EXECU-BRIEF®

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Consulting Intermediaries
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A Voice of Authority in Mergers & Acquisitions

“To Fee or not to Fee” that is the question!

BY: DOUG ROBBINS / JULY 2017

Intermediary upfront fees that is.
The Business Intermediary is a relatively new profession. In the early seventies, there was virtually no one selling businesses compared to thousands now in the profession. The profession is still for the most part unregulated.
Let’s look at what it takes to be an “Intermediary”.

- University degree
- University certificate
- College degree
- College certificate
- Association membership
- Association accreditation
- Significant start-up capital
- Ability to pay significant monthly overhead
- A license

Unfortunately, **none of the above.**

What skills should an Intermediary possess? Countless!
Just to name a few:

- A broad range of business acumen and hands-on experience
- Powerful communication and sales ability
- Leadership
- Knowledgeable about
  - Sales
  - Marketing
  - Distribution
  - Manufacturing and processing
  - Retail and wholesale
  - Law
  - Accounting
  - Taxation

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The Robbinex Mission
We provide our clients with experience-based knowledge to maximize the value of their companies, to help them make:
…the right exit decision,
…at the right time
…for the right reasons.

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How can a competent businessperson be expected to make a sound business decision when choosing a Business Intermediary?

Some charge retainers; some charge hourly fees; some charge success fees; some charge commission (with the choice of numerous scales); others charge a combination of hourly, retainers, upfront fees, commissions, or success fees.

One of the underlying responsibilities in choosing the right person lies with the business owner. Most business owners **procrastinate** over making a life-altering decision, particularly as significant as selling their business. Ask any businessperson in their 50's or 60's when they think they will sell, and they will most likely say in "about 5 years." Ask them 5 years later, and they will say "in about 5 years." I have had many 75 year olds and older tell me in "about 5 years."

Another important issue is that most business owners spend more time planning their next vacation than they do planning for their retirement from their business. Then, suddenly, something happens – a major health issue; death of a friend or associate; a significant change in business; a knock on the door from someone wanting to buy – and the world of the business owner is tossed into turmoil.

The owner then calls a couple of intermediaries and is mired in the quagmire of deciding whom to choose.

A "competent Intermediary" will provide a full range of services to the client. This will include an evaluation, or range of values; identification of obstacles that, if dealt with promptly, will ease the transaction, reduce costs or may even increase the selling price; identification of value enhancement opportunities that could substantially change the value or even the decision to sell; a complete review of the 14 alternatives to selling, including intergenerational transfers; and access to an industrial psychologist to ensure that *"life after business"* programs have been properly considered.

Herein lies the dilemma about fees. Any Intermediary offering his/her services for a commission only, will have only one goal in mind – to sell quickly so he or she can be paid. They will not be interested in providing those other considerations that are so important to ensure the business is being sold for the right reason, to the right buyer, and for the right price! Perhaps the business should be operated for another year or two to fully capture the intrinsic value of that business, or perhaps the prodigal son/daughter really, deep down, wants to take over the family business and only an industrial psychologist can assess the most likely outcome. The no-fee broker will not be concerned about these alternatives and will press on for the sale and the commission.

There is no businessperson alive that can make their services available free of charge and stay in business very long. The Intermediary who charges for his/her time is able to make their knowledge and their experiences available to the client to serve the true needs of the client. This eliminates **any possible conflict of interest** that can arise when the advice being given may impair the Intermediary's ability to be paid.

In summary, you always get what you pay for. Business is becoming more complex every day and often the business owner thinks he/she should sell, when in reality there may be a better alternative. Choosing to align with a highly skilled Intermediary with decades of experience, who wants to do what is best for the client, means that the client will get the best possible advice for their unique situation. Most Intermediaries credit some or all fees charged to the commission should the business be ultimately sold at a future date.

What to look for in an Intermediary:

- Longevity- The life expectancy of a newcomer is only 18 to 30 months.
- Experience- They should be able to demonstrate their knowledge to you and your other professionals
- References - They should be able to provide you with a list of references from successful assignments

- **Quality Control**- There are hundreds of items that need to be reviewed and a competent intermediary must have a system to ensure things are done promptly and in the right sequence. Ideally they would have a quality control system in place similar to ISO 9001:2008.
- **Associations** - The world is changing faster than any one person can manage; by being a member of an association such as the M&A Source, the IBBA, ACG, M&A Worldwide, or AM&AA is important to keep abreast and up-to-date as well as to develop a peer network.
- **Backup** - What backup support is available to you if the Intermediary you select is on vacation, becomes ill, or even passes away?
- **Team support** - Is the person you are thinking of selecting a "do everything" sort of person? If so, the quality of much of what he/she does may be subject to serious concern.
- **Fees** - Charges, work fees, retainers, up-front fees, or whatever is charged needs to be reasonable, based on the work that is actually being performed. Be sure to understand everything that they are going to do for you, and do not accept platitudes and other false promises of greatness.

We have had many clients who, after the initial consultation, chose to carry on with their businesses to capture value enhancement opportunities, refinance, recapitalize, do an acquisition of a competitor, add new product lines, add new equipment, obtain new customers, and even turn them over to their children. The old adage, that "you can't see the forest for the trees," is so true with smaller companies. The owners run so hard most days that they don't have the time or resources to do the necessary research to carefully assess the alternatives.

Don't be too quick to say you won't pay "up-front fees." Instead, take the time to learn all about the firm you are dealing with. That fee could be the best investment you'll ever make.

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…creating

…opportunities®"

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