

Selecting an Intermediary

With the first wave of the 78 million Baby Boomers turning 62 and approaching retirement age and only 44 million Gen Xers coming up behind them, we know that the impending large scale transfer of private business ownership will be complex and fraught with challenges.

Sellers, many with the majority of their assets tied up in the business, will be looking for the best possible price for their businesses, despite the oversupply. Buyers will have a lot of choices and will need to look closely to find the best deals for them.

Some sellers will hire an intermediary to find a buyer and negotiate the sale. Some buyers will hire an intermediary to find the right business to buy and to negotiate the purchase.

Increasingly, buyers and sellers hire an intermediary to represent the deal itself. That means buyer and seller both pay an intermediary to get the deal done in the best interest of both parties; efficiently, effectively, and objectively; from "the center of the table."

Whether you are considering buying or selling, it is critical that you select an intermediary who is highly skilled, experienced in "the art of the deal" and operates with impeccable integrity.

You need to look for an intermediary who understands...

- the ins and outs of the marketplace. Each industry has its own unique traits and characteristics that are going to impact some element of the transaction; knowing what these are is half the battle.
- how to create a market to ensure that the right buyers and sellers are being identified. Announcing an opportunity to sell or an interest in buying doesn't do any good if the right people don't hear the message.
- the realities of fair market value; taking into consideration the seller's and buyer's perspectives, objectives and real life situations.

- the accounting rules and realities well enough to know what the tax impact on the seller will be. This knowledge helps both buyer and seller because it defines what the seller gets in the end.
- the fairness equation. A good intermediary knows that for a deal to be successful, it must work for all parties and that all parties need to give to get.
- how to be objective, creative and dogged until the end. At the last minute, deals can be killed by emotion, posturing and greed. An effective intermediary keeps a cool head and helps his or her client(s) to do so as well. A really good advisor is able to come up with creative solutions to potential deal killers that everyone is happy with.
- how to keep his or her and his or her client's "eye on the prize." A highly skilled intermediary will do everything in his or her considerable power to not allow a good deal to go bad. (They know a good deal when they see one, and it's important to listen to them when they do.)
- the need to be attentive to detail. An effective intermediary reads, interprets and explains to his or her client(s) every word in the letter of intent, the purchase & sale agreement, leases, confidentiality agreements, non-competition agreements, and any other document that becomes necessary.
- the many ways and sources of financing and what each potential financier needs to know to feel good about the risk. The best intermediaries are able to recommend funding sources who may be interested solely on the basis of the intermediary's involvement or recommendation.
- the criticality of confidentiality no matter what.



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The right intermediary serves as the gatekeeper for all information flow, keeps the transaction moving forward, understands the big picture from all sides from the numbers to the personal issues, is fiercely focused on striking the best possible deal for all parties; and helps to achieve that end with skill, patience, communication, creativity and determination.

In choosing a business intermediary make sure to find out or consider the following:

- the intermediary's services. A good intermediary will be doing more than just listing the business for sale on a website or in the newspaper. At the very least they should be responsible for assisting in identifying the value and then generating an Offering Memorandum that will be provided to prospective buyers. Ask to see an example of one of the intermediary's memorandums from a previous transaction.
- ask about references and experience. An intermediary should be able to put you in touch with people they have represented or worked with before. The comment "that's confidential" doesn't fly. Also, ask about their experience; in most cases industry specific experience is not necessary but it does help if the intermediary has familiarity with your industry.
- the fee structure. For small businesses it is not uncommon to see a flat 10% fee for the sale of a business. With larger businesses or those that involve real estate a sliding scale formula is common.
- the upfront fee. Intermediaries like to get an upfront fee for two reasons: 1) to cover some of their initial time investment into the transaction; and 2) to confirm that the seller is really a seller and nothing shows a commitment like writing a check. However, be wary of intermediaries who are looking for large upfront fees – they should earn it when they sell the company, not beforehand.

- your comfort level. As many who have sold their business with an intermediary will tell you, the intermediary is going to become one of your closest confidants during the sale process. In choosing your intermediary make sure you can build a trust-based relationship with this person.

In conclusion, choosing the right intermediary is not as simple as going to the phone book. It's one of the most important decisions you will make in your business career so don't choose lightly.



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