

CAPITALIZING ON An Underserved Market with Business Transfers & Strategies



Editor's Comments: The mergers and acquisitions business can be glamorous: big deals, big commissions and big egos. In reality, it is a very difficult business for investment bankers, intermediaries and brokers, because the business is lumpy, commission-orientated and successful closings are fragile and tenuous right to the end.

When Steve Smith decided to leave corporate America four years ago to buy his own business through brokers and intermediaries, he was unsuccessful. There must be a better way, he told himself. There was a better way... so Steve started his own company to strictly focus on acquiring small companies with sales between \$1 to \$5 million for individual buyers, and sometimes up to \$15 million in sales. Steve does not represent business sellers... but rather he strictly represents individuals who are desirous of buying a business. These individuals generally lack M&A experience and are without deep financial pockets. In spite of the high degree of difficulty, Steve has been extraordinarily successful acquiring, for his clients, an average of five companies per year. In essence, he has capitalized on an underserved market.

THE SPARK

When Ben Franklin needed two different pair of glasses, one for distance and another for reading, he invented bifocals. Again, when Ben Franklin was disturbed from the heat loss from his fireplace, he invented the Franklin stove which produced more heat with less fuel. And when Kemmons Wilson of Nashville, Tennessee was unable to find a convenient, clean and economical motel for his family when traveling, he founded Holiday Inns.

Fast forward, Steve Smith had spent fifteen years working in the high technology sector where he was instrumental in the growth of several pre- and post- IPO companies such as Xircom, Hayes and CMGI. Realizing, like a lot of entrepreneurs, that he wanted to control his destiny and build his personal net worth, Steve decided to buy his own business. For six months, he scoured eastern Massachusetts and the countryside around his southern New Hampshire home working with business brokers and even considering the purchase of a franchise operation. He thoroughly educated himself on the M&A process by reading nearly every available book on the subject. While Steve enjoyed the buy-side process of identifying, qualifying, analyzing, pricing and negotiating... there were no positive results. Steve started to become



Steve Smith



Brehn Smith

continues on page 2

continued from page 1

discouraged because the brokers, who basically work on the sell-side, tried to sell him the companies they represented, instead of companies Steve wanted to buy.

After six months of searching, just as he was about to give up, Steve became involved with a consultant from Florida who had counseled business buyers for over 30 years, partly through selling published materials and partly through coaching over the telephone. Quickly, Steve learned the nuances of the M&A business, such as locating and approaching acquisition targets, recasting and analyzing the financials, assessing risks, structuring deals, etc. While this elevation of knowledge was extremely helpful, Steve soon realized that a terrific opportunity was right in front of him.

THE LIGHT BULB GOES ON

Realizing that there was a *void* in the M&A marketplace, Steve decided to take advantage of the situation for his own benefit. Since no-one, at least in his area, was properly servicing the individual buyer... the opportunity was too compelling for Steve not to jump in. Fast forward again, Steve went into business for himself setting up his establishment in the active Burlington business area 15 miles west of Boston, in an office park adjacent to a major highway. He named the company Business Transfers & Strategies, because it fully describes his business focus.

For those of us who work in the M&A business, it is generally accepted that the most difficult challenge is creating a steady flow of new clients. Steve realized this challenge from the start, so he proactively called on attorneys, CPAs, banks, outplacement firms, etc. Not surprisingly, he found that he was more than welcome because practically none of the intermediaries either worked for individual buyers and/or sought businesses with sales of \$5 million or less.

Within nine months of establishing BTS, Steve had so many referrals that it was not necessary for him to prospect for new clients. He had accumulated over 125 referral sources, including other intermediaries who were not interested in pursuing this segment of the market.

THE CLIENT

The majority of Steve's clients are current or former Fortune 500 executives making the transition from the corporate world to independent business ownership. When asked how he qualifies his clients, Steve responds: "We don't solicit prospective clients through a Web-page, advertisements or brochures, but rather our clients come from our referral sources who are professional business people. In most cases, the potential clients have been screened by our respected referral source. Further, we require a \$10,000-15,000 upfront retainer (depending on the likely transaction size) which qualifies the prospects'



seriousness to do a deal. The last criteria for acceptance of a candidate as a client is based on my gut reaction after spending time with the person in the interview process. Not only do I want to fully understand the prospect's background, motivation, staying power, and financial capability, but I want to be sure that their spouse is in total agreement with the project."

While most of Steve's clients are very desirous of achieving additional wealth from owning their own business, their desire to have a sense of achievement and personal success is oftentimes more important than the monetary rewards.

THE COMPANY SEARCH

Steve's specialty is matching specific client requirements with acquisition targets that are not available for sale in the public market. Steve is usually not interested in those publicly available companies because that would entail a bidding contest, which is to his client's disadvantage. Steve identifies companies in which the owner is most likely talking only to his client about a possible sale. Steve estimates that only one in five sellers pursues other possible buyers after being approached by Steve.

After Steve has selected a number of specific target companies for a client, he will start by writing a very personal letter identifying the buyer, e.g., "Our client, John Doe, former CEO of ABC Company, would be very interested in talking to you about your consumer products company. Your company fits his acquisition criteria, and he has sufficient capital to invest in the transaction."

continues on page 3

continued from page 2

Mentioning the name of the client and highlighting their qualifications opens up many doors for Steve. The next step is for Steve to screen the target company, not only to gain more information, but to build trust and rapport with the owner. During his screening interview, Steve ascertains what the owner wants from the deal and what the owner's motivation to sell is. Most of the time, the owner doesn't know how to value his company, so it is very important that Steve spends time with the owner to explain the various ways to arrive at a rational value for the business. Frequently, Steve ascertains that the business is really not for sale and/or the owner has unreasonable price expectations. The latter may be a result of the owners' country club friends or brother-in-law pretending they are experts on the subject... persuading the owner to value his business based on one times sales. This screening process is very laborious and time consuming, but it is one of Steve's value added services. Acquisition targets that pass the initial screening are then passed to the respective client for consideration.

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Partial List of Clients Corporate, Senior & Mid-Level Executives

From The Following Companies

Allied Signal	HP Hood
AMP	Ocean Spray
Capital One Finance	Putnam Investments
GSI Lumonics	Schlumberger
	The Kraft Group
	Thermo Electron
	Tyco

Transactions Type & Sales Volume

Service Companies

Software Company –	\$1.2M
Consulting Practice –	\$1.0M
Abatement Company –	\$2.0M

Fabrication Companies

Medical Plastics –	\$6.0M
Metal Company –	\$2.4M
Sheet Metal –	\$3.5M

Manufacturers

Architecture Metalwork –	\$1.5M
Household Wares –	\$3.5M
Food Products –	\$3.0M

Distribution

Craftwork Import –	\$6.0M
Art Licensing/Dist. –	\$6.0M

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continued from page 3

CONCLUSION

As if the above profile of Steve Smith is not enough to differentiate himself from other M&A intermediaries, part of the deliverable is performed by his wife and business partner, Brehn. She actively manages the due diligence process between BTS's clients, their professional advisors and the target companies, thus ensuring that the transaction comes to a timely closing. Prior to joining BTS full time a little over a year ago, Brehn held senior management positions at Hewlett Packard, Cisco Systems, and Philips Electronics. She is a Six Sigma Black Belt, and her operations and project management expertise complements Steve's skills and provide all-important back-up in order to service their clients properly.

In addition to the services mentioned previously, BTS works closely with each client to ensure that they secure acquisition financing on the best possible terms.

BTS is a great success story, especially when one considers the genesis of the business was born out of a void in the M&A business.

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