

TODAY'S Business Scene

THE NEWSLETTER FOR PRIVATELY HELD BUSINESSES



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**Mountain States
Business Brokers**

Financing the Sale

Have you ever had a banker say "I can help you with that,"- and then turn you down?

Financing the sale of a business is a very specialized transaction. Banks are prevented from taking "undo" risk. Unless a loan is fully collateralized by real estate and equipment it is considered too risky. That is why most business acquisition loans are SBA guaranteed..

The broker's job is to stay informed about which banks will most likely finance each deal & should actually start the process before marketing the business. Structure is everything and if the business does not meet all of the SBA guidelines you may find yourself, the owner, as the only available "banker."

Over the past 13 years the trend has been from almost no outside sources to a plethora of SBA lenders in the market. Over the past few months underwriting requirements have tightened & this trend may be reversing again by the end of 2008.

So, when should you sell? When you have both a buyer and a banker saying "yes."

**Ben Mahrle, CBI
Managing Broker**

Valuing Your Business: An Owner's Litmus Test

When business owners ask that familiar question - "What is my business worth?" - they might find the best answer in the mirror. Of course, there are always the financials to consider, but numbers fail to tell the whole story. Goodwill is important, but value cannot be based on it alone. The true value of a business can best be determined by looking at the person at the helm - the business owner.

As the owner of a business, you will want to ask yourself some hard questions. How do you measure up when it comes to attitude, management strategy, customer-service smarts, and community relations? Take the following litmus test and see if you make the grade.

1. Do You Think Positive?

Are you so focused on the bottom line that you forget to look at the clouds from time to time? Owning a business is the acknowledged American dream, yet many business owners allow themselves to get bogged down by the harshest sort of reality. They neglect to keep the dream alive, to think positively about the business today and tomorrow. In our technological world, it's easy to forget the importance of having the right attitude. If business owners aren't positive, how can they expect customers and employees—and at some point, prospective buyers—to be positive? The owner who sees only the downside of the business will probably not see a turnaround. Of course, there are always the real-life factors: banks that won't lend, customers who stop buying, services that become obsolete. However, if these problems didn't exist, the negative-thinkers would find a whole new set of problems to fret about.

If you feel you could do with some positive polish, begin with just that. Spiffing up the place of business with fresh paint, newly cleaned carpeting, well-stocked shelves, a cheerful potted palm or ficus - just to name a few suggestions - will speak volumes about the state of the business.

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Valuing Your Business: An Owner's Litmus Test (continued from cover)

Less visible, but equally key, is a positive plan for the future of the business. Business owners should be prepared to spend what it takes to generate new business, and they should take the time to explore new possibilities for long-range success. If the company currently has no mission statement or business plan, creating one will be evidence of the owner's enthusiasm for the future and for the ongoing success of the operation.

2. Are You a Macro or a Micro Manager?

In today's workplace, with a manager hovering at every corner, who has an eye on the big picture of the business? An owner who manages every manager and spends the rest of the time shuffling paperwork all day is estranged from the big outside world of the business. Owners should occasionally get out of the office to work the floor, drive the delivery truck, or sell the product. Owners who put themselves in the trenches are in touch with the business, and this first-hand understanding will be evident to anyone who assesses its value.

Part of being a macro, big-picture manager is preparing for contingencies. The value of a business increases dramatically when the owner demonstrates appropriate delegation of duties and provides a backup managerial plan. If the owner is the business, and personal disaster should strike—the answer to “What is the business worth?” is not a pleasant one.

3. Do You Smile When You Say “Customer Service”?

Do you avoid treating a customer like a number? Follow the lead of successful mail-order operations, such as L.L. Bean, who ask for the proper pronunciation of a customer's name and who do not automatically address the customer by first name. Basic up-front courtesies are important, but they do not supplant other customer service virtues such as patience and willingness to problem solve. Whether products and services are sold by phone or on the floor, employees should be up to speed on what they're selling. Nothing sparks a sale better than a salesperson with hands-on knowledge and expertise. This works for companies as large as L.L. Bean (whose employees seem to have Ph.D.s in every item in their catalog) or as small as a neighborhood bistro, where the waitperson can explain every nuance of sauce or vintage of wine. Every hour spent training employees in the product pays huge dividends for the business's long-term success.

4. Are You “Out There” with Community Relations?

Business owners need to keep their company's image “out there” and visible to the public. Advertising can build image at the same time it attracts business. Anything from a display

ad within the yellow pages' listings, to a monthly newsletter (hard copy or on-line), to the offering of free seminars, positions the business as more than just the sum of its products. An example of a business owner with multifaceted image-making skills is a caterer in Asheville, N.C. This caterer dishes up the city's best lunches and dinners, whether for takeout or to eat with obvious relish at the small tables she sets out on the sidewalk. She sends out a monthly newsletter with recipes and manages to snag appearances on radio programs to talk about her commitment to buying local food. When Garrison Keillor's “Prairie Home Companion” (a production of Public Radio International) came to town, she volunteered to cater for the cast and crew. They ended the program by having her stand for a huge ovation. Her small store-front operation had a line the next day that wound around the block.

For the less adventurous, or conspicuous, there are plenty of more conservative ways to promote the business and its owner. Taking an active role in the Chamber of Commerce, getting involved in trade or service associations, and sponsoring worthy local events all contribute to great public relations. In addition to the more traditional public donations – providing kids' sports team uniforms, taking out ads in yearbooks – employees can join hands for walkathons or volunteer to work the phones for public TV or radio fundraisers. Being a good community partner is good for the business, good for the workers, and it's great for that reflection in the mirror that takes us back to where this discussion began.



See a Penny, Pick It Up and 'Honey, Get the Glue!'

"Like many penny hoarders, she was never sure what to do with all of them – until she and her husband bought a roadside bar and cafe in this speck of a town in California oil country near Bakersfield. Why not, she asked her husband, Mike, festoon the bar with the pennies? And he dutifully obliged the crazy idea, using regular Elmer's glue to affix them from one end of the bar to another ...

"It was his task to complete the job, penny by painstaking penny, six years of gluing, gluing and gluing ...

"Now, one million pennies later – from Annie's cans, customers with loose change and not a few trips to the bank for exchanges – Mike & Annie's Penny Bar is a sight to behold. The pennies, like a swarm of copper ants, cover nearly every surface: the floor, the walls, even the sides of the pool table ...

"Still, the Moore's are preparing to give it all up. They have put the place up for sale, asking \$899,999.98 'as is,' pennies included ..."

The above was excerpted from an article in the New York Times, Sunday, January 7, 2007. Mike & Annie's Penny Bar is in McKittrick, CA.

As many pennies as there are glued to the business, they only add up to about \$10,000. Thus, the price of the bar is truly \$889,999.98, unless you want to remove all those pennies to get the additional \$10,000 out of it. If you think it was tough for Mike to glue those pennies, wait until you have to remove them.

And, you thought you had heard all there was to hear about small business!



Insurance: A Dull Subject -- Until You Need It

Most business owners faithfully renew their business insurance policies every year. Unfortunately, too many of the business owners have never read the policies. This means, among other things, that they don't know whether the policies are current or not. For example, is the new expensive computer system covered? Are all the weather contingencies covered? Is the employee health coverage up to date with today's medical costs? Does your company have business interruption insurance? If so, when was the last time you reviewed it?

Now might be a good time to review all of your insurance policies:

- Liability Policy – Is it high enough? Does it cover all the needs of your business in today's economy?
- Errors and Omissions – Do you have it? Do you need it? If you have it, is the coverage sufficient for today's requirements?
- Workman's Compensation – Is it current so that all employees are covered?

- Disability Insurance – Are your key people covered? How about you? Who is going to pay these people in the event of long-term sickness, accident, etc.?
- Business Interruption Insurance – Who pays the bills if your building burns down and business comes to a standstill until you rebuild?
- Key Man Insurance – What would it cost to replace one of your key people? To replace you?
- Health Insurance – Does it work in today's medical climate?
- Automobile Insurance – Is the coverage high enough for today's needs? Are you covered if an employee is driving on company business in his or her personal automobile?

Perhaps it's time to sit down with your insurance agent and get answers to the above questions and any others you can think of. Your insurance agent should be a big help in providing what you might need to keep up with today's costs in our litigious society.



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Why a Seller Needs a Professional Business Broker

A successful transaction usually requires overcoming many obstacles. Most of these obstacles are minor and easily resolved. If the parties want the deal to work, talking it through can solve almost any routine problem that arises. Outside advisors can be a real advantage in these negotiations.

However, there are more serious issues that do not resolve so easily and can be fatal to the closing of the deal. Below are just a few examples:

The seller may be unwilling to agree to some of the conditions presented by the buyer. Many times these conditions provide too many loose ends for the seller, or they weren't part of the original agreement. No one is willing to bend; there appears to be no solution, and the deal craters.

Due diligence uncovers problem areas such as environmental concerns or additional liabilities. Another problem area involves competitive information. The buyer asks for a list of customers and wants to contact them. The seller doesn't want this done and an impasse results.

During the negotiations, the buyer, or the seller, discovers that there is a lack of chemistry. This can complicate the two agreeing on any other problem that develops.

There is a breach of confidentiality or a loss of credibility by either or both parties. Either one of these is usually a deal-breaker.

The buyer may ultimately decide that the deal is too big a risk, or an outside advisor, or even a friend, suggests that the business is not a good one.

Some of the information presented is not accurate or is incomplete. The financials may contain too many deviations from the figures presented by the seller. There are also times when the seller's records have not been maintained properly, or the tax returns don't support the financial statements.

There are also times when a seller decides mid-way through the deal that he or she really doesn't want to sell and either pulls out of the deal or stops cooperating. As a result, the deal falls apart.

The Top Four Factors In Closing the Deal

One industry expert believes that the price, or total consideration, is not the most important factor in accepting or not accepting an offer from a prospective purchaser. He feels that the top four in order of priority are:

1. Assurance of closing promptly
2. Type of currency and deal terms, e.g., cash, stock, notes, all cash at closing, earnouts, contingencies, reps & warranties, etc.
3. Total price and/or consideration
4. Legal issues

The sale of any business involves change on both the buy and sell sides. This may threaten some of the participants or their advisors - or even family members. It is important that all parties directly involved in the selling and buying process be in agreement. No one wants either a participant or internal mischief threatening the sale.

Unfortunately, after it looks as if everything is under control, one side or the other often suddenly comes up with some last-minute demands. When this happens, these last-minute demands may cause the deal to fall apart.

The possibility of any of these issues makes it critical that a professional business broker be involved in every step

of the transaction. They have been through many of the events outlined above and their experience and knowledge may offer the best antidote. Business brokers are trained to anticipate many of the factors that can sour the deal and thereby solve the problems before they develop.

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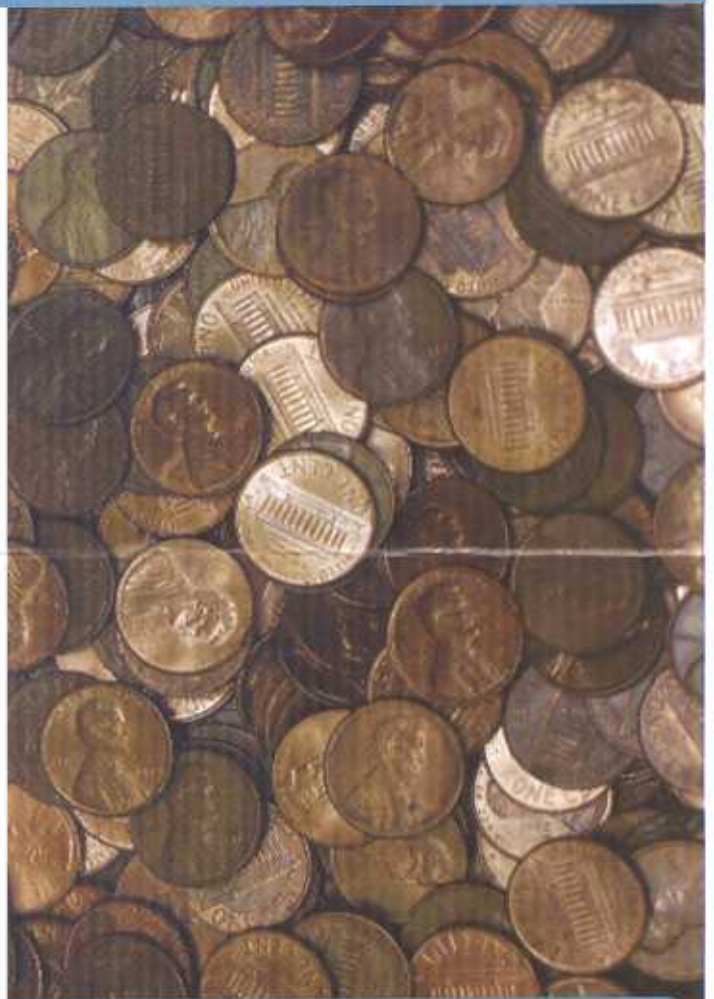
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