Welcome!

The chapter below covers a critically important stage in the buying process when you will be meeting with a seller.

Pay close attention to the recommendations made and the detailed list of questions to ask them. These questions have been compiled from over 1000 seller interviews and they are clearly the key issues you need to cover off and in the order they are laid out.

Along with each question, you will see specific notes regarding the answers to look for, and the reasons to ask each question. Although some may be obvious, when you meet with a seller, you will have a limited time to ask your questions, and many people get off topic and leave the meeting with the feeling they did not learn enough about the business. If you follow the exact steps and questions in this section, you will not have that problem.

This free excerpt from our program How To Buy A Good Business At A Great Price© will give you a very good idea of the detail involved in the complete course.

Enjoy the content.

Richard Parker
Author - How To Buy A Good Business At A Great Price©
President and Founder, Diomo Corporation

Lesson # 14
Visiting the Business

After reviewing Business Listings or speaking with Sellers of "For Sale by Owner" businesses, the time must arrive for you to arrange a meeting to visit a business. You can't buy a business from a listing. Nothing can substitute for the education you will get by visiting the business and asking questions. With each visit, you will get better and more confident. **Don't feel that you are being a burden on the broker or that visiting any business is ever a waste of time.** There is something to be learned at each location, on each visit, and at each meeting.

In fact, it is essential that you arrange numerous meetings. Remember, you can't buy a business from a listing. You need to see it in action to get a real sense of what it's about.

Meeting the owner for the first time may be intimidating for both parties. It is understandable and expected for you and the Seller to be a bit anxious. This meeting resembles an interview process. Actually, a "first date" is probably a better description. While you are by no means ready to buy furniture and move in, you are questioning, probing and looking for certain "right" answers to see if a second date makes sense.

There are several goals that you want to accomplish at the first meeting:

- Get answers to as many questions as possible without imposing upon the Seller.
- Get a flavor for the business, the owner, and employees.
- Get enough background and "leads" so that you can begin to gather information on the industry, the competition and the business.

- **Impress the Seller** so that he or she feels that you could be the right person for this business, or, at the very least, that you are capable of running the business.
- Convey your sincerity that you are a serious Buyer.
- Let it be known that you are well prepared and organized for the buying process.
- Leave the Seller feeling very positive about the meeting in general. This way, if a subsequent meeting is set up, they will be comfortable.
- You probably won't get into specific financial details at this stage. You need to gather enough information so you can do your homework and determine if a second meeting is worth pursuing.

If you achieve but one objective from the above list, make it **impressing the Seller!** You cannot even imagine what a difference that will make. If the Seller is impressed by you, chances are they will bend over backwards to get the deal done with you. I cannot even tell you how many times I've been in a meeting with a Buyer where I represented the Seller and right afterwards the Seller said: "That's the guy… that's who I want to buy my business." Now, if you can achieve this, as long as you have a reasonable offer, you're getting the business, on the terms you want. Trust me on this one.

Be diligent about your first meeting and take it very seriously. Prepare yourself and, in your mind, walk through it a few times. Rehearse the questions with your spouse, friend, or whoever else will provide you with constructive criticism.

Let the broker know specifically what your goals are and that you have many questions which **you**, not him/her, will be asking. The more work you do beforehand, the better off you will be.

<u>Where To Hold The Meeting?</u>

The only feasible place to conduct the meeting is at the business. However, some Sellers may want it elsewhere due to confidentiality. Personally, I think it's useless to have it anywhere but the business. You're better off to have it at the business, even if it means after hours. If it becomes an "issue" you may need to give in to this for the first meeting but once you get past the first round, you must see the business in action, without fail.

Get the business's location prior to the meeting and do a drive-by or actual visit. If it is a retail environment, restaurant, or showroom, you can actually go onto the premises a day or so before your meeting, which is highly encouraged. However, you absolutely MUST be discreet. This means no talking to employees, asking obvious questions, or looking suspicious. You must respect the owner's need for confidentiality. The best strategy to use is not to utter a word to anyone about the business.

Prepare Properly

As soon as you decide to arrange a meeting for a particular business, start a new file on it. Begin preparing immediately by doing the following:

(i) Business Background Check

Do a search on the business to determine the corporate structure. You can do this online through your local State Department or by asking your attorney to do a quick search for you, where you can identify who are the owners, the addresses, corporate directors, date of incorporation, etc.

There is good reason for this. **If there is more than one owner, you may have to negotiate with multiple parties and it is crucial that you know about this at the beginning.** On one occasion, I met with the owner and he certainly gave me the impression that he was "the boss." After a second meeting, I asked him if he was the one who would ultimately make the decision regarding the sale.

"Absolutely," he said. Unfortunately, when the negotiations became intense, he suddenly raised the point that he had to consult with someone. He had a silent partner, who became not so silent. He nearly undid all that I had accomplished.

Had I researched the corporation beforehand I would have known about this and I would have saved a lot of time and grief. This was a while ago and I learned my lesson. Use my experience to your advantage and do your homework to avoid these type of pitfalls. Another good reason for the corporate search is for you to obtain the home address of the owner(s). You should drive by their personal residence as well. It will give you a bit of an idea of their level of success and how well they take care of their personal possessions.

(ii) Location

The meeting should be held at the business. Some brokers prefer having the first meeting at their offices. This is ridiculous. Arrange for the meeting to be held at the Seller's premises unless there are very compelling reasons not to. You cannot make any assessment or form any type of opinion unless you see the location

(iii) Agenda

Detail all of your questions in advance. Prepare a list of every topic you wish to discuss and a listing of all of your questions. At the beginning of the meeting, take control by advising everyone in attendance that you have an agenda that you would like to follow. Keep very detailed notes. You may want to have all of your questions on a paper with space to the side or below where you can log the answer *(use the Prospective Business Portfolios included with this course).* Write down as much as possible. You will be bombarded with new information and it will be difficult for you to retain most of what you hear. Write it down so you can revisit it and organize it properly. You will also use your notes to prepare future questions. Make sure that you ask your questions first. This way, the owner will not tailor their answers based upon what they know about you.

(iv) Documentation

You may be asked to provide your Personal Financial Statement prior to a Seller agreeing to meet with you. This is known as **"Buyer must pre-qualify."** However, in many cases, you won't have to provide this until discussions start. Make sure you complete it after finishing the course and have it ready for the Seller, if necessary.

At some point in your meetings (sooner or later), the owner will perform a credit check on you. If there's anything in it that concerns you, it will definitely concern the Seller as well. If the Seller talks about your credit worthiness, they will almost certainly do a credit check on you. I suggest that you let the Seller know about it. It is not necessary that you discuss this immediately, but you should verify your own credit and eliminate any incorrect information. You can get your credit information from the two main credit bureaus, or online at:

Equifax	**Experian**	**TransUnion**
P.O. Box 74256	P.O. Box 919	1-800-916-8800
Atlanta, GA 30374	Allen, TX 75013	
1-888-997-2493	1-888-397-3742	

Online at:
http://www.freecreditreport.com (1-800-220-2626)
http://www.creditreport.com

Next, prepare a background sheet on yourself. Also known as a "Bio," it is essentially a resume in letter form. A typical Bio should look like this:

****

Janet Jones

627 NE 48th Street
Atlanta, GA 30300
404-555-7743

Current Position

Presently employed as National Sales Manager for a U.S.-based International Corporation specializing in molded plastics manufacturing. Over 7 years with the firm. Began as a regional sales representative. Won several awards for sales excellence and has grown the business by over 37% in the last two years. Travels extensively throughout the U.S. and participates on the corporation's global planning committee.

Previous

Over 12 years of sales and marketing experience with three companies. Positions included: Sales Representative, Regional Manager and Territory Manager. Extensive experience in the manufacturing and distribution sector.

Personal

Married with two children. Very involved with local church and children's activities. Husband is a doctor.

References

Bob Englehart, Vice President – Chamberlain Plastics Corporation	800-555-7788
Mary Ann Edwards, Vice President – Bank of Georgia	888-555-2264

****

(v) Timing

Since there are four parties involved (you, the Seller, two brokers) it may take a few days to get everyone together, so be flexible. I suggest that you try to organize a time where you can see the business in action. Because the Seller may not want to see you at this time, get there an hour or so beforehand to witness the busy time. The Seller may be concerned that if you are there during regular business hours, the employees may become suspicious. If it is a retail environment, try to be there at its busiest (i.e. Saturday). For a restaurant, go there for lunch or dinner. This way you can see the flow of the business and at what pace it operates.

If you do not schedule enough time, you may not get the chance to ask all of your questions at the first meeting. I have found it advantageous to schedule the Seller for two hours. In that time frame you should be able to get all of the answers you need. Some brokers have the approach that they will give you a “tease” visit to get you excited, and then try to accelerate the second visit. This strategy is a complete waste of time. Why have two meetings when one will suffice?

(vi) Attire

Most people assume that they should wear a business suit, but this is not necessarily so. If you are looking at buying a bakery there is no need to look like a banker. You do not want your appearance to be intimidating. Fit your clothing to the business. If you will get your hands dirty every day, then you must present the image that you are capable of this. I am not saying to avoid showering for a week. Simply use common sense.

(vii) Your Car/Jewelry/Appearance

Don’t be “flashy” in what you wear or in your “attitude.” Your goal is to impress the Seller with your intelligence, desire and business savvy. By doing so, you will convince them that you’re the right person to take over the business. If you accomplish this, they’ll bend over to make sure you’ll buy the business at terms that are very favorable for you.

This may sound crazy but if your car is anything more than a basic vehicle do not bring it to the meeting. If the Seller or any of the employees see you pulling up in a BMW, you will send the wrong message and he/she will figure that you have “all kinds of money.” Arrange to meet your broker and go in his/her car and do this for every meeting until the price is negotiated. If you are visiting a business without your broker, park your car far enough away so that nobody sees it.

(viii) Be Sociable

Avoid being “all business.” Take the time to learn about the Seller. Change topics periodically to discuss non-business issues. Look around their office for clues about them. If you see certain pictures or memorabilia or whatever that can be a point of conversation then have a “chat.” This should not be an adversarial situation. While it is a “first date,” you should still conduct the meeting in the most amicable tone possible. By talking about a number of things, you may find a common interest, background or acquaintance that will lighten the conversation.

While you want to be sociable, in my experience some of the best Buyers are those individuals who come off as likeable, interesting, smart, but also hard to read. This last trait is a good way to leave the Seller guessing a bit because you don’t want to always lay all your cards on the table. If you’re not this way by nature, don’t worry and don’t fake it.

(ix) Sense Of Urgency

Conduct all discussions and negotiations with the utmost urgency. Let all of the parties involved know that you expect the same from them. State your timeline to everyone in these words:

“If this business fits the criteria I am looking for, then I would hope that we could get a deal done quickly. I do not have the desire or the patience to have this drag on any longer than necessary. I imagine that all of you agree with me on this and I will work with the greatest urgency possible. I expect everyone’s full cooperation as I guarantee you mine.”

At every stage maintain this sense of urgency amongst everyone. Do not expect people to work quickly unless you do the same. If you have to provide information or documents get it done fast, accurately and as promised. A little hint: when someone is responsible to get a task done, ask them: "When do you expect to complete it?" By putting the onus on them to set the date, chances are they will meet it.

Pay Attention!!!

During the meeting, observe the peripheral activities such as:

- Can the Seller conduct a full meeting without interruptions from the employees or their intercom? (This may be a sign that nothing gets done without them and it is NOT a good sign).
- If the meeting is offsite, does their phone ring continuously?
- Do they answer your questions succinctly?
- Are they trying to "sell" you with each answer?
- Does the Seller try to control the conversation?
- Does the Seller keep deferring questions to their broker? If so, this may mean that they are either unsure, or they're afraid of answering wrong. Obviously, you want to have a Seller that has nothing to hide, warts and all.

Take lots of notes and write down your observations. You will probably visit many businesses before you purchase one. You always want to complete the first meeting in a logical and systematic manner. This is so you do not waste time with a second, third or fourth meeting (if you can eliminate them earlier).

Questions To Ask the Seller

The Seller questions are broken down into two sets of meetings. It's possible, of course, that you may cover all of them in one meeting. However, if time is limited, or the meeting drags or you feel that there is an abundance of information, then obviously you can end the first meeting and continue your questions at the next session.

I also recommend that you have one meeting with the Seller in an informal setting such as a lunch or dinner. It's usually a good way to put them more at ease and see how they interact in a social setting. It's also a good idea to have their spouse attend. You can get a good read on who "wears the pants" in the family or how influential they may be since the Seller will absolutely consult with them during this process. Your goal again is to win over the spouse/partner.

At the first meeting, you want to get answers to as many questions as possible without being too aggressive. You want to get a taste of the business, the owner and employees. **Remember that you must pose your questions to the Seller first.** Ask the Seller if it will be OK if you write while he/she speaks (it's just courtesy). Some of the questions listed as "First Meeting Questions" may be more appropriate to ask later and vice-versa. Just see how the meeting progresses. If you forget some, get sidetracked or whatever else, don't get nervous. Do your best to follow your format, and you will have plenty of time on this and later visits (if necessary) to ask all of the questions that you have. Here is what you want to cover with them (questions are formatted as though you are asking the Seller directly):

Q: Could you please tell me about your business?

I know this sounds crazy but most Buyers fail to ask this question. It's like viewing a job candidate and failing to ask: "Tell me about yourself." **The answer you are looking for is a very crisp, clear and focused answer to demonstrate**

that the Seller really knows what business they are in. If the current owner cannot explain the business in a one-sentence answer, it may simply mean that there is a huge opportunity to market the business (or maybe it's too complex altogether). What you will find is that the more profitable and focused the business, the clearer the owner is on what business they are truly in. For example, when I was in the merchandising business, if you asked me to tell you about my business, I would say: "Our firm specializes in developing, implementing and maintaining merchandising solutions for retailers and suppliers"

Q: Why are you selling (their answer and the REAL reason)?

There are many reasons why someone sells a business: retirement, illness, boredom, new opportunities, chance to cash out, divorce, relocation, etc. Whatever their reason, there has been a conscious decision made that they no longer want it. The driving force behind the decision is the realization that the rewards they are reaping are not commensurate with their efforts. If they were, chances are they would not be selling. I am always leery of any reason that someone gives for selling his or her business except for the desire to "cash out" or my personal preference - the morbid reasons: death, divorce, illness. Think about it, if the business was rewarding the Seller for what they felt was the effort that he/she was expending, wouldn't they want to keep it going for themselves or family? That's why the reason of "other business interests" usually causes me to question their motives further. Notwithstanding this, there is much leverage to be gained by their decision. Selling a business for most people is a difficult decision and one that will have taken a lot of time to make. Once the decision has been made, it is, in most cases, something the Seller wants to complete.

If the owner tells you that their reasoning is new opportunities, boredom, or the business needs "new blood," this should be a real "alarm" for you. These reasons simply do not portray the viability of the business. **It is a warning flag for you to dig, dig, dig for details.** It could also be a signal that a really great deal can be made.

Whatever the reason, you must do some probing. What the Seller tells you may not be the reality of the situation. You must always be on guard for inconsistencies in their commentaries. Asking additional questions may solicit a comment that will cause you to think in another direction or perhaps provide cause for concern. Whatever answer is provided; here are the rebuttal questions you must ask for each:

<u>Reason</u>	**<u>Questions</u>**
Retirement	What are you planning to do? Will you be staying in this area? Are you looking forward to it? Do you think you'll miss the business?
Illness	I hope everything turns out well. Has it prevented you from devoting full time to the business? For how long? Is there a chance that you may want to rejoin the business later? Without sounding too personal, does this situation mean any specific timing issues that I should be aware of?
Boredom	What is it specifically that the business does not provide for you? Is it simply a matter that you have been doing this too long? If the business is so good, why not get someone to run it and split the profits?

New Opportunity (Other Business Interests)	Is it a similar business? Can't you do both? Do you have to sell this one to begin the other? Does that mean that this business can't grow to your expectations?
Cash out	Are you planning to start another venture? How flexible are you on the terms?
Divorce/Partner	Why don't you buy them out? Do they have shares in the company? What percentage? Must they approve any deal we make?
Relocation	Why can't you move the business? What are you going to do in your new city?

Q: What is the history of the business (i.e. Did they start it? How has it evolved? What products/services have been sold over the years)?

It is interesting and important to understand how a business has evolved and at what stage in its development it is currently positioned. The longer it has been around, the more you will want to review how it is positioned amongst the competition. Has it gained or lost ground? What is the market's perception of the business? Has it stayed true to its plan or has it changed over time? Is it more profitable now than in the past?

Q: Please break down the revenue and profits into the various products and/or services?

You want to get a sense of what areas contribute most significantly to the business. Perhaps there are some products/services that generate most of the revenue but not the profit, or vice-versa. In these cases you'll want to know why the company continues to offer these. Similarly, you want to identify what areas present the greatest opportunities and risks for the future.

Q: What is your background?

Generally, this will indicate what area of the business they focus on the most. Operators tend to focus on operations and those with a marketing background will focus on that area. It is interesting to see how well these parts of the business run given their background.

Q: What "keeps you up at night" about the business?

Every business owner has concerns regardless of how successful they are. This question will, in most cases, serve to identify what the current owner deems to be the biggest threat to the company. If they tell you "nothing," or their "spouse's snoring," you want to reword the question to be: "If you were not selling the business, what would be your biggest concerns about the daily operations and future for this company?"

Q: What is your area of expertise?

As with their background, their expertise is typically the area where they will have focused much of their attention. You would expect that these areas should be the strongest of the company, but not necessarily. People tend to hire people who are less capable than they think they are themselves in their own area of expertise. Or, they often stifle growth in this area amongst employees because they stick their noses in too often. Similarly, in the other areas, you want to be sure that they have attempted to hire the best people possible.

Q: What is your educational background?

This will give you an idea of what their strengths are as they relate to the business and these negotiations. For example, an accountant will mean that the finances of the business should be well organized; an attorney will mean that the company's contracts should be well documented. While you never want to discuss something that you are not well versed about, by knowing their educational background you will learn what areas you may be better off to hire an expert to evaluate and discuss on your behalf.

Q: How much vacation do you take?

You are not asking this because you want time off even though you haven't started yet. In fact, it's the opposite. If they tell you none to less than two weeks a year, then you know that the business is clearly not employee-driven. This can be due to many reasons: lack of trust, poor employees, the owner is – or thinks they are – "the business," workaholic syndrome, or the Seller just does not believe that the business can survive, let alone thrive, without his or her presence.

This would be a good time to ask: "What would happen to the business if you got hit by a truck tomorrow?" or "I was hoping that this business would, in time, allow me to take 4-6 weeks vacation. Is this possible?" Again you are probing. You will be surprised to hear many owners tell you (without even realizing it) that, in their mind, the employees are simply not capable of running the business without the Seller being present. This is another "flag." Right or wrong, it will tell you whether the employees will welcome someone who will encourage an environment of growth and recognition of their efforts. In this case, they will "run through fire" for you. Or, maybe the owner is right and they aren't capable. This will mean changes are needed. Only you can decide this.

Q: What would your customers and competitors say the business does best?

The answer you get from the owner is most likely what **he believes** the customers and/or competitors will say. Moreover, the Seller will tell what he believes are the strengths of the business. When you embark on the investigation and Due Diligence period, pay special attention to the Seller's answer versus reality. It will give you a very good indication if the company has been successful implementing and executing its Marketing and Business Plans.

Q: Probe a little further by asking: "Why do your customers buy from you?"

See if the Seller can reduce this to one answer or at least rank them. Remember, someone is trying to sell you something so they will probably give you all kinds of reasons. In most cases, the Seller's answers do not mirror what the customers would really say.

Q: How much salary do you take?

The Listing Sheet will note this, but sometimes it's not clear. Get the owner to detail salary and other perks. Certainly, if the perks can be substantiated and the owner is paying his mortgage, grocery bills, and kid's tuition through the business, that is their prerogative. As long as it can be verified, it's fine.

Also, they may tell in not so many words that the business also generates "cash" for them. Make it very clear that while this may be so, there is no way for you to monitor this and your intention is to put as much money as possible back into the business. The "cash" aspect is neither a benefit nor an attraction.

Let's elaborate on this potential situation. Since you cannot verify "cash," you must realize that the purchase price cannot be affected either way. **If you decide to pay a price based upon this so-called "cash," you are taking an enormous risk.** At this early stage, treat this point delicately but make your philosophy known.

It amazes me how many people overpay or are prepared to do so for a business thinking about the cash element. Especially in a retail environment, Buyers look at the so-called "secret ledger" of the Seller where they record cash transactions. From my perspective, you might as well use this ledger for toilet paper. First, I do not – I repeat, do not – believe in taking unreported cash from a business. It is illegal and the consequences of an audit far outweigh any benefit. Second, it only serves to confuse inventory levels. Third, it provides an invitation for all employees to do the same. Last point: your goal is to build a business, not drain it. Use all the revenues to grow your business; this is so important, especially in the early stages.

Q: What other financial benefits/perks do you take?

Determine vacations, club memberships, car expenses, family members on payroll, expense accounts, etc.

Q: Are there any family members involved in the business?

If there are any, determine their role. Are they employees or shareholders? Are they expecting or hoping to stay on? If there are family members, why isn't the business being sold to them? Learn if these family members have a say in the negotiation.

Q: Are you willing to stay on and train me longer than indicated in the Listing Sheet?

Whether you will need them or not is immaterial. However, you want them to know that their input is key and you may want them to stay on longer. Also, if they are facing retirement, they may be encouraged that they have a place to go, at least for a while, as they ease into their new lifestyle.

Q: Can I hire you on a part-time basis as a consultant (after the training period)?

Again, you may not want them, but at least you should know if this option is available to you. Even if they say no, they will have to agree to it later on (you'll learn how to do this).

Q: To what level can the business be built?

This is a trick question (fasten your seat belt for this one). Sellers will typically say: "The sky's the limit. With the right person, this business can be doubled or tripled… easily." It has to make you wonder – if this is so, why didn't they do it? Or, are they simply the wrong person? While their answer will almost certainly be embellished, this is a good time to corner them and ask: "If that's possible, please tell me specifically what would have to happen to achieve that kind of growth?"

Q: Why haven't they expanded the business?

Pay close attention to the answer. There may be some indication that could relate to areas of potential growth, i.e. skill, knowledge, ability, or lack of any of these, etc. (also, remember the answer to the previous question).

Q: Could you elaborate on the Balance Of Sale Conditions?

If they are smart, they'll probably ask you: "What would you like to know?" This topic will be covered extensively in the "Negotiation" lesson, but at this stage, approach this topic lightly. The timing may not be right to get into this discussion at all. If you do, you are 'fishing" to see what their level of flexibility may be. There is no need to spend too much time on this, but at least get a "feel" for how negotiable they are and what their needs seem to be for this. Do they need a big Down Payment and why?

If the Seller is requesting an all-cash deal, ask them if, under the right terms and conditions, they would be willing to offer a Balance of Sale. They may counter by expressing concern that you do not have the necessary funds. Your answer should be that while the money is not a problem, you need to acquire more information to get a handle on the ongoing capital requirements of the business. Tell them that you intend to spend your time and money marketing and growing it so you want to place all of your resources in the right place. Do not be discouraged if they tell you that a Balance Of Sale is out of the question. As long as you have 25%–50% of the Asking Price, you will, under the right conditions, be able to negotiate a Balance of Sale even from a Seller who is initially opposed to it. If the Seller makes it absolutely clear that, no matter what the circumstances, they will not consider this, you may have to move on to the next business. However, as you know, the majority of businesses will offer a Balance of Sale.

Q: Describe for me, if you will, the profile of the ideal candidate to takeover and build this business (strengths, background, etc.)

This is a good example of why you will pose your questions first. If you don't, they may very well gear their answers to fit you, which is something you do not want them to do. You'll decide this on your own without their influence. Try and pick up certain specifics that they may allude to, as opposed to generalities. For example, hard-working, honest and reliable is evasive. Sales-oriented, with a good background in product development, is specific. Undoubtedly, they will say that if the business has someone aggressive behind it, there are all kinds of things that can be done. Then again, this can be said of every business. Push them for particular skills.

Q: Do they like the business and what do they like most and least?

This should give you some insight into the tasks that the current owner has been focusing on. Typically, they will like what they are best at and dislike what they are not. Human nature being what it is, they will be spending the most time on what they enjoy. If this is not the “driver” of the business, you will have an indication that the business has some room for improvements, based upon the fact that the majority of their time may not have been devoted to what is most critical.

Q: Who are their main competitors and where can you get additional information on them?

You will have a chance, at later meetings, to get more details on this, but it will give you some tools to begin your research. If they are not very specific with competitor names, ask them and find out where they are located, where you can get more information, what is their Website, where is their head office, etc. If they do not know the competition inside out and sideways, it clearly indicates that their focus is not on the marketing end of the business (and this is a recipe for disaster ultimately!).

Q: Regarding the industry, what are the key trade publications, reference materials, Websites, trade shows that are attended, the company’s Website and can I get a copy of some of the publications?

Get as much information as possible so that you can begin gathering information on the industry and competition. If need be, explain to the Seller that you want to try and do as much homework as possible. Ask them to provide you with any relevant materials that they think will be helpful and promise that you will return it to them.

Q: Do any of your customers represent more than 10% of the business?

Customer concentration can be a major issue with the risk being that if this customer goes away; there will be a severe impact on the business. At the same time, some businesses have customer concentration issues, and that's simply a part of the business. You can see this in all types of businesses. The questions to be answered in these situations are:

- How secure is the client's business?
- What can happen that would cause them to change?
- How can you protect yourself (we'll discuss this in a later chapter)?

Q: What percentage of the business do your top five accounts represent?

See notes in prior question.

Q: Can I get a tour of the business?

When doing this pay close attention! Are employee desks and working areas clean? Are files neat and orderly? Are the premises themselves clean? Look into the bathroom. If they are messy, this may be an indication of the level of pride that the firm takes in treating employees. If customers use the bathrooms and they are not spotless, what does this tell you about the company's "attitude'? Is everyone hard at work? Are the employees friendly? Nervous? Suspicious? What about company vehicles? Are they neat? Are the employees focused on their tasks at hand? Is the machinery operational? Ask questions about each area – How does it work? What changes have been made? How has technology impacted it? What can be done to make it bigger, better, faster? Do the employees have comfortable chairs? Sounds crazy, but at one business I evaluated, the owner has a high-back leather chair and the employees had some of the most pathetic and uncomfortable chairs I have ever seen (and I know because I was in the used office furniture business). Can you guess how the employees were treated or what they thought of the boss? In fact, the parts department chair no longer had a back to it. The employee later told me that they spent up to 5 hours a day on the chair and when she asked the owner to replace it he said no, as it would only get dirty and broken anyways. When I asked the owner about this, he told me “nothing is stopping them from paying for a new chair themselves” – nice guy!

In the tour, you want to look to see if the business “looks and feels” successful. Is there a certain “buzz” to the place? Ask yourself if, in its current state, you would be proud to show off the business as your own? There have been a few occasions where I have not pursued the purchase of the business because the tour of the facilities turned me off. It seemed to me that the employees, the machinery, the systems were too dead to breathe new life into the place. The fun thing about touring businesses is that as you do more, some will just seem to make more sense to you. It’s hard to describe it, but this is the one aspect of visiting a business where your “gut” will dictate the answers and it’s pretty neat how accurately it seems to do so.

Questions You Will Be Asked

As much as you want to know about the Seller and their business, they also want information about you. I am sure that you can anticipate most of the questions. It is well worth your time to think about these beforehand (remember Preparation). What would you do if you get a question that you are unsure of or you are not prepared to answer? Do nothing! Evade it, tell them you are not sure and that you will let them know. Keep your answers brief and stick to the topic. Some of the questions you’ll be asked will include:

Q: What is your background?

Things to cover include where you grew up, your education, job history, business successes & failures, etc. Give them a copy of your Bio.

Q: What is your area of expertise?

Be as specific as possible. This is an important question. It may be the chance for you to give the Seller an indication of your compatibility with the business. Remember the Seller's answer to what the business needs most. Ask the owner how he/she sees your expertise impacting the business.

Q: What is your financial situation?

Be straightforward. Tell them that the Asking Price of the business falls into your level of affordability and you would not waste your time meeting with Sellers if it didn't.

Q: What type of income are you looking to generate?

You will have the benefit of seeing the Listing Sheet of the business. The Owner Benefits section will give you an idea of the Seller's compensation. If they are making $30,000 per year and you are looking for $200,000, then chances are you are looking at the wrong business. Your mandate for drawing a salary is important. If you can live on the current owner's salary tell him so.

Q: Do you plan on bringing in your own people?

Be careful with this one. If the Seller gets the feeling that you may be making personnel changes to any business that you buy, it may leak out to the employees prior to the sale. If this happens, and the staff senses that a purchase by you is likely, they may, and probably will, begin an exodus.

I do not advocate deceit in any form, but this is your decision and livelihood we're talking about. Be somewhat vague about this. It is far too early to make any personnel decisions. You can only open up a "can of worms." You cannot make any of these decisions until you are entrenched in the business and can properly evaluate each employee. As such, when asked this question, you should always respond:

"My choice is to keep everyone. In fact, I intend on growing the business and increasing the staff." Even if your idea is to fire everybody, you must bite your tongue and say otherwise.

Q: What is your time frame for buying a business?

Your answer: "Yesterday." Let them know you have the money, the drive and the commitment to buy a business. **Be clear about the fact that you are not "window shopping."** By the same token, let it be known that you are not the type to make rash decisions but when you find the business that meets your criteria, you are prepared to move forward quickly with an offer.

Q: What are you looking for in a business?

Typically, the answer is: "I'm looking for a solid business where I can be actively involved and use my strengths to grow the business." In real life, you must be very clear on what you want in a business. Let the Seller know that you are not married to a specific industry and that you are not 100% certain about the exact business. **Explain that you have very specific criteria that the business you will buy must adhere to (i.e. "The Ten Commandments") and the underlying theme to this is that it must be "a good business that can be made great!"**

Q: Can you afford this purchase?

Yes you can! If you couldn't you would not be meeting with the Seller!

Q: Do you have partners?

If you are planning to have active partners, financial backers or any other parties who will have a say in the purchase, you must advise the Seller. It may even be wise to respond yes, even if you don't. There is ulterior motive for this. Once negotiations progress, there may be times when you will be put against the wall to make a decision and this gives you a way to buy a bit of time. You can always say: “I have to discuss this with my (partner, backer, advisor, etc.).” This is a very effective strategy. You can even say something to the effect that you are in this alone, but you are relying on your accountant’s input.

Be prepared to answer as many questions as the owner wishes to ask of you. Answer honestly. You may find that the Seller’s broker may take the entire lead and ask the questions. Also, you might be surprised to find that they don’t ask you anything. In this case, you must take the lead after your questions and ask: “What would you like to know about me?”

It is critical that you “sell” the owner on the idea of you purchasing the business so that you can leverage this into getting better terms, conditions and their utmost help and cooperation. While it is still early in the process, you must leave them with the impression that you are bright, honest and aggressive.

End Of The First Meeting

No matter if you liked the business or not, after your first meeting you will feel exhilarated. It is a wonderful feeling that you will experience and you will begin to realize that these meetings are not difficult and rather enjoyable. If you happen to come across a miserable owner, or if for some reason the meeting was futile, do not despair. This is all part of the hunt. Enjoy the process no matter what. Remember that you will learn something at every meeting.

There will be a lot for you to do after the meeting and of course this will depend upon whether you were impressed with the business or not. Thank all who attended and get the Seller’s card. For the first few meetings after you complete this course, I strongly suggest that you do all of the follow-up outlined below; even if you have no interest in the business. It is good practice.

Here's a checklist of everything that needs to be done upon completion of the meeting:

- You will leave the first meeting with some very real "first impressions." Try not to discuss these in any great detail with your broker. Ask the broker what **they** thought of the meeting. What did they feel were the good and bad points of the business?
- Using the sample letter that follows this section as an example, send the Seller a thank-you note that evening by mail (or email). Copy your broker.
- Take a few minutes with the broker to review all of your notes while they are still fresh in your memory.
- Note the appropriate follow-up to be done.
- Assemble a concise list of the materials you can use to track down and gather competitive and industry information.
- Ask the broker to pull all of the listings on similar business types that they currently have for sale or those that have been sold in the last year. Get the original listing and Asking Price of these when reviewing any business so you can compare the original Asking Price to what the final selling price was (if the broker can provide it). I encourage you to visit these businesses and speak to the new owner.
- Begin gathering information (as per Lesson # 15).
- Take the time to detail all of the pros and cons of each of The Ten Commandments for this particular business with the information that you have at this point. It may be too early for you to know with absolute certainty if the business conforms to each.
- Spend a day digesting what you have been able to learn. Then, determine if you want to have a second meeting.

IMPORTANT: After you complete your first meeting, ask yourself:

1. Do I like the seller?
2. Do I trust them?
3. Do I like the business?
4. Can I see myself running it?

If you do not answer “yes” to all four questions, it’s probably time to move on.

FIRST MEETING THANK-YOU

Your Name
Address
Telephone Number, Email, Fax Number

Date

Business Name
Address
Attention: The Seller

Re: Our meeting of (date)

Dear ____,

It was a pleasure meeting with you today and I would like to thank you for the time you spent with me and _____ (your broker – if applicable). I appreciate you discussing your operation so candidly and for the tour of your premises. I will now begin the task of doing some research on your business, the competition and the industry in general. If there is anything that you can provide that will help my research, please let me know.

Thank you once again for your time.

Sincerely,

Your name
cc: your broker – if applicable

FIRST MEETING UPDATE

Your Name
Address
Telephone Number, Email, Fax Number

Date

Business Name
Address
Attention: The Seller

Dear ____,

Since we last spoke on (date of prior meeting or conversation), I have conducted a lot of research. I expect to complete this within a week or so and I would be very much interested in meeting/speaking again with you and your representative.

As soon as I gather more information, we will contact you..

Regards,
Your name
cc: your broker

One last thing, while you are doing the first meeting follow-up, if it goes past a few days, drop the Seller a brief note as outlined on the previous page (FIRST MEETING UPDATE). Send a copy to your broker. You may discover that your broker begins to get a bit nervous and he/she may say something like: "Please do not communicate directly with the Seller:" or they may use the line: "The Seller has asked that we communicate with his broker and not directly with them." If this happens, you can almost bet that this is "broker paranoia" and not necessarily the Seller talking. Assure your broker that he has nothing to worry about (you've signed documents to protect him) and you are simply conducting yourself professionally and you don't want to disturb him for these minor details. (Some brokers are so neurotic about this stuff. You'll find that many of them don't want you to have any direct contact with the Seller yet they are awful at getting you the information you need.)

Second Meeting

Arranging for a second meeting does not bind or obligate you in any manner whatsoever. If you need additional questions answered, you may be able to do this through your broker. If there is something specific you want to see again on the premises, then by all means arrange a meeting. You are not wasting anybody's time by calling a second meeting even if you are not yet certain about the viability of the business. Of course, if you have some interest in pursuing the business, a second meeting should be scheduled. If the business is a retail operation, you can drop by anytime to check it out without arranging a formal meeting. I would suggest that you call the Seller and advise him/her that you are planning to drop by and you just wanted to let them know. If it is a restaurant, then, without fail, make sure you go there for a meal and bring a friend to get their opinion.

If you prepare yourself properly the second meeting is often a turning point in any business review. The idea is to get down to a little more business and to press for certain information. **If you do not conduct adequate research between the first and second meetings, you will find the second meeting to be very unproductive**. This is the meeting for you to begin to "shine," to show your level of sincerity, seriousness and ability. By coming prepared and by being a little more aggressive, you will begin to move the leverage quite noticeably to your side. Call your broker and set up a meeting. Let them know you will be sending them an email or fax with an outline of what you want to discuss with the Seller (see below). Follow up to ensure that this information is forwarded to the owner.

****
SECOND MEETING LETTER

Date

Dear (the broker – if applicable),

As discussed, please arrange a second meeting for me with ____ (the Seller) of ____ (the business). I have several industry-specific questions that I would like to review. Also, in an effort to not waste any time, I would like to get copies of the following prior to the meeting, if available:

- Tax returns for the last 3-5 years;
- The most recent Balance Sheet and Income statements;
- Prior year(s) Balance Sheet and Income statement;
- Copies of contracts in place with (Master Franchisers, Distributors, major clients, etc.).

*****NOTE ALL OTHER DOCUMENTS YOU MAY NEED OR OTHER MATERIAL THAT YOU WANT BUT HAVE NOT SEEN AS YET.**

Should there be any problem in securing these documents for the meeting, please let me know ASAP.

Sincerely,

Your name
****

It is possible that your broker may not want to forward this letter, claiming that your request for documentation is premature. Explain to them that you have done some research and you are prepared to have a second meeting. You want the note forwarded so that it demonstrates your level of sincerity. You want to be certain that they have these ready for you. If you are going to take this to the next stage, these documents will absolutely be required. Tell them that you don't even need to take these off premises and you will be happy to look at these at their offices or in front of the Seller. You are showing good faith by attending a second meeting and you need the Seller to reciprocate.

Nevertheless, don't allow the lack of documentation to prevent you from having a second meeting. This is not the time to play "hardball" – yet. Just get to the meeting. You can negotiate access to all of the financials afterwards.

If you are able to get copies of the financials or even if you do not, set up an appointment with your accountant. Let them know what information you do have. They may suggest that it is not feasible to meet until you get the financials. However, as long as you have some information, meeting your accountant at this stage is a good idea. Review the available information and together outline the questions that you need to ask the Seller. Your accountant will be very helpful. Prepare the questions and, together (if possible), arrange to call your broker. Review the questions and ask the broker to have the Seller prepare answers and to send them to you prior to the meeting. This way, you will have a chance to review them with your accountant in preparation for the second meeting.

During this second visit, pay attention to the details that you may not have noticed the first time. It is necessary for you to gauge if the owner is more or less serious about this visit. You can do some of this by comparing the following between your two visits:

- Are the premises as clean or are they cleaner?
- Do the employees seem more or less anxious?
- Are the employees dressed more or less formal than on your first visit?
- Is the owner dressed more formally?
- Have files been better organized, or are they worse?
- Is the inventory better organized or less so?
- Does the business appear to be “business as usual” or does it appear that they have prepared for your visit?
- Does the owner appear more or less nervous?

You may notice something that will indicate whether or not anyone else has expressed serious interest in the business. Typically, the owner will keep their files related to the sale separate from others. How many files are in the batch? Has it grown since the last time? Is your file a different color than the others? Play detective without being a snoop.

Another way is by analyzing the owner's general attitude. If they seem to be less patient with your questions then it may indicate they have seen others and that they may be tired of answering the same questions. Although I have received some awkward stares and comments, I have nevertheless always asked the owner at some point in the second meeting if he/she has met with any other interested parties. Usually, the owner will blurt out the answer before their broker can interject that my question is not relevant or something to that effect. Regardless, if they do or don't, I always apologize and state that nothing was meant by it. I tell them that I'm just a bit curious and I express that if the Seller may be getting tired of answering the same questions I understand and I appreciate their patience. Having a bold approach and throwing these little "swords" in from time to time will help convey that the parties should be on guard a bit because you will ask direct questions.

Begin the second meeting by telling everyone what you have done since the prior meeting. Discuss all of the trade journals, Websites, industry associations and competitors that you have visited. Outline any trends that you find interesting or minor details that you discovered. This way, they will begin to realize that they are not dealing with an amateur. Now is the time to table some of your findings and seek more answers. Cover all of the questions that you have from the information that you have gathered. Try to keep this industry-specific. Any questions that you have regarding competition should also be tabled. You may want to phrase it somewhat like this:

"Since we last met, I have done my best to try to get a feel for this industry and I have some questions. I am not an expert so I apologize if it sounds very basic or if any questions are repetitive from the last meeting. I would appreciate if you could elaborate on what I have discovered since you are an expert in this field."

You want the second meeting to provide additional information and to demonstrate that you will rely on research to make your decision. If you have discovered some information that seems to contradict what the Seller may have told you originally, then you should phrase it somewhat like this:

"I may have misunderstood you in the first meeting as there was so much new information, but did I understand correctly when you said ____ because in my research, I learned_____ (and quote the source)?

Now is also a good time to get a direct answer to the following question. It will eliminate a lot of potential aggravation (even though you asked it previously):

Q: Are there other partners or family members in the business (decision up to whom)?

If there are other partners or family members in the business be prepared to deal with all of their input (also known as crap). No matter what you are told, if there are others involved, you must meet with them at some point. **Do not allow yourself to be lulled into a false sense of security by the Seller portraying themselves as "the decision maker."** It's a "guaranteed to lose" situation. They will either use the "other partner" as a way to weasel out of answering certain questions or use this as an excuse later on to renegotiate with you.

The presence of another party without active involvement always allows them some leverage in the negotiation. Address this early on by either involving all parties or by getting the Seller to give you a letter signed by all shareholders indicating that they have given the mandate to the Seller to act on behalf of all parties and that the Seller's signature and agreement is binding upon all of them.

Let me explain why you must do this. Even though the Seller says that he/she is the majority owner and can make these key decisions, the company's by-laws and the partnership agreement may state otherwise (and usually does). Therefore, understand what you are facing and deal with it accordingly. You do not want to go through the entire process, only to learn that you suddenly have to open up negotiations with an additional person. If you get anything less than a clear answer, ask them pointedly: “Are you the only person involved in making the decision to sell and accept any offers?”

Next, review all of the financial questions you have prepared. If you are not comfortable doing this yourself, have your accountant attend this part of the meeting. You may get some resistance, as they may only want to discuss financials once they have a bona fide offer. Stick to your strategy, that it is difficult, if not impossible, to make an offer without having discussions on the financial aspect of the business.

Address any general questions that you want to cover as a natural extension to the first meeting as follows:

Q: If you don’t sell the business, what will you do?

Every Seller has a contingency plan. Surely, they are hopeful it will sell, but if their broker has done their job in preparing them, then they have asked them to give consideration to what they will do if it doesn’t sell. There is a lot to be learned here. Their answer will dictate their level of motivation. **The less pressured the owner is to selling, the less leverage you will have and the same holds true for the opposite scenario.**

If they frame their answer that not selling is not an option, you obviously are dealing with a “motivated” Seller. You may find yourself in a situation where they are more likely to accept an offer below their “bottom line” price. The opposite holds true if their response is that they’ll take it off the market if they don’t get their price. There are many reasons such as financial, health, divorce and estate-planning where an owner has to sell versus testing the waters to see what they can get for it. You should also know that the more the Seller has been forced into selling, the less time he/she has had to prepare for the sale, which will be reflected in the company's books and appearance.

Try to pin them down to a time frame by which they want to or must sell. For example, you may want to ask: "How long will you be willing to keep it on the market if it doesn't sell?" Try to determine how long their mandate is with the broker. Generally, a broker is given a six- to twelve-month "window" to sell the business. Their agreement with the broker may have a provision such that if they get an offer that is within a certain percentage of the Asking Price, they must accept. You should also know that once a broker introduces a potential Buyer to a Seller, the broker is entitled to their commission if a sale, or other agreement, occurs between the parties anytime within a certain number of years after the introduction. The reason why you want to know the mandate details is because if you cannot come to an agreement, but you like the business, you should note to follow it up again one month before the mandate's expiration. The Seller's broker may be a lot more aggressive in getting the Seller on board if the business has not yet sold.

Q: Are you "the business"?

Depending on the size of the business, most owners will answer "no" to this question. Obviously, if they are the only ones who work there then the answer is straightforward yet some will still tell you: "No, the business runs on its own." Unfortunately, **in most small businesses, the owners are the business, but this is mostly a problem that they are responsible for creating!** This is not necessarily a bad thing. However, by gaining an understanding of the business and what drives the sales and profits, you can easily determine the impact (positive or negative) that your arrival, and the Seller's departure, will have on the business.

Q: Can an outside manager run it and what would they have to be paid?

The owner may be drawing a salary of $70,000 plus life insurance, medical, car allowances, or vacations with his wife paid by the business. You may be able to live on $50,000 and don't need some of the benefits at this stage. By reducing this compensation to what you truly need, you will get an indication of the extra cash that may be available. Also, you may determine that you must focus on a particular part of the business and may need to hire a manager to oversee other areas.

Reassure the owner that you are not contemplating being a passive owner. In fact, make sure that they understand the complete opposite to be true. They must know that you will devote 100% of your time to the business, without fail. If they sense that you are considering buying the business as a passive investment rather than as a full-time operator, you will hurt your chances of getting them to a agree to a large Balance of Sale. You would be asking them to bet on someone who they haven't met.

Q: If you were starting out again, what would you do differently, or which areas would you advise the new owner to focus upon?

Sellers are usually very upfront about this question. I have also found that most Sellers will tell you that they would focus on a different part of the business than they have. If they know that a specific part of the business should have received more attention, then why haven't they done so? In any case, this should give you an idea as to whether or not your area of expertise is compatible with what the Seller believes is the greatest need and driving factor of the business.

Q: Take me through the competition again. (Even though you discussed this at your first meeting, ask them to discuss it again, paying close attention to outlining each of their strengths and weaknesses).

Try to get as specific as you can. Understanding the competition is a huge component in determining whether or not you should purchase a particular business. Once purchased, it is even more critical that you know the competition from every angle. Get the owner to provide as much detail as possible so you can focus your attention when gathering additional information. The Seller may only be able to identify generalities such as: “Company X is so big but they don’t provide good service” or “Company Y is going out of business.” While these assessments may be true, there needs to be more depth. For example, Company Y may be going out of business because Company X took all of its customers. If this is the case, regardless of the Seller’s assessment of Company X, they still have more customers than Company Y and they somehow manage to keep their old ones and gain new ones. You need to find out specifically what the competition does well! What are they known for? What makes them shine? How does the market compare the competition to the business you are evaluating? Get names, locations and key contacts at the competition, as it will help facilitate your investigation.

Q: Do you have a Business Plan?

If yes, ask them for a copy; if no, ask them why. If there is no plan, rest assured there is disorganization and restricted growth. A business without a plan is a ship without a rudder. **If the business has done reasonably well with no plan, just imagine how well it can do with one!** If they do not wish to give you a copy at this time, ask them why not and, more importantly, ask them when you can see it. They may question why you want to see it altogether. Tell them you are interested in knowing what the business’s focus is and how effectively the plan has been executed.

Q: Do you have a Marketing Plan?

Same as above. A good exercise to do once you obtain a copy is to get input from the employees and determine: What was implemented? What has worked? Why? What didn't work and why? What would they do differently? What was their level of involvement in developing the Marketing Plan?

Q: What will it take from a financial standpoint to really market this business aggressively, and what specifically would you do?

Most business owners have regrets (don't we all?). No matter how successful their business has been, there are some things that, for any number of reasons, they were simply unable to do. Most Sellers have an emotional attachment to their business and rightfully so. Because of this, they want to see the new owner succeed by taking the business to where they had always hoped it could go. In a weird way it's part of their legacy, and many Sellers have told me that they feel that they are a part of the success that came after they sold, and in some ways they are right.

Don't dismiss the answers you will hear. The owner has much to contribute and their knowledge is based upon their hands-on experience. They will likely share some of their successes and failures. If they don't, ask them if they would. I am a huge believer in testing new strategies continually and you can save a lot of time on wasted concepts if you have intimate knowledge of what has and hasn't worked in the past, and more importantly, the reasons why.

Q: Are there any obligations, contractual or verbal, with any employees (raises, profit-sharing, benefits promised)?

I can tell you from personal experience not to be surprised if, after you take over, one of the employees tells you of a "promise" made by the previous owner that gives them additional benefits. Before I got wise to it, I found myself in some delicate situations. Be sure that you have details from the current owner on any of these. Moreover let them know that if you enter into an agreement with them that this will be part of it (i.e. the employee contracts and listing of obligations).

Let's change gears and discuss what you must do if you are faced with this type of situation. If you are faced with a situation where a so-called "promise" has not been documented, tell the employee that you will do your best but you cannot promise that you will be able to live up to any prior unwritten commitments until you have had time to review them.

You should also advise any employees that the previous owner was required to document all obligations and theirs was not part of it. While some may be annoyed at this, it does let them know that it will be given consideration but that it is not guaranteed. Tell the employees that you will need a bit of time to immerse yourself in the business and to get to know them and their roles. They should know that you are prepared to guarantee that their thoughts and comments will be heard, regular job reviews will happen, but you cannot guarantee that you will honor anything that they may claim.

Q: Could you please evaluate the employees, listing their strengths and weaknesses, and impact on the business?

The lesson on "Evaluating Employees" will walk you through this; however, you should do this for yourself. It is good for you to listen to the owner's evaluation on each employee. Be cautioned to not allow his or her opinion to influence your own assessment. It's interesting how some owners become very reliant on particular employees and you may soon discover that these particular ones are the ones who should be removed immediately. Get an understanding of what each one does, what their strengths and weaknesses are, how long they have been with the firm and how the Seller perceives their future contribution.

Q: What are the biggest challenges facing the business for the future?

As mentioned previously, Sellers will generally be honest but guarded when it comes to criticizing and analyzing their own business. This is common in many businesses. They do not perform regular evaluations to see where they are, what they've done, what's working, what's not or where they do not conduct realistic self-evaluations. Do not fall into the same trap once you own the business. Ongoing evaluation is critical.

When you pose this question, be sure to take good notes (as usual). You may be lucky enough to gain some tremendous insight. **Every business faces challenges, and who better to pinpoint them than the owner (if they can do so objectively)?** If you get an answer that does not outline what these challenges are, be wary. Interestingly enough, the owner's opinion on this may differ dramatically from what you will learn from the employees or on your own. If you are not satisfied with the response that the Seller provides, press them for a more elaborate explanation**. Surely, there must be challenges!** Get specific. Ask questions related to sales, marketing, product development, employees, customer relations, competition, the marketplace, etc.

Q: Are the financials available for review?

If you have somehow got to this point (despite what you have been told) and still have not seen the Financial Statements, you must address this issue right now. Even if your broker stated they would not be available and even if your broker said he did not want to ask for them at this stage, go ahead and ask. This is a perfect time where apologizing is easier than asking for permission.

Explain to the Seller that you must have a clearer picture of the finances before you can proceed. Be blunt and ask if they wouldn't want the same thing if they were in your shoes? It would be ridiculous to waste any more time or money unless a preliminary review of the financials attests to what they have claimed. Sometimes, the broker and Seller will say that they will not release financials until they receive an offer. To this, you must state that there is NO WAY you are going to go through the expense of presenting an offer until you review the financials. If you are not making any progress, tell them that you are very interested in the business. However, unless they can come up with a viable solution, you don't know if it makes sense to proceed.

Do not let this point become a "deal breaker" at this stage. If it gets a little emotional, stop the discussion immediately and suggest that you will come back to the point later. Again, the best remedy may be for you to simply ask them what do they expect you to do. Don't worry; there is a solution if all else fails. It's called a Letter of Intent and we'll discuss in "Negotiation."

End of second meeting

The conclusion of the second meeting will bring clarity on some issues and raise a whole series of new questions. As you did after the first meeting, you should send a thank-you letter but now you must provide some additional information (use the example that follows this section). Unless you leave the second meeting convinced that this business is not for you, your broker may begin to ask some probing questions to determine your level of interest. Be upfront with them about your feelings. However, they must know that you still have a substantial amount of investigation to do before you can even consider making any kind of offer. Discuss everything that you are concerned about and hear what they have to say. Besides the thank-you note, here's what you need to do:

- Review all of your notes while they are still fresh in your memory.

- Get the broker's general impressions on the business and what they think the next steps should be.
- If you do not yet have possession of the financials, inquire about what they think it will take to obtain them. Let it be known that you can't go one more step without reviewing them.
- Note the appropriate follow-up notes you may have.
- Continue gathering information based upon the new information you have obtained.
- Review The Ten Commandments again.
- Take time to digest what you have been able to learn and then determine if you want to continue investigating the business.
- Review the financials with your accountant and any other relevant parties.

****

Your Name
Address
Telephone Number, Email, Fax Number

Date

Business Name
Address
Attention: The Seller

Re: Our meeting of (date)

Dear ____,

It was nice to see you again today and I would like to thank you for your hospitality. I am equally, if not more, optimistic about the opportunity that your business presents. As you can imagine, this represents a major undertaking to me and I want to do as much research as possible and make a sound business decision.

As each stage is reached, there are more questions to be answered and more information to gather. I would hope that you could help ease the burden by continuing to be accommodating in addressing my inquiries. I hope that I have been able to convey my desire to not waste anyone's time and to demonstrate my level of seriousness in dealing with you. I will buy a business and the sooner that I can find one that meets my criteria, the better.

I will be working diligently to gather more information and I am hopeful that you will be hearing from _____ (your broker) in the not-too-distant future.

Thank you once again for your time.

Regards,

Your name

cc: Your broker's name

****

Next Steps

You may need to set up additional meetings to gather more information. It's best if you're able to get answers to your questions through your broker without formalized meetings. Although the instances are rare, you may find yourself in a situation where you begin to communicate directly with the Seller and this is just fine (even better, in fact). In any case, take your time and get your questions answered. Don't feel pressured to have to make an offer until you have gathered enough information to make a solid decision. If, in fact, you decide to take it to the next stage of formalizing an offer and getting into negotiations, it is really exciting!

Regardless of how well you believe things may be progressing, advise your broker that you are still very interested in seeing other businesses. You will look at many businesses before you make a decision. **Buyers make the terrible mistake of aborting their search once they have found a business that has piqued their interest. Do not do this! Keep as many balls in the air as you can possible handle.** Many of the businesses that you will see, and are interested in, will not materialize into a purchase for any number of reasons. Don't be discouraged. This is a process. It takes time. Finding the right business requires an active and sustained search. Even if you have several meetings at different businesses, the practice itself of preparing, meeting and investigating will improve your ability to recognize a good business when you come across it. **Don't abandon your search strictly because you have found an "interesting business"; there are lots of them**.

The Last Question

The following question could be discussed here or in the lesson on "Negotiating And Making An Offer," but since we are reviewing Seller questions it has been noted here. If you find a business that meets all of the necessary criteria but the financial aspect prevents you from purchasing it, there is one last question to approach the Seller and ask:

Q: Are they open to a possible partnership?

Chances are they will flatly refuse this. Why would they want a partner when they are trying to sell the whole business? They will probably say that they have run the business alone and they cannot see themselves in a partnership situation. While this may be so, you may find yourself in a situation where you find a business that really excites you, but it may not be financially feasible in its entirety. If you get the Seller to become a fan of yours, you can then try to negotiate a partnership with them. This formula, if structured properly (explained below), can actually have the business, and not you, buy out the owner over time and provide you with a monstrous return on your investment. (This formula, or parts thereof, can also be used if you buy the business and bring in your own partner). You should revisit the following information if, and when, you present an offer where a partnership is being considered. Here's what you should be aware of:

(i) Buying A Majority Position In The Business

- It will require less upfront financing since you are not buying the whole business.
- The Seller will be less inclined to "bend" the truth during negotiations because they will be your future partner.
- You get the benefit of the current owner's experience going forward in the business.
- If the Seller is willing to keep a stake then he/she believes that the outlook for the business is good and you are the person to get the job done.
- All employees must know three things. One, you are the boss; two, even though the Seller will remain onboard, it is in a minority capacity, and the goal is for you to buy him out completely over time; three, while he is still an owner, the Seller is in effect an employee, and his position is based upon continued results

(ii) Buying A Minority Stake

- Do this only if you really believe in the business, but raising necessary capital to buy a majority stake is impossible.

- You must have a strong Purchase Agreement and equally good Shareholder Agreement as part of your purchase of the company's shares.
- The agreement must have a clear mechanism for you to eventually acquire a majority position. You can establish a formula so that a percentage of the future profits is set aside and paid directly to the Seller towards the purchase price
- Realize that, as a minority partner, you may simply be "buying yourself a job." Try to avoid this strategy by having a distinct job description and, if at all possible, try to negotiate equal voting rights or at least an equal vote for certain key issues.
- You must realistically consider that, if you cannot afford a majority stake now, what must happen so that you will be able to do so at some point.

The downside to a partnership arrangement is that you may be faced with a situation of not being able to completely exert your influence over the business or the employees, whether you are a majority or minority partner. The reason is simple: as long as the previous owner is present in an ownership capacity, old policies, procedures, strategies, allegiances and philosophies will take longer to dissolve. You must understand this or else you may be faced with some very stressful situations. This is why it is always preferable to buy all of the equity in a business. If you are in a situation where the business fits your criteria brilliantly, and after all options have been exhausted, you conclude that complete ownership is not possible, then and only then should you consider a partnership. If this is the case, your goal must be to buy a majority position and lastly a minority share. As we described earlier, it is very important that the Seller explain the situation very clearly to all employees and suppliers and that it be known that the goal is for you to be the sole owner within x years.

We hope you have enjoyed this excerpt from our guide
How To Buy A Good Business At A Great Price©.

To order your copy of the complete course visit
www.Diomo.com