



DoneDeal Exit Plan™ / **DoneDeal** Brokerage Plan™

For Business Owners Who Want to Control the Exit Process



Introduction

Determining how to exit a business is a major event for business owners as it often represents an amount of money that will have a significant influence on their lives. It is a situation that cries for professional assistance, particularly if you consider the fact that only one in ten business owners has been through an acquisition, divestiture or transfer of a business before, yet many rely on an industry that uses a model that is inconsistent with the delivery of professional services. As a result, M.G. Wolff & Associates, Inc. has developed the DoneDeal Exit Plan™ and the DoneDeal Brokerage Plan™ in an effort to offer business owners professional exit planning and/or brokerage services – services that are likely to result in a quicker sale, a higher price, greater net proceeds and transactional savings.

If you are a business owner with a company worth one to ten million dollars, you may have found that you have few attractive alternatives when it comes to planning for and selling your business. Not only is it difficult to find qualified assistance to help evaluate your alternatives, when it does come time to sell, you are likely to discover your business is too large for a main street broker and too small for the investment banking community.

Every year thousands of owners of middle market companies look for help in planning for and selling their businesses, typically starting with a business broker. These owners will find that the vast majority of business brokers concentrate on selling businesses only and provide little assistance with the overall exit process. Most simply do not have the expertise to provide such assistance and those that are able typically lack any incentive to provide assistance beyond what is needed to sell the business.



Those that explore the investment bank community know they cater to businesses with sales of \$25 million or more and operating income of greater than \$2 million. This is primarily because it is hard to justify their fees (needed to cover their high overhead and operating expenses) on deals smaller than their size criteria. Further, while these firms may have greater expertise, they are still focused on making the deal, not on helping business owners understand their exit options.

Turning to other professionals can help, i.e. accountants, attorneys, financial planners, etc., but rarely are these resources able to provide comprehensive exit planning and business brokerage services. Their expertise is invaluable and these professionals are an integral part of the process, but few have the comprehensive knowledge and experience for this task. It is simply not what they do.

After spending over twelve years working on the buy-side of business transactions, Michael G. Wolff, founder of M.G. Wolff & Associates, Inc., is all too aware of this situation as he found most business sellers were overcharged and underserved when exiting their businesses. Not because of the incompetence of service providers, though sometimes that was the case, but more so as the result of standard practices in the brokerage industry. Therefore, M.G. Wolff & Associates, Inc designed the DoneDeal Exit Plan™ and the DoneDeal Brokerage Plan™, which changes the nature of the seller – broker relationship in a way that encourages value add services while providing a substantial reduction in transactional expense. That's right, greater value at a lower price, and here is why.



Background

The standard approach for business brokers stems from a history of selling “Main Street” businesses (i.e. barber shops, meat markets, gas stations, etc.), most of which involved real estate. Since the most valuable part of the transaction was often the real estate, the business brokerage industry evolved with the real estate industry, which is why many brokerages still operate much like a residential real estate firm* – get a listing, put some information together, and post it in publications and on the internet. Eventually, they will likely collect a commission. While this model may work in residential real estate, it does not work with business brokerage.

In residential real estate, except in extremely down markets, an agent who gets a listing will usually sell the property and collect a commission. This means agents receive compensation from the vast majority of clients for whom they work. However, in business brokerage, the ratio is far different.

According to the statistics, most brokers sell less than one fourth of their listings and some sources suggest something like one in seven.** Since the industry tends to be commission driven, this means better than three out of four of most broker’s clients don’t pay them for their time or effort. Instead, their income comes from the few businesses that do sell, meaning the one lucky business owner pays the freight for the rest. For the broker it is all about volume, and their fees, at least in part, relate to risk as much as to providing professional services.

When you understand brokers are paid for making deals, not for representing the interest of their clients, it is easy to understand why there is little incentive for a broker to go for additional value. Getting the highest value for a business takes a lot of time up front, time many commissioned brokers don’t want to spend.*** As a result, the only pre-work that is typically done is that which supports the sales process rather than that which will generate the best deal for the client.



To illustrate this inadequacy, imagine if you applied this model to other professions. For instance, what kind of service would you get if your accountant were paid by the tax rebate they were able to get? Little time would be spent with those who don't represent a profit opportunity and, like in the brokerage industry, the people getting the rebates would be paying the freight for those that didn't (plus, consider the incentive for unscrupulous actions). Or imagine if your doctor were compensated only on positive outcomes – it is simply a model that is not conducive to professional service providers.

The bottom line is that the standard industry model pays brokers for making deals, not representing the interest of their clients. It is a system that promotes poor service at a high price.

Solution

To provide business owners with more control over exiting their business, M. G. Wolff & Associates, Inc. has developed two programs to meet the needs of these business owners. The DoneDeal *Exit Plan*[™] combines extensive exit planning activities together with brokerage services and is delivered on a fixed fee plus bonus basis. It is designed for business owners who want to maximize their compensation by taking a proactive approach to exiting their business. For business owners who are ready to sell and are looking for help with the selling process, the DoneDeal *Brokerage Plan*[™] delivers comprehensive professional brokerage services, which are also delivered on a fixed fee plus bonus basis. The goal is to deliver services that help business owners achieve a quicker sale, at a higher price, with greater net proceeds, and overall transactional savings.



Notes

** The connection between the real estate industry and the business brokerage industry is still evident in licensing requirements. To be licensed to broker businesses in the state of Minnesota, you must possess a Real Estate Agents license, which requires 90 hours of classroom training, none of which pertains directly to selling businesses, and passing a real estate license exam. The course work and requirements are exactly the same as those for a residential real estate agent as are the continuing education requirements.*

*** There are a number of reasons why a business may not sell: lack of profitability, declining industry, location, and lifestyle requirements are a few. However, one of the major reasons a business doesn't sell during a listing period is related to how brokers procure business. Since most business owners have little experience in this area, they tend to list with the broker who suggests the highest selling price. As a result, many businesses go to market priced too high, which is a disaster since the most viable buyers are typically the first to look at the business. Then, when the business doesn't sell, the price is reduced. However, when this happens, buyers become skeptical (there must be something wrong with it). Plus, owners often mentally "leave" and quit investing in the business, which shows-up down the line.*

**** There is little incentive for a broker to invest time up-front in order to maximize the proceeds delivered to their clients due to the commission structure of the industry. This is illustrated in the book "Freakonomics" by Steven D. Levitt where he examines the residential real estate industry and shows that the average home owner sells his or her house for about three percent less than premium. The circumstances of the business brokerage industry (i.e. primarily the lower success ratio) exacerbate this situation, suggesting a much larger margin between actual sales prices and optimal sales prices as a result of the standard business brokerage model.*