

Mergers & Acquisitions Advisors vs. Business Brokers

A Critical Distinction

By Ronald G. Crane



Merger and Acquisition Advisors vs. Business Brokers

When you as a business owner decide it is time to sell your business, you will likely retain the services of one of two kinds of professional intermediaries: (1) a Business Broker (“Broker”), or (2) a Mergers and Acquisitions Advisor (“M&A Advisor”).

Though both kinds of professional have the same objective – to help connect you with buyers for your business – in practice, their services are quite distinct. Each is oriented around a specific business profile, and operates pursuant to its own business model and allocation of resources, with compensation structures appropriate to each. Business owners entering into the process of selling their business are often unaware of the differences, or that they even have a choice of service options in the first place. It is easy for the business owner to conflate the two and become confused as to what kind of arrangement is best for him or her.

So what is a Broker, what is an M&A Advisor, and when is each an appropriate choice to help you sell your business?

Business Broker

A Broker is adept at selling businesses whose valuation metrics are relatively few and easily determined.

1. These are typically so-called “Main Street” businesses such as dry cleaners, hair salons, restaurants, gas stations, convenience stores, franchises, or small service businesses where the buyer is usually an individual entrepreneur or small business enterprise in the same industry.
2. In any population center there are almost certainly many such businesses with valuation metrics that are fairly standardized. Most Main Street businesses sell for a simple “rule of thumb” financial multiple.
3. The typical buyer is an individual as opposed to another business entity. These buyers typically do not pay strategic value for a business. They are most often buying themselves a job with upside.
4. Financing options often involve SBA loans and/or a seller carry-back note.
5. The Broker usually works alone, even if he or she works as part of a larger organization.
6. The sales process is usually “passive” as opposed to strategic, in the sense that the Broker, like a real estate broker, lists many such businesses for sale at any one time and waits for prospective buyers to step forward.
7. Compensation is usually based on a “success fee” which is a percentage of the sale price.

M&A Advisor

By contrast, the M&A Advisor is equal parts management consultant, financial planner, business partner, and sales advocate.

1. The M&A Advisor most often works with a business that does something relatively unique and for which a significant part of the value is attributable to intellectual property, strategic assets, and other non-financial characteristics to which a simple “rule of thumb” valuation methodology is difficult or inappropriate to apply.
2. The M&A Advisor works with the owner to develop strategic positioning that highlights the strategic and unique assets of the business in order to maximize its value in a sale. M&A Advisors understand what potential buyers value and how best to position the Seller’s business relative to these valued characteristics.
3. M&A Advisors typically work with larger businesses, where the buyers are usually sophisticated business entities.
4. M&A Advisors normally limit the number engagements to provide a dedicated and comprehensive sales effort to each project, and to ensure each client receives the maximum level of support needed to achieve optimal results.
5. The sales process is a highly “active” and strategic effort initiated by the M&A Advisor who must have specific experience to be able to identify the most appropriate buyers, to properly position the Seller’s business, and to clearly articulate the value proposition to the prospective buyer.
6. M&A Advisors build a targeted list of high-value buyers and take a proactive approach to marketing the Company to each Buyer. Gone are the days of mailing or emailing ‘teasers’ to attract potential buyers. The M&A Advisor will identify the decision makers within the targeted companies, call these decision makers personally and quickly explain why this opportunity would be a great acquisition opportunity for his or her company (or private equity fund).
7. M&A Advisors typically create a controlled auction environment. The key to a controlled auction is to have multiple qualified buyers bidding to acquire the company at the same time. A good M&A advisor also works to maintain a high degree of confidentiality throughout the process.
8. The M&A Advisor works in concert with ownership, management, financial advisors, tax advisors, transactional attorneys, and estate planning attorneys to ensure that all aspects of the transaction are understood, coordinated, and adequately planned for.
9. The terms of the sale are often highly customized and may include a wide range of financing options including the use of debt, equity, earn outs, and installment sales.
10. Compensation typically includes a retainer or advisory fee and a success fee based on the value of the transaction.

Some business owners are taken aback when asked by a prospective M&A Advisor to pay an upfront or monthly retainer. The source of this confusion is often that the business owner is familiar with the Business Broker’s model directly, or instinctively assumes it follows that of the real estate broker, and is unaware that the M&A Advisor is offering a fundamentally different kind of service and a fundamentally different commitment of time and energy. The M&A firm will be performing tens of thousands of dollars

of work up front in order to effectively take a company to market. Given this significant investment in the process by the M&A Advisor, collecting an upfront or monthly retainer from the client appropriately balances the risk of the process between the selling company and the M&A Advisor. Keep in mind that it is always up to the selling shareholder(s) to determine whether or not they ultimately want to go forward with a transaction, so this retainer helps to protect the M&A advisor from having \$60,000 or more invested in the process only to have the sellers change their mind at the last minute. On this basis, the M&A firm and the company each have an appropriate level of “skin in the game”.

Selling a non-Main Street business usually involves dealing with sophisticated buyers who will be very discerning and unforgiving when it comes to price and terms, if items such as financials or the condition of facilities are not as expected. The business owner may be unaware that systems and patterns of behavior that have been quite serviceable as a practical matter in running the business are actually liabilities from the perspective of a sophisticated buyer. According to the Small Business Administration (SBA), 80% of all businesses that are for sale do not sell because they are not properly prepared nor effectively marketed. A large part of the value of a good M&A Advisor is that he or she understands the perspective of the buyer and knows what enhances a business’ value, how to identify and target the “right” buyers, how to present the business in the best light, and why the business is a strategic fit for each targeted buyer. Getting maximum value for a business requires more than having the best possible business to sell. It also requires using the methods best suited to get the best deal possible.

Conclusion

The deciding factor is in cost / benefit, and what type of business you have to sell.

If your business is smaller and is a commodity type business or Main Street business where the target buyer is likely to be an individual, a Business Broker is most likely the right choice.

If your business is larger, complex, unusual, strategic, with a high component of intellectual property or technology and subject to a broad interpretation of value, an M&A Advisor is almost certainly the right choice.

A wise person once said, “If you don’t have time to do it right, you’d better have time to do it over.” And, you have likely worked a considerable part of your career building the value in your business to where it is today, and unfortunately, you will not have the opportunity to do this over. **You only get one chance to sell your business, so choosing the right advisor to guide you through the process is a critical step toward ensuring you get maximum value for all those years of hard work and sacrifice.**

If you would like to get feedback on which type of professional intermediary is the best fit for you and your business, give DCA a call and we are happy to help guide you through this decision in greater detail.

DCA Partners
3721 Douglas Boulevard, Suite 350, Roseville, CA 95661
rccrane@dcapartners.com
(916) 960-0633 (O) ♦ (916) 223-2718 (C)
www.dcapartners.com