

How to Select a Business Broker Who Can Help You Grow Your Business

Donald Moine | 05-23-03

In my previous article, I showed how business brokers are helping a select group of financial planners **add millions of dollars in new assets** under management to their practices. While many seminars and workshops purport to teach advisors how to obtain referrals from attorneys and accountants, I have found that most attorneys and CPAs already have numerous referral relationships and are reluctant to refer business to someone they barely know. In addition, more than 10,000 CPAs have obtained securities licenses and are keeping any financial-planning business that comes their way to themselves.

By contrast, working with business brokers is a wide-open field. Since business brokerage is such a demanding profession, very few of its practitioners also try to do financial planning on the side. They are happy to let *you* do all the financial planning while they concentrate on the marketing and sale of businesses. For all of these reasons, I consider business brokers will be the ultimate referral source for advisors for the coming decade.

But it goes even beyond being the recipient of referrals. Business brokers can help you unlock tens of millions of dollars of potential business *within* your existing practice. Let's look at a case study. Say you have \$40 million under management, 70 clients and 10 of them own businesses. Both you and your clients may be surprised to learn that these businesses are collectively valued at \$20 million or more. When those businesses are sold, your assets under management could grow by about 50%--to *nearly \$60 million*. Only a business broker can help you unlock this potential.

Depending upon your client mix and the skills of the business broker, you could do even better. Business broker David Ryan, president of Upton Co. in Santa Rosa, Calif., helped a client sell a business for \$80 million that had been appraised at about \$45 million--\$80 million in assets under management would be an outstanding (and much appreciated!) addition to any financial-planning practice.

Given all these benefits of working with business brokers (also known as M&A specialists and business intermediaries), how do you find one or two with whom to work?

The Challenge of Selecting a Skilled and Ethical Business Broker

When I began researching this article several months ago, I assumed it would be relatively easy to find groups of business brokers I could recommend to advisors. A search on the Internet revealed several dozen directories, associations, and special interest groups. However, as I took a closer look at members of the various groups and interviewed them, I noticed wide inconsistencies in educational levels, years of experience, certifications, and the size and quantity of deals done--*even within the members of each group*.

In this respect, business brokers are similar to financial planners. If a friend asks for a referral to a financial planner, you can't just say, "Find a member of the Financial Planner's Association," or even, "Find a CFP." We all know that making an intelligent selection of a financial planner involves much more than that.

Whether you are seeking an outstanding advisor or an excellent business broker, you will make the best choice if you begin by asking intelligent questions. The quality of your questions will determine the quality of the relationships you end up with. I suggest, at a minimum, that you ask the following questions:

1. *What is your educational level?*

In many states, a business broker does not even have to be a high school graduate. If your clients like to deal with educated professionals, you may not feel comfortable referring to a high school graduate, even if he is "a real nice guy."

2. What credentials do you possess?

Just as in financial planning, there exists an alphabet soup of designations for business brokers.

The CBC is the Certified Business Counselor, granted by the Institute of Certified Business Counselors. The CBI is the Certified Business Intermediary, granted by the International Business Brokers Association. This is considered one of the highest designations in the profession. The CVA is the Certified Valuation Analyst granted by the National Association of Certified Valuation Analysts and seems to be considered important, but not essential.

To put this all in perspective, [Rocco Pezza](#), president of [NEBC](#) in Providence, R.I., says, "Having credentials can be helpful, but understanding and actually putting deals together outweigh credentials."

Rocco is himself a highly credentialed "strategic business advisor" with more than 19 years experience selling businesses valued between \$1 million and \$30 million, primarily in the Northeast.

3. Are you licensed?

Believe it or not, many states have absolutely no licensing requirement for business brokers. Other states require a real-estate license or real-estate brokers license. You and your clients will have an extra layer of protection if you work with a licensed business broker.

Dock Reed, president of the Reed Group in Point Clear, Ala., states, "Half the states require only a business license, and some business brokers fail to get even that. If you find such a broker, run away, don't walk."

Dock has completed more than 50 sales of businesses generating between \$1 million to \$50 million in the Southeast.

4. How many years of experience do you have?

Be sure to check if that experience is full time or part time. In interviewing subjects for this article, I found that some brokers who claimed to have 10 years experience actually had seven years of part-time experience and three years of full-time experience.

5. Are there any industries or professions in which you specialize?

Just as you do not have to be a bond-fund specialist to help a client buy a bond fund, a business broker does not have to specialize in a certain industry to help a client sell a business within that industry--but it can help. With that being said, I have found that some very successful business brokers who have sold 25 businesses have sold them in about 20 different industries.

6. Do you only work in one geographical area?

Some business brokers do not like to travel to meet with business buyers and sellers. Others are happy to travel all over the country and even to foreign countries. Learn the broker's preference.

Walter Lipski, managing partner of Fox & Fin Financial Group in Scottsdale, Ariz., specializes in selling businesses in Arizona and Southern California but has also had clients in Colorado, New Mexico, and Texas. Of the business brokers with whom I corresponded, he had one of the most interesting credentials: He built his own manufacturing company and sold it in 1992 to a public company. He is in a unique position to relate to the emotions and fears of a business

owner going through the sales process.

7. *Is business brokerage your full time profession?*

Or, are you doing taxes or practicing law on the side?

8. *What is the size of your average sale and what is the range?*

Some brokers specialize in \$1 million to \$10 million sales, others in the \$10-million to \$100-million range. Be sure to check references! One of the brokers I interviewed for this article but do not quote here claimed he had done a sale for \$48 million. I did some checking and found out that his largest sale was actually only \$7 million.

However, some business brokers have *meaningfully* participated in very large deals. Mike Hannon of Lingate Financial in Minneapolis has sold businesses for between \$1 million and \$20 million, but it would be unfair to judge him solely on that statistic. Due to his expertise, he has been retained as an hourly advisor on a number of \$25 million to \$1 billion deals.

Knowing this fact, you understand why Mike is considered one of the most sophisticated and knowledgeable business intermediaries in the profession. Look at the complete picture, not just sales numbers.

9. *Do you have an existing relationship with any large brokerage firm?*

Some business brokers are affiliated with the largest securities companies in America. In fact, a broker from one of these firms may be talking with your business-owner clients right now.

If such a broker helps your client sell a business, it is likely that his or her brokerage firm or wirehouse will end up managing some or all of the proceeds from the sale of that business. For this reason, you may wish to work with an independent business broker.

While this is just a beginning list of questions, if you ask these and check references, you will be off to a good start.

Do not let geography limit your search. An advisor in Michigan can easily work with a business broker in California. And remember the importance of personal chemistry. You want to select a business broker whom you feel comfortable with and whom you trust.

Resources for Locating Business Brokers

One of the most respected groups of business brokers is the [M&A Source](#), which is the country's largest group of middle market intermediaries. You can search its site or contact the firm for referrals to business brokers in your area or who specialize in a particular industry.

The [International Business Brokers Association](#) can also help you find highly qualified business brokers by specialization or ZIP code. In conducting research for this article, several business brokers recommended that financial planners would do well to work with a member of the Leadership Committee of the IBBA.

Another highly recommended group is the [Institute of Certified Business Counselors](#), which has an online directory of members.

After spending a number of hours reviewing directories of business brokers on the Internet, I must issue several caveats. Even those directories near the top of the listings on Google and other search engines have a motley crew of members or listings. Some of the most popular directories contain names of "business brokers" who are unlicensed, have few credentials, and little experience.

As [Rocco Pezza](#) of [NEBC](#) explains, "Getting into the business is very easy. You can hang a shingle out and call yourself a business broker overnight." He suggests selecting a broker who has been in the business at least five years to weed out some of the unqualified.

In reviewing these directories, you will sometimes see highly qualified individuals listed right next to people who just bought a "business brokerage franchise." In another case, a listing of "certified" business brokers was actually a list of people who had simply graduated from a two day training course on how to be a business broker!

Remember that your name and reputation are on the line when you recommend a business broker to one of your clients. An ethical and highly skilled business broker can help you build your practice by tens of millions of dollars. But an unethical or inexperienced business broker can ruin your reputation faster than a portfolio of Internet IPOs.

The Importance of Taking Action

I received a heartening response to my first article on forming strategic alliances with business brokers. Some readers, such as planner Craig Phillips, of Clearwater, Fla., wrote to tell me that he had already started interviewing business brokers and found them "a fairly mercenary bunch (in a good way) who would like to increase their income per transaction by serving as solicitors here in Florida." Craig has several more interviews set up for late May and early June and is likely to soon have several business brokers referring business to him.

If you are serious about dramatically growing your business, I can think of no finer place to start than by forming strategic alliances with business brokers. What I have learned in conducting research for this article is that a strategic alliance with a top business broker could produce multiples of the business a CPA or attorney might refer to you. If you are an executive at a broker-dealer, I would urge you to set up a program now that your advisors can use to exchange referrals from business brokers.

Tens of billions of dollars worth of businesses will be sold in the next few years. Those advisors and broker-dealers who establish relationships with business brokers now will have a major competitive and business-building advantage for years to come.

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