinct was to sell it themselves. Why pay a hefty commission to a business broker? "Things didn't go well," Trisha said. "We didn't know what steps to take or when to take them. When were we supposed to show a prospective buyer our financials? Who was really serious about buying our business, and who was a competitor [trolling for information] to use against us?"

**The Schefflers eventually hired a business broker, (Kathryne Pusch of ConsultKAP, Inc.) selling their 15-employee company to a larger competitor. Trisha said she believed they made more money that way than they would have flying solo. "Even more than that, selling a business is a very stressful process," she said. "A business is like a member of your family. You want it to grow and thrive. It was good just to have someone to answer our questions."**

Increasingly, business owners are selling their business through a broker, a formal middleman who did not exist in Atlanta until roughly a quarter-century ago. Previously, someone selling a business had only his attorney, accountant or banker to call on for advice, not that this doesn't suffice still for many owners.

Today, business brokers are called in to sell businesses with up to about \$20 million in annual revenue -- " Main Street " firms ranging from convenience stores to restaurants to retail shops to manufacturing and distribution operations. Most brokers run small-scale companies with only a handful of employees. "The largest brokerages have as many as 10 to 15 agents, but for the most part, they're much smaller," said Nick Nicholson, owner of Nicholson & Associates Inc. in Midtown. "We're unlike the real estate industry, where you see 125 agents working out of a single office."

The Georgia Association of Business Brokers (GABB), the industry trade group, numbers about 100 members. **"The most effective brokers are the ones with strong business backgrounds," said GABB President Kathryne Anne Pusch, who's also president of ConsultKAP Inc. in Conyers. "Brokers have to understand how a business operates in order to work effectively with buyers and sellers. Selling a business is a complicated process that involves legal, accounting, deal-structuring, price-evaluation and other issues."** Brokers usually represent the seller in a transaction. In Georgia, if real estate is involved in the sale, the broker must possess a real estate license. But aside from this and local business-licensing requirements, the industry is largely unregulated. Commissions vary, usually running 10 percent to 15 percent of the sale price below \$1 million and from 10 percent on down for larger transactions. On bigger sales, the fee is often fixed by negotiation. Selling smaller companies, the most productive brokers can turn nearly a deal a month, Nicholson said. Agents brokering larger deals might record only a few transactions a year.

The desire for confidentiality does much to explain the rising popularity of brokers. Unlike the owner of a residential or commercial building, a business owner usually doesn't want the general public to know his business is on the market. Effective brokers screen prospective buyers to separate the legitimate ones from the "tire-kickers" or competitors out to gain an edge. **"Let's say Joe's Widget Factory is up for sale, and Joe's biggest competitor finds out," said Pusch, who served as broker for the Schefflers. "The competitor tells a mutual client, 'Joe's factory is on the market, and it's not even going to be around next year. And you know what? I've heard he's been having financial problems.' "** Then Joe's employees find out the factory is for sale, a virtual inevitability if the company is small and the owner shops his business around during working hours. Strange phone calls feed the rumor mill.

**"Suddenly, Joe's employees believe that a big conglomerate is going to come in and everyone will lose his job," Pusch said. "They start bailing out on him. Now Joe is losing both customers and employees, so he really doesn't have much of a business anymore. The biggest thing a broker does is protect the seller's business during the whole sales process."**

Corporate downsizing, which has made many disgruntled executives and former executives look to buy their own businesses, has spurred the brokerage industry in recent years. "I've been seeing more buyers than at any time in my career, and I've been in this business for 21 years," said Ron Chernak, owner of First Business Brokers Ltd. in Colorado Springs, Colo., and chairman of the International Business Brokers Association (IBBA). "Many people are essentially saying that they want to take their destiny into their own hands. One way to do that is to buy your own business."

Atlanta attorney Greg Chait, a partner and mergers-and-acquisitions specialist at Powell, Goldstein, Frazer & Murphy LLP, said business brokers perform many of the same duties as investment bankers. "It's just that the businesses are much smaller in size than an investment banker would look at," Chait said.

"Brokers are more highly trained today, and a lot of them are corporate types with extensive experience," he said. "Buyers also are more sophisticated, more numbers-oriented. They come to you with a business plan. Buying a business is always an emotional decision, but now the numbers really have to work, too."

Turnover rates in the broker industry are high. **"More people are coming into this industry than I've seen in a long time, but turnover remains high as well," Pusch said. Pusch urged buyers and sellers to investigate a broker's background fully before signing on. "Maybe the broker was selling houses last week and now wants to sell your business," she said. "That's a quantum leap."**

**Top brokers must be good listeners who engender trust, Pusch said. "It's a personal and long-term relationship. You will need to work with this person for many months, sometimes over a year, so you need someone you can talk to honestly." Beware the unscrupulous broker, she said. One telltale sign: Right off the bat, the broker quotes a high price for your business, then asks for a large check upfront. A sheep is about to be sheared. "It never ceases to amaze me that small-business owners will write a large check to someone because they want so badly to believe their business is worth this large amount of money," Pusch said. "Then a legitimate broker comes in later, and the owner is on the defensive because he's been taken by somebody. It concerns us very much."**

Like Chernak, Nicholson has never seen more people shopping around for a business than today. Trouble is, "as the economy has slipped, fewer businesses are available," he said. "The price may not be good enough to sell, or business is down at a company and buyers are leery." Chernak said one thing continues to amaze him about the profession. "There are still some people out there who don't know there's a whole industry for selling businesses," he said.

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