

The Difference Between Business Brokers and M&A Advisors

Small Business, Middle-Market, and Big Business.

Businesses come in different sizes. Small businesses may seem complex to the entrepreneur trying to run everything alone, with a handful of employees at most, but in truth they are usually very simple in the eyes of an experienced corporate executive. The larger the value of a business, generally the more employees it has and the more complex are all its operations, including complex accounting and tailored relationships with a variety of suppliers and customers. So it's not surprising that there are different types of professionals for handling the sale or acquisition of different sizes and types of businesses.

At the small end of the business scale, the sale or acquisition of service companies and retail shops can be professionally handled by a single Business Broker, much the same way real estate is handled by a real estate agent. These small businesses have fairly standard financials, relatively few assets, and nominal profits; their value lies in providing a livelihood for the owners and workers who operate them on a daily basis. One owner may decide to retire or enter a different line of work, and another person may want to take over a business which is already operational. But small businesses don't usually possess much strategic value for a buyer or profit for an investor, nor do they usually justify investment in a group of M&A Advisors to prepare and structure their sale or acquisition.

Mid-sized, or middle-market, businesses cover a much wider range of complex activities and structures. They may be medical establishments, durable goods manufacturers, financial institutions, large retail chains, international contractors, holding companies, or any of numerous other business types. But what many middle-market businesses have in common are dozens if not hundreds or thousands of employees, an array of expensive and complex assets often including intellectual property rights and negotiated contracts, a notable market share in their field, and enough value to warrant a team of specialists who can maximize that value by thoroughly preparing the company, negotiating favorable and sometimes intricate terms, and overseeing the complexities of legal and physical transfer of their ownership and management.

Truly large businesses are often similar to middle-market businesses, but generate many times the amount of revenue and profit, and are usually full of complexities far outside the scope of even middle-market businesses. The value of these very large companies supports investment in even larger groups of specialists who provide deeper and more far-reaching examinations and preparations for the business's strategic sale, acquisition, or merger, than would be required for medium or small businesses.

Professionals to Fit the Size and Complexity of the Transaction.

Business Brokers are the individuals or small firms who handle the sale or purchase of small

businesses. They don't need a large and expensive staff because the services performed by Business Brokers are relatively simple and standardized, and can generally be performed by a single professional. Many Business Brokers in fact, will handle both sides of the transaction, truly being a middleman (or double-agent) facilitating a deal between buyer and seller. While small-business owners and buyers should beware of any potential conflict of interest or biased representation when both buyers and sellers are "represented" by the same Business Broker, a fair transaction can often be achieved with a double-agent because the services offered by a Business Broker and the transactions they handle are not very complex. Their fees are also usually simple and often contingent upon completing the sale of a business.

At the other end of the spectrum, Investment Banking firms are the groups which handle high-end transactions valued well over 100 million dollars, performing extremely detailed and complex preparations and negotiating book-length contracts. They appear to charge the cheapest rates for their services, but that is because they limit themselves to dealing only with businesses so large that one or two percent of the sale goes a long way toward covering the costs of having so many experts involved in processing the deal. They also charge assorted fees throughout the preparation, evaluation, and sale process.

In the middle is where the M&A Companies are appropriate. They are the mid-sized firms providing a valuable array of expert services for the preparation and sale or purchase of middle-market businesses. These middle-market businesses have enough complexities and value to warrant the fees of an M&A Company. The efforts of a moderate group of experts is required to sort through the data, examine the possibilities and implications, and strategically prepare a middle-market company to be in the optimum condition and market position, locate the best potential buyers, carefully handle confidential information, negotiate valuable terms, and process the complex transaction. In fact, the effectiveness of an experienced M&A Advisor can significantly increase the value derived from the sale or purchase of a mid-sized business.

Face Value Is Not the Only Determining Factor In Choosing the Right Type of Professional.

While it is tempting to simply and categorically define the type of professionals appropriate for handling the sale or purchase of various sizes of businesses, the estimated dollar value of the business in question is not the only factor to consider. Complexities and strategies, or lack thereof, also play into determining which type of professional you may need.

Business Brokers generally perform a passive service, making a small business available on an open market and handling standardized financial and legal paperwork. They typically handle businesses being bought and sold by individuals. They are neither equipped for, nor experienced in, handling complex strategies and arrangements, and are often not aware of many factors important to middle-market investors. Business brokers also generally do not assist in optimally preparing a business before it goes on the market, and they typically attract individual buyers rather than corporate buyers who would have more resources and bigger visions.

It is true that a business has to be worth a certain amount before it makes sense to engage an

M&A Company of Advisors, rather than a Business Broker. Business Brokers are used for transactions involving businesses worth a couple of million dollars or less, while businesses worth five million to one hundred million usually benefit greatly from the advice and services of an M&A Company. But when a business hovers around the gray line between being small and medium-sized, determining their true complexity can be the key factor in deciding whether to engage an M&A Advisor or a simple Business Broker.

It's important to remember that M&A Advisors are prepared to actively help with strategic preparations long before negotiations begin for the actual sale or purchase of a business. M&A Advisors are not just about completing a transfer of business ownership for a fee. Their focus is ongoing beneath the surface to understand a business from all angles in order to find ways of solving hidden problems, uncovering hidden value, optimally presenting an arrangement to the other party, and negotiating an ideal transaction for the party who hired them. The ultimate value of a business may be much higher than it appeared before receiving the services of an experienced M&A Company.

Summarizing the Distinction Between the Services of Business Brokers and M&A Advisors.

An easy way to summarize all this for quick recall, is to ask yourself how many people it takes to run the business in question. If the business is simple enough or small enough to be run by one person or a handful of people, a single Business Broker should be all you need to handle its sale or purchase. If a large team of people are needed to manage the complexities of the business, you will benefit from employing a team of experts from an M&A Company to manage the preparation and sale (or purchase) of the business.

Some things to remember:

- * To get maximum value out of a business sale or acquisition, you should start planning for the transaction at least a couple of years in advance.
 - * If you do use a basic Business Broker, ask about compliance with securities laws. Brokers handling business under a certain dollar amount may not be required to have a special license or be registered with the Financial Industry Regulatory Authority (FINRA), but such registration would indicate they have passed securities knowledge examinations. Professionals handling the sale or purchase of higher priced businesses are legally required to be registered.
 - * If your business is medium to large, if you suspect there are important factors you cannot predict, or if you want to know what you don't know, you can benefit from talking with an M&A Advisor. The sooner you begin consultations, the better the position you will find yourself and your business in later on.
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