

INFORMATION

**THE CERTIFIED BUSINESS
 COUNSELOR**

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Editorial Office

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EDITOR'S COLUMN



Congratulations on all the recruiting! Hope we will see all these people at the October meeting in San Antonio.

For those of you who haven't been told, here are some of your new members in ICBC:

- Edward Read, Louisville, Kentucky
- Carl Kuby, Decatur, Alabama
- William Kobayashi, Los Angeles, California
- E.H. (Andy) Field III, Buffalo Grove, Illinois
- Charles Cole, Mancos, Colorado
- Stewart Cloer, Buffalo Grove, Illinois
- Heniz Schweinbenz, Hamilton, ON, Canada
- Evelyn Principato, Hamilton, ON, Canada
- Tim Piwowar, Uniontown, Pennsylvania

- Ken Sweet, Buffalo Grove, Illinois
- William Buckmiller, Southport, North Carolina
- Kirk Relford, Ft. Collins, Colorado
- Laurel Gaumer, Sausalito, California
- Donald Forrest, Hamilton, ON Canada
- Robert Bowden, Hamilton, ON, Canada
- Dale McFarland, Houston, TX 77074
- Erin Hollis, Buffalo Grove, Illinois

Bob Ross tells me that we are on a record pace for attendance at the meeting. If you haven't seen the line-up of speakers, check it out on the web site.

Thank you to the members who have contributed to this newsletter, especially those who are contributing for the first time. Your generous, sharing attitude is what makes our organization so special.

Onward,

Michael Coates

If you need additional information or assistance or if you have any information or articles you would like to share, please submit them to:
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ICBC COMMITTEES

Listed below are the ICBC 2005 committees and their members. If you have any questions or interest in supporting these committees, please feel free to contact the appropriate chairman.

2005 Conference

Co-Chairs, Bob Ross, Jeff Adam

Education:

Chair, Michael Coates
Jeff Adam
Frank Granberg
Jim Palmer
Mark Richardson
Bob Ross

Ethics & Standards:

Chair, Phil Finsterwald
James Cornell
Charles Edmonds
David Finsterwald
John Harris

Membership:

Chair, Bud Sandberg
Stu Curtis
Mark Richardson
Bob Ross
Shane Snively
Terry Wright

Mentoring:

Chair, Charles Edmonds
All mentors are members

Planning:

Chair, Ray Hanson
Shannon Pratt

Executive Committee:

KC Conrad
Jeff Adam
Phil Finsterwald
Ray Hanson
Bob Ross
Drew Smith

ICBC Contact Information:
Phone: 877-422-2674
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PRESIDENT'S MESSAGE

Fellow ICBC Members,

Another ICBC Conference is upon us and that means my term as your President is just about over. Where has the time gone? I've had the pleasure of working with some of the finest professionals - your ICBC Board and their committees. This has truly been a rewarding experience for me. First, I want to thank Michael Coates (Newsletter Editor) for his hard work in putting together ICBC's newsletter. This task is not easy considering he must obtain my article and ask others to submit articles. Next, Bob Ross and Jeff Adam (Conference Co-Chairs) for their efforts in successfully planning a great lineup of topics and presenters for this year's conference. If you are not registered for this great conference you are not taking full advantage of the benefits in your membership.

Phil Finsterwald and his committee (Ethics/Standard Committee) have developed "ICBC Professional Standards", currently in draft form and awaiting your comments. Charles Edmonds suggested that ICBC should have a mentoring program. He has taken charge of this first year program and developed, in my opinion, a successful program and additional new member benefit. Bud Sandberg and the Membership Committee have been busy this year with processing fifteen new membership applications. Yes, your organization continues to grow and with this growth comes planning. Ray Hanson has been forward thinking as Planning Chairman. Ray and his committee are in the process of creating the "Wally Stabbert Award" criteria, so future individuals can be recognized for their outstanding contribution to ICBC. Drew Smith (Treasurer) has been keeping close tabs on the financial condition of ICBC. His report at the annual conference will show ICBC is on a sound foundation.

Finally, I want to extend my appreciation to a person who you only see their name on your email heading. Mary Ann Gray has been such an important addition to this organization. Many of you can not fully realize her contributions. Her efforts have made my job easier and has provided me with the time and ability to concentrate on individual member concerns and issues.

Your Board of Directors is an all volunteer group of individual professionals, each having contributed their time and resources towards improving ICBC. I encourage each of you to take the time to thank them for their efforts. I would also like to thank you, the entire membership, for allowing me to grow and improve as an individual. The experience and journey has been both pleasant and rewarding as your President.

Thanks for your support,

Respectfully,

KC Conrad, CBA, CBC, CMEA
Conrad Business Appraisers
ICBC 2005 President



ANNUAL ICBC CONFERENCE EARLY REGISTRATION BREAKS RECORD

If you have not registered for the Annual Conference in San Antonio at the Holiday Inn -Riverwalk you need to do so as soon as possible. The hotel is running out of rooms. You can call 1-800-445-8475 and tell them you are with ICBC and get the \$109.00 per night room rate. You can download the conference registration form on the web site at www.icbc.org.

We already have the largest number of members registered to attend than at any time in my memory. The speaker line up is outstanding. We have brought back outstanding speakers from the past and

added new ones who will be very informative.

I promise you will even gain weight even if you do not want to do so. We have a continental breakfast every morning at 8:00 a.m. Great meals every day and even snacks at the breaks. You will not want to miss the President's reception on Wednesday evening.

San Antonio is a great city that is unique. When you walk out the back entrance of the hotel you are on the Riverwalk which is loaded with attractions. The Alamo is only three blocks from the hotel.

Don't miss the best conference in years.

Bob Ross, Co-Chair ICBC Conference
Fuller-Ross Group, Plano, TX
972-867-9202///bobross@flash.net



CONSULTING—THE PERFORMANCE LINK Christopher P. Howard, MBA, CMA, CBC, CMC

The obvious question that comes to mind upon reading the title of this article is, "What exactly does consulting link?" Quite simply, it links education and business and since it is characterized as a "performance link," one can extrapolate there must also be a reward link, since the two go hand-in-hand. Both performance outcomes and rewards occur on several levels for the consultant who defines and exercises his/her role in the linking process.

My understanding of this process began in 1985 when I became an adjunct faculty member for the University of Phoenix, School of Business. I developed an appreciation for just how much I could learn from teaching and the extent to which I could enrich the academic material with applied examples from my consulting client base. The transfer of "real world" experience to the students was my performance requirement and my rewards were satisfaction from adding to their learning experiences and a wealth of their new ideas and perspectives that grew from classroom discussions.

After moving from Phoenix to Reno in 1987, I redefined my approach to linking education and business as to what my performance criteria should be and what I should seek as rewards. In 1991 I became an adjunct faculty member of Nevada, Reno College of Business Administration and have taught steadily ever since from one to four classes per semester. My performance requirements expanded to include not just, but linking outstanding students to the business community either through providing internships on my firm, Meridian Business Advisors, Inc. (MBA), or in firms who are MBA clients. If one is careful in the selection criteria for interns, it is easy to see how this activity can produce a directly symbiotic relationship between the developer (education) of resource and the user (business). Both parties recognized and appreciate the consultant in the linking process because his/her role is so apparent.

There is another important potential reward in the process that MBA has capitalized upon—first pick of good resources. Consulting is a people business, perhaps more than most, so good raw material in the form of motivated, educated talent is essential.

Another important outgrowth of the education/business link is the association the consultant/faculty member can develop with the university's small business development center. In my case this relationship has resulted in speaking opportunities at university-sponsored business gatherings and the occasional direct client referral. It is difficult to beat this type of synergy with an entity that could otherwise be your competition.

In summary, what are the consultant's performance requirements and rewards in the linking process?

Requirements

1. Provide real world applications to the students
2. Offer students access to additional internships
3. Act as a bridge to business for the university association administration

Rewards

1. First pick of the best students
2. Satisfaction in enriching students' learning
3. Credibility from the university
4. Business development

And the downside to this activity? Easy, there is none.

SELLING THE NEGATIVE

BY TERRY S. WRIGHT

I've never gotten a call from a Seller who says, "... *wow, I'm making money, I've got plenty of time to fish and play golf, but I just think the time to sell has come - by the way, I'll take less than market value and I'll finance the whole deal for the buyer!*" No, the call I get is usually from a seller telling me (when he finally levels with me) the bank is foreclosing, he's lost a major contract, he doesn't have enough operating capital to stay in business or he's got a terminal health issue and "Junior" doesn't have the chutzpah to take over.

Brokers are quick to tout the positive aspects of a new listing: pristine assets, a well-established name or the looming 6-figure contract. But what do we do with things like falling sales, needed improvements or sagging profits? The nature of being a street broker is that listings almost always come with "baggage." A closer look might reveal this however, as a good thing.

When an owner is honest about why he wants to sell the answers almost always deal with one or more negative aspects of the business or some personal issue. Often these negative issues also serve as explanations (or excuses) for why the business does not perform as well as it otherwise could. However, regardless of negative issue(s) offered, if the seller were making enough money from his enterprise, he probably wouldn't be looking to make his exit. He would instead find a way other than selling to manage the negative issue(s) he faces in order to sustain all or some of his remuneration. So, negatives in a business are often secondary to a bigger issue; the seller is no longer earning enough money for him to justify his continued effort. And the same issues, which have the seller looking for the exit, can sometimes be just what are needed to attract a buyer - these are what I call "correctable negatives."

Not all negatives are correctable - the buggy whip manufacturer found his product quickly becoming obsolete once the horseless carriage came along and there may be no real answer for a parts manufacturer losing out to less expensive imports. Sometimes though, the lagging performance of a company can be used as a catalyst to purchase if it can be tied to something that might be repaired.

For example, a business in an industry growing at 10% per year, which has lost 12%, 14% and 20% in sales over each of the last 3 years gives the impression that it is quickly sinking in the wrong direction. With no other information, a buyer might quickly pass. However, a deeper look

shows that the owner who provides the only sales function in the company has had a crippling medical condition and has averaged working less than 1 day per week for the last 3 years. The buyer doesn't have to be a rocket scientist to understand that the company is actually doing pretty good under the circumstances. The company is apparently surviving on reputation and repeat business. And most importantly, the negative issue, which is directly responsible for the fall in sales, *and* which is the reason for the sale may actually be considered as a plus, because it is readily apparent how to repair the problem and improve the performance of the company.

Negatives and their effect in a business are usually easy to spot, but ones that are correctable are sometimes hard to define. Some time ago, a local attorney called to enlist my help with one of his clients, who owned a failing restaurant and wanted out. Void of a legitimate excuse, I reluctantly agreed to a meeting. The owner (Eddy) brought with him, financials for each of the 24 months he had owned the business. Though the previous owner had been quite a success, a quick review and simple recast revealed that Eddy had lost money every month he had owned the business, even with a slow growth in sales. There was however, within the financials no readily apparent reason, not a hint as to the reason behind the losses he was experiencing.

I told the owner that in order sell a potential buyer on the opportunity here we would first need to discern why the business was losing money and suggest solutions. He offered that he was baffled and had no idea why he was in the red. So I asked questions about the operation attempting to find the problem, maybe even a correctable negative. Based on his answers, the restaurant had exceptional, award winning food, an excellent location with a suitable lease and great traffic, honest and loyal employees, more than adequate assets and significant growth potential for the future. It sounded like the perfect business - only it was losing significant amounts of cash every month.

After more questions, still with no clue as to the problem I had just about decided I had enough justification to walk away having satisfied my commitment to the attorney. Then I realized that with nothing left to consider, the problem was staring me in the face - literally. The problem was the owner himself - Eddy was not smart enough to even know why he had a problem, because he was the

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problem - Eddy was the correctable negative. I took the listing and marketed to prospective buyers using this correctable negative: *The owner has not run this restaurant correctly, it is losing money and he's not smart enough to figure out why. In light of all the positive elements this restaurant has to offer, anyone with a hint of business savvy should fair well in this here* (done with Eddy's approval). With the aid of a very humble but motivated seller and a fair asking price, a sale was facilitated in less than 90 days. Within 7 days of the closing, the new owner had determined and corrected the problem and was making a nice profit.

A justifiable, correctable negative can be luring for a buyer, but it does not improve pricing. A negative, affecting performance is still a negative, it will still serve to subdue perceived value and must be coupled with a pricing strategy that takes the negative into account. The smart buyer will still base his offer on historical performance regardless of the benefits anticipated by post-sale corrections. Consequently, correctable negatives do not increase value, but rather improve the attractiveness and likelihood of a sale at a given asking price.

Correctable negatives when, used correctly can be just as much or more powerful as a selling tool as the positives are. They suggest a reason for performance deficiencies, suggest realistic potential for improvement and offer the buyer a starting place in which to focus his efforts.

A stumbling block to the pessimist is a stepping-stone to the optimist."

~ Eleanor Roosevelt ~



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Three Serious Mistakes in Starting Businesses **Chris Howard, Meridian Business Advisors, Inc**

Frequently, I will find the reason that a company isn't growing is that the founders made mistakes at the very beginning (perhaps months or even years ago) that have to be corrected before growth can occur.

Often the mistakes were ones I had seen before and I easily placed them in familiar categories. Here is a list in no particular order of importance of the categories of mistakes.

- Selling the business concept of service or product to one's self.
- Not knowing the difference between a business and a hobby (as measured by profits).
- Not understanding the importance of hiring people on the basis of their skills or knowledge, rather than on the basis of their relationship to the equity of the business.

Category 1.

It takes people with imagination to start business, and it is not uncommon for such creative people to let their imagination outrun their business judgment. Often the market for their good ideas (whether product or service driven) is defined entirely by themselves and a small circle of naïve, but supportive, friends.

It is easiest to sell a business concept to its originator and close friends who are loathe to challenge its viability for fear of producing hurt feelings. Unfortunately, the ease of sale to this close group often becomes the basis upon which the promoter proceeds, only to discover later on that there is no general demand for the product or service. Is there really a market for a paper staple that has three spikes instead of two and which requires an appliance costing twice as much as a normal stapler?

Category 2.

When does a hobby become a business? When it starts making profit! There is nothing in business more important than knowing in advance when a business will begin to make a profit, in other words, reach break-even business volume. It is simple calculation, but it is frequently neglected by those starting a business.

The formula for computing the break-even point (in units) is: **Break-even point equals the fixed costs divided by the difference between the unit price and the unit variable cost.**

To find the break-even point in revenue, multiply the break-even point in units (as computed above) by the price

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per unit. Each sale above the break-even point produces profit equal to the difference between the variable costs and the selling price until the fixed costs get pushed upward.

Obviously, there are two keys to lowering the break-even point:

- Increase the margin on each unit sold (increase the difference between the variable cost and the selling price)
- Reduce the fixed costs.

More often than not, new business owners don't know the break-even point for their business until it is too late. Too late, because early in their planning they did not consider whether their assumptions regarding market penetration were realistic in light of the sales break-even point necessary to cover fixed costs.

Category 3.

And now for the most common and potentially deadly mistake of all—hiring friends, relatives, and investors.

The only correct reason to involve a person in a business is to capitalize on that person's knowledge, skills, or contacts

to further the development and well-being of the enterprise. Moreover, the value of that benefit must exceed the cost of employment, or it can lead to a "hobby" mode of management with disastrous results.

Fancy titles in the beginning can add to other problems as the enterprise grows. Even if friends, relatives, and investors are capable in their positions initially, the enterprise can rapidly outgrow their skills set and leave the owner with the politically sensitive task of replacing them or hiring in above them. Or worse, yet, letting the business limp along with them.

Summary

If you have the self-discipline to plan for growth in the first place, you can avoid a lot of needless expense, heartache, and loss of the most precious asset of all-time.

By Christopher P. Howard
Meridian Business Advisors, Inc.
Reno, Nevada
775-954-2020

ICBC Members

We are pleased to provide ICBC members with a copy of the organization's September newsletter.

Comments or suggestions for future newsletters should be submitted to the editor. Volunteers to author articles for the newsletter are always encouraged.

Have a happy and prosperous month.

Michael Coates, Newsletter Editor

SURVIVING IN THIS INDUSTRY

by John R. Harris, MCBC, ASA, CM&A

As I look back over my 21 years as a member of ICBC, I become a bit nostalgic. I always think about my dear friends that I've met over the years, some of whom are no longer with us. And of course I remember my good friend Wally Stabbert who helped me very much as I was starting my own professional practice as a young man.



And how privileged I was last year when I received the coveted MCBC designation from my peers indicating Master Certified Business Counselor.

Thank you one and all, and thank you ICBC for 21 great years.

We are in a wonderful industry. The business transfer industry has certainly been good to many of us. In that vein, I have been asked to comment on the recent success of our NEBB Institute. The NEBB Institute came as a result of the fact that sometimes we need other "tools in the tool bag" or another, "arrow in the quiver." Yes, if we are involved in Business Brokerage or Mergers/Acquisitions we understand it can be a feast or famine business. The NEBB Institute was started to help the professionals survive until the next business sale comes along. Only three years ago, the NEBB Institute was started and already we have approximately 200 members in 45 states as well as members in Puerto Rico, Saudi Arabia, Canada and Australia. The worldwide market continues to show strong possibilities. There is only one reason for the rapid growth. The members who work the program are making money and they're doing it in conjunction with their business appraisal business, their business brokerage business, or their mergers/acquisitions business.

The business brokerage industry has long held to the notion, in order to "survive" until the next closing there should be some charge to the client. This typically occurs in the form of a packaging fee or appraisal services. Many brokers and merger/acquisitions professionals will not, in fact, undertake a brokerage assignment unless there has been an appraisal of the business and/or its assets. This certainly makes the selling process easier when a buyer presents himself/herself.

Brokers feel there are a number of reasons to require appraisal work. Just to name a few:

- An appraisal qualifies the seller. Brokers do not want to work for a seller who is just curious.
- When a buyer presents himself/herself, it is good to have a certified appraisal that can be offered, which can become a piece of sales literature in effect.
- By having a certified appraisal, 90% of future negotiation is avoided. Without an appraisal, a buyer is more likely to offer an unreasonable amount.
- When the buyer goes to his/her bank to borrow money to buy the business and/or its assets, the banker will want to know, "Why this amount?" When the buyer drops the Certified Ap-

praisal of the business and its assets on the banker's desk, one third of the affirmative lending decision, at least, has been made. (The banker of course, will also consider the borrower's character and credit, which make up the other parts of the lending decision).

All of this is to say that successful business brokerage offices and merger/acquisitions offices are now reporting that an appraisal in the sale of a business is a must. Of course what the broker doesn't always tell the seller is the fact as mentioned at the outset, that this is one way for the business broker or merger/acquisitions professional to "stay alive" until the business sells.

Here is a typical scenario, which happened in the Wichita, Kansas Business Brokerage office just last week. A man came in and said he was 71 years old and needed to start thinking about selling his business. He wanted to know how the system works. We explained to him the necessity of performing appraisal work early on. We explained, "It takes a little time and a little money to get the sale of your business properly packaged and on the market, but the cost is an investment that will come back to you many times over in most cases." He said, "Okay, that makes sense. What do we need to do?" We told him that a business appraisal for his size of business typically runs in the range of \$5,000 and, since he has an asset heavy business (machine shop) there needed to be some special considerations for the tangible items which hold value as well. We counted those items and determined them to be 27 in number. Calculating approximately \$100 per item for those tangible items resulted in a \$2,700 fee in addition to

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the \$5,000 business appraisal. - Total, \$7,700. His reply was, "Can I give you a check?" This is a typical scenario. He was encouraged by the fact that not only would he get a business appraisal that would cover him on "goodwill", that is presumed to exist in the business, but in case the business sale turns to liquidation for any reason, the appraisal will also suffice. Furthermore, the appraisal can be used for estate purposes, if need be. This is a typical scenario and is happening in the business brokerage and the merger/acquisition office every day. Are we aware of the opportunity and the reasons to be selling

machinery/equipment appraisals along with business appraisals?

If you are a business appraiser, are you certified in the tangible assets? There is liability in putting value on tangible assets. Business appraisers have in the past used book value, which is not the same as fair market value. They have taken the owner's word (which is full of liability) or they have taken some non-certified persons word for the value of equipment such as an auctioneer or dealer. All of these methods hold lots of liability. As a business appraiser it is good to set yourself apart from your competition and be more profes-

sional.

As stated at the outset, this is a wonderful business but we need to continue to pursue education and hone our skills to survive in the days ahead.

John R. Harris, MCBC, ASA, CM&A, is the director of the NEBB Institute, which certifies business professionals from various fields of business in the art of Machinery/Equipment Appraisal (CMEA designation).