

TODAY'S Business Scene

THE NEWSLETTER FOR PRIVATELY HELD BUSINESSES



**Mountain States
Business Brokers**

When is the best time to sell your business?

The quick answer is "When you have a buyer." The better answer is "When several qualified buyers want it at the same time." And that is what we are starting to see. On March 5th alone, we had 15 new buyers register with their nondisclosure agreements and qualifying financial résumés. That was a record day but part of a growing trend. No industry or business size is being targeted. Buyer interest is truly broad based. As I predicted in our last newsletter, for many reasons 2007 is developing as a true seller's market.

We have been helping owners successfully sell their businesses since 1994. How? By fair valuation, professional presentation, strict confidentiality, careful buyer qualification and effective negotiation to get the best price.

If you think you might be ready to sell you owe it to yourself and your family to call one of our professional brokers for a free consultation. A good sale requires good planning.

**Ben Mahrle, CBI
Managing Broker**

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"You Want How Much for your Business!"

This is often a prospective buyer's first response when given the price of a seller's business. This is especially true today when many excellent and profitable businesses have few hard or physical assets. For years, buyers, and even business appraisers, have called the difference between the actual physical assets and the asking price as "blue sky." Goodwill has often been a prime force behind the blue sky concept, and it is one of the reasons a potential buyer might feel that the seller is asking an "arm and a leg" for the business. Goodwill has been called many things - very few of them good.

However, today's goodwill is more than just the hard work and effort a business owner has put into building the business. The Web site name alone may be worth a lot of money. Think "Google," which by now may have achieved the same name recognition as Kleenex. If another search engine company could use that name, the business could be worth millions - even billions. The technology behind the name has a lot of value, but it's important to remember that the name recognition or brand name, which is known all over the world, is also where the big bucks lie.

How does this relate to goodwill? The goodwill of a business can include patents, copyrights, its Web site and/or domain name, licenses, trademarks, proprietary software, secret recipes (What is the value of the secret recipe for Coke?), royalties - the list goes on and on. Would a McDonald's business, assuming the same sales and profit, have the same value if the name and franchise were not included.

Buyers are beginning to realize that much of the value of a business in today's world is not to be found in the hard assets such as the fixtures and equipment, but in the intangibles that create the income. Take the McDonald's just mentioned, it may have beautiful stainless steel equipment, but the equipment is only worth the income it can produce; and to take it a step further, there are warehouses in every major city in the country full of "for sale" stainless steel equipment. The real value is the name and what it represents to the dining public.

For those who are considering selling their business in the near future, this new emphasis on goodwill means that some business procedures need to be changed. Operations manuals should be copyrighted, Web sites and domain names should be protected, product and specific service names should be trademarked, inventions

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patented. There needs to be emphasis placed on intangibles that have to be earned, such as name recognition, brand names, employees, business relationships with suppliers and customers, long-term advertising, reputation, etc. Don't let anyone tell you that goodwill doesn't have value – it is most likely the most valuable asset of your business.

Goodwill should be as protected as the law will allow. A visit to an Intellectual Property attorney may well be the best investment a seller can make.

For those who are considering buying a business, make no mistake about it, in many cases, what you are really buying is the goodwill of the business. If a buyer is still hung up on buying the stainless steel equipment, we have a warehouse full of it for sale!

Some Tips on Selling

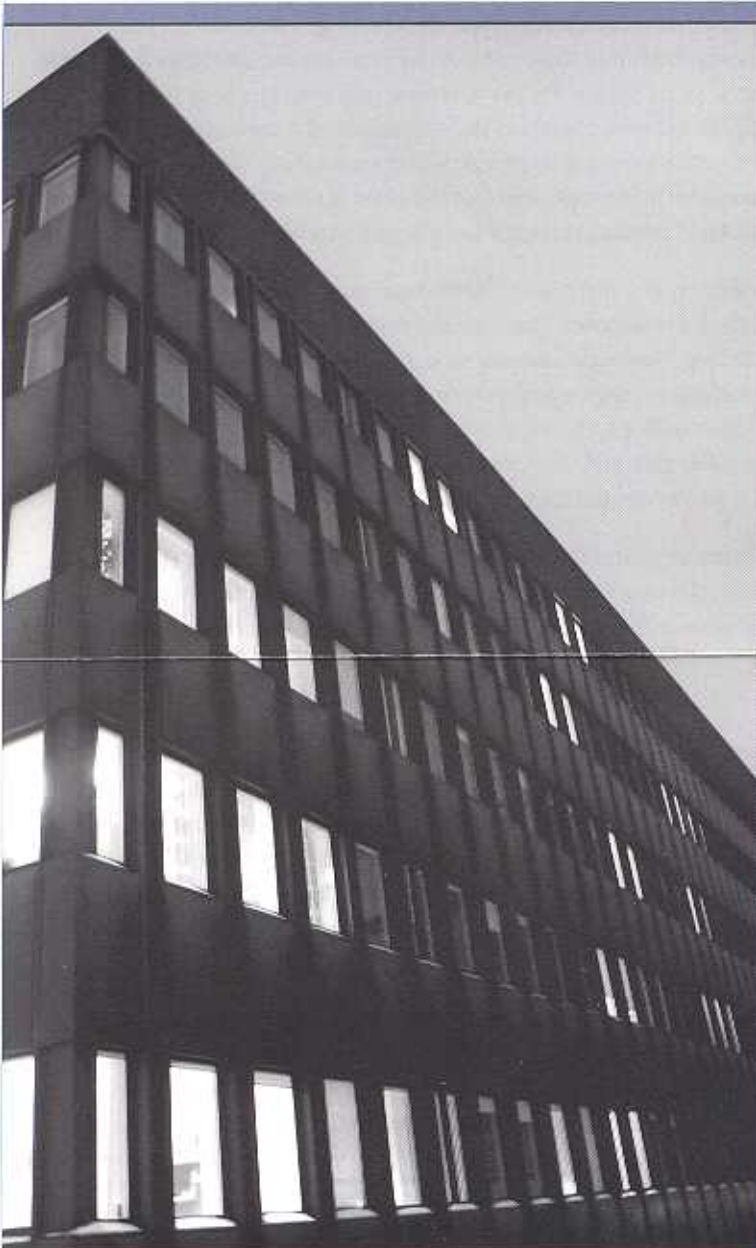
- Price is not a deal-killer, the terms are.
- Complexity creates disinterest. The more complicated the deal, the less likely it is to close.
- As simple as it sounds, a business will sell for what a buyer is willing to pay and what a seller is willing to accept.
- If a seller is completely inflexible, a potential buyer will most likely walk away.
- Sellers don't have to deal with non-qualified buyers or with those that are not motivated to buy.
- A professional intermediary can save a seller time, money, inconvenience – and perhaps even the deal itself!

When Is the Best Time To Sell Your Business?

Many experts say that the best time to sell is when the business is better than it's ever been. This may be good advice, but few follow it. Why sell when business is good? You just suffered through a few not-so-great years and now the experts are telling you to sell. Right or wrong – good or bad – the decision to sell is generally event-driven. For example: declining health, a partnership break-up, personal issues, too much competition, family member elects not to purchase the business, etc. Retirement sounds like a good reason, but it has no time pressure. Unless one has made the decision to retire at a certain age, and even then, when the seller realizes that he or she will have nothing to do after a sale – the idea loses its appeal.

However, one thing that a seller can do, without creating any pressure about selling or not selling, is to take a bit of time every year and prepare – just in case. This means tying up loose ends. Make sure financial records are current and complete, leases reviewed and renewed if necessary, any litigation resolved if possible, licenses and permits updated, agreements and contracts renewed and updated if necessary. You could call this eliminating the surprises, and you could also call it good business.

By doing this, if a potential sale comes out of nowhere – you'll be ready.



The Impact of Regulatory Costs on Small Firms

By W. Mark Crain.

Lafayette College, Easton, PA 2005. [93] pages, under contract SBHQ-M-0522

The following is an overview of a report recently released by the Small Business Administration (SBA). The report points out that "90 percent of all firms in the United States employ fewer than 20 employees [and bear a disproportionate share of the federal regulatory burden]. By comparison, large firms (those with 500 or more employees) account for only 0.3 percent of all firms."

Overall Findings

In the face of higher costs of federal regulations, the research shows that small businesses continue to bear a disproportionate share of the federal regulatory burden. The findings are consistent with those in Hopkins (1995) and Crain and Hopkins (2001).

The research finds that the costs of federal regulations totals \$1.1 trillion; the cost per employee for firms with fewer than 20 employees is \$7,647.

Highlights

- This report details the distribution of regulatory costs for five major sectors of the U.S. economy: manufacturing, trade (wholesale and retail), services, health care, and other (a residual category containing all enterprises not included in the other four). The sector-specific findings reveal that the disproportionate cost burden on small firms is particularly stark for the manufacturing sector. The compliance cost per employee for small manufacturers is at least double the compliance cost for medium-sized and large firms. In the service sector, regulatory costs differ little from small to larger firms.

- The disproportionality of the burden borne by small firms, identified in previous Advocacy studies, is further validated in this instance. On a per employee basis, it costs about \$2,400, or 45 percent, more for small firms to comply than their larger counterparts. The 2001 study, using a slightly different methodology, concluded that the disproportionality rate was higher – nearly 60 percent.
- Environmental and tax compliance regulations appear to be the main cost drivers in determining the severity of the disproportionate impact on small firms. Compliance with environmental regulations costs 364 percent more in small firms than in large firms. The cost of tax compliance is 67 percent higher in small firms than the cost in large firms. In the aggregate estimates for all sectors, the cost per employee of economic regulations falls most heavily on large firms. The cost per employee of workplace regulations falls most heavily on medium-sized firms.

Number of Employees & Cost per Employee

Type of Regulation	All Firms	<20	20-499	500 +
All Federal Regulations	\$5,633	\$7,647	\$5,411	\$5,282
Economic	\$2,567	\$2,127	\$2,372	\$2,952
Workplace	\$922	\$920	\$1,051	\$2,952
Environmental	\$1,249	\$3,296	\$1,040	\$710
Tax Compliance	\$894	\$1,304	\$948	\$780

"Environmental and tax compliance regulations appear to be the main cost drivers in determining the severity of the disproportionate impact on small firms."

The above article is just an overview of the Report. The full article can be accessed at sba.gov/advo/research/rs264tot.pdf





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- IS YOUR BUSINESS SALEABLE?

Is Your Business Saleable?

Many business owners probably have asked themselves this question. There are many unique and different types of businesses. Some fill very small niches while others have carved out a unique product or service while still others require a unique or very specialized talent, knowledge or experience. An owner of a "unique" or at least unusual business may feel that there is no one out there who would buy it.

Almost all businesses are saleable, but the big question is: Is the seller willing to sell? Because of Internet marketing and other new technologies, business brokerage professionals know how to reach potential buyers world-wide. Somewhere there is a buyer for almost every business. Locating the right buyer is the job of the business broker professional, who recognizes that the seller's willingness to sell is the key. Why is a seller selling; what is important and what is not. If a business owner just wants to see what the market might pay for the business; or hopes to "make a killing" on a sale - it most likely won't sell.

Gauging what is most important in the selling process is very important. Following are some critical factors that every seller or would-be seller should assess:

- Full price
- Down payment
- Keeping existing employees
- New owner's plans for the business
- Confidentiality
- Selling costs
- Buyer qualifications
- Keeping the business locally
- Providing jobs for children/relatives
- Structure of the sale

There may be other factors that are important. Keep in mind that every one comes with a string attached. What are the most important ones? Will you bend on them? Will you lose a sale over it? Businesses with a broad appeal and a successful track record are in a much better position to stand firm on the important factors. The unique or niche businesses or those with a less stellar track record may have to be willing to bend on any or all.

Sellers should tell their business broker professional what is really important - and take note of the one or two factors that could be "deal-breakers." Remember: almost all business can be sold, but every sale requires a willing buyer - and a willing seller.

