The American Dream

How do You Start or Buy a Business with None of Your Own Cash

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ACKNOWLEDGMENTS

To my family

To my parents and siblings, James and Myriam, Laurent and Audrey Amzallag, thanks for all their continuous support, patience, love, and for giving me the luxury of a great education.
To all my uncles, aunts, and cousins (and I have plenty of them), for helping me adapt to this new city comfortably. But mostly, thanks to all the successful entrepreneurs out there for giving me hope that anyone and everyone can succeed in life by following their dreams and not letting any obstacles obstruct their path.
DEDICATION

This book was completed on the eve of the terrorist massacre of September 11, 2001. On behalf of the entire Pro-Ace Team, we wish to express our sincere sympathy to those affected by the tragedies at the World Trade Center, the Pentagon, and in Pennsylvania. Our thoughts and prayers are with those who have suffered.

“America under Attack”

Many families and lives have been shattered and devastated by this event. It is time to take action and bring all those responsible for this catastrophic and demonic action to justice. World leaders are working in collaboration with the United States to eradicate every form of terrorist organization from our planet. IATA (International Association against Terrorist Attacks) will raise funds to help the United States in this challenging endeavor. Judgment day has arrived and Americans will come out of it with their heads held high. IATA will also help financially rebuild our renowned but destroyed World Trade Center, the Pentagon, and surrounding businesses. It is time that the world comes together to work tirelessly and to permanently erase all terrorist organizations. We will fight hard for our land of FREEDOM and DEMOCRACY. A portion of the proceeds from the sale of this book will go to IATA and the Red Cross Disaster Relief Fund.

IN GOD WE TRUST
So you have decided to take action and start your own venture. Great! We try, in many ways, to better ourselves by looking for the right opportunity to arise. We say to ourselves: “When will that time come”? Well, my dear friends, the right opportunity is NOT going to come and knock on your door. You need to actively seek the right opportunity. This depends on you!

Before reading this book, you should write down a master plan of what you want to do and answer the following questions: What are your dreams? Your short term plans? What do you expect to gain from reading this book? What field or industry interests you the most? How much money do you want to generate from your business? Are you interested in a start-up or a take-over?

These are only a few of the questions you should ask yourself before you read the whole book. Make sure to
answer them to the best of your knowledge. Your answers to these questions are crucial to your future. They will give you ideas of how you want to apply what you’ve learned in this book. If you do not understand some of the concepts in this book, read this book again.

I have used the simplest terminology to make it easy for everyone to understand. There will be none of the guru terminology that only a few can grasp. I have gathered information that is user friendly and easy to comprehend. Why add difficult business terminology to an already complex process of acquiring or starting a company?

This book has been designed in such a way that all the questions that you may have are addressed here. It is my hope that the question/answer approach will facilitate the reading and understanding of the material.

I think I have said enough and should let you be the judge. After reading the book, make sure to go back to your initial master plan and see if your answers have changed. If your original answers remain the same, then you’re on the right path to reaching your ultimate goal of owning your own business.

Good luck in your future endeavors. I hope that this book will help you achieve…….
How do you buy or start a business with none of your own cash

The American Dream.

Note: To all readers residing outside of the United States of America: Please keep in mind while reading this book, that some government entities mentioned (SBA, SBDC, SBIC and others) exist solely in the United States. It is therefore important for you, the reader, to search for equivalent agencies, which offer the same help as those mentioned above. This book offers strategies and techniques on how to buy or start a business with none of your own cash; however, it is not a telephone resource book. You will find the contact numbers listed in report # 9 to be useful, such as Canadian government organizations that resembles to the one from the United States. However, you still need to further your research to make use of all the resources available in your locale. The Chamber of Commerce in your area can be a good start. With the reports and future seminars we offer, we hope to fully provide the information you request, wherever you reside.
“Knowledge is power, Knowledge is money, Knowledge is success.”
These are common sayings, especially in today’s fast-moving economy. Because of the overwhelming growth of businesses, several questions often arise regarding how to make a start-up company successful. Is it luck? Or maybe the CEO’s management skills? What factors are responsible for one company’s success and another’s demise? Keeping abreast of new changes and market competition will allow the company to make wise decisions on how to approach existing problems. It is essential to conduct research to remain aware of new changes and trends in the marketplace. This knowledge allows you to identify what could be detrimental or advantageous to your company.

This book contains valuable information for you to use in your professional life. It includes information about acquisitions and takeovers, as well as some knowledge
you may have gained in past ventures. I am confident that you will find this book thorough, but yet easy to read. I have included an order form for several program reports that will guide you through the steps of your acquisition or takeover. These reports are provided to you as a supplement to the knowledge and advice offered in this book and will give you additional confidence during your future negotiations. It is my hope that you will find these reports comprehensive and helpful, whether you order one or all of them.

You are about to gain insight into the seller’s mind; for example, why he may withdraw from a deal at the last minute. This may not be due to your lack of negotiations skills but mostly because of “seller’s remorse”. Advice on how to keep calm in this situation will be provided. You must understand that cold feet can happen in any stage of a negotiation. Don’t let that discourage you from pursuing the deal, or any other deals. There are ways to manage the situation and you will know what they are after finishing this book.

Get ready; you are about to embark on a journey of knowledge… Your destination?

The American Dream!
**Strategy 1**

Voiding the biggest myth about buying or starting a business with your own cash

Have you ever said to yourself one time or another "I would give anything if I could have my own business, but I don't have the money." Well, you're in for a huge and shocking surprise. You don’t actually need any of your own money- not a penny of it, and the money you do require is readily available from others, often from the most unexpected of sources.
So you can have the American dream—being your own boss and not having to answer to anyone, taking home all the profit—all without putting out one cent of your own money. In this book, I will explain some simple financial techniques most people assume are for individuals such as Donald Trump, Bill Gates, and other famous entrepreneurs. Anyone can use these techniques with simplicity and ease. The Myth has disappeared. Reality is kicking in.

**Question:** Is the myth of needing money to open a business still applicable?

**Answer:** As you mentioned, it’s only a myth. I know people who have been looking for ways to work around this well-known myth. In this book, I have gathered information, techniques from seminars, and strategies gleaned from many different books on how to start or buy a business by using **leverage**. This powerful information will enable you to apply the most effective strategy to acquire, start, or take-over any type of business without much effort. By being strong-minded and determined, you should not feel intimidated by the seller and his requirements. You should enter the negotiation with confidence and leave the room a winner.

**Question:** Where can I find the money to start a company?
**Glossary**

Leverage (previous page): Also called trading-on-the-equity; the use of borrowed money in the expectation that the interest rate will be lower than the earnings, which can be made on the money. Examples on how leverage buyouts work can be found in report #5

**Notes and Reminders**

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Note: These pages are offered to you to help extract the necessary information learned in the book. During future negotiations, you’ll be able to use these notes as quick reminders for reaching your necessary goals. During our seminars, our guests will add more information to complete what is offered in this book. Note taking is advised.
**Answer:** You can often use the assets of the business you are buying to pay for the purchase. I'll describe in detail at least five or six ways you can count on the seller for the money you need to open the business. After that, I'll give you other ways (in report # 6) to get the money if the seller can't fund you the capital, or if you're simply starting a business from scratch. In fact, it could be even more advantageous to use the seller’s money for the purpose of buying the business.

**Question:** *Is buying or starting a business really that simple?*

**Answer:** It is simpler than you might think. Sellers are looking desperately nowadays for buyers to acquire their business. With the Internet craze happening in the past decade, many entrepreneurs have been opting for on-line businesses instead of relying on traditional “brick and mortar” ventures. Sellers are getting desperate to exchange ownership and will rely on any buyers’ requests. This advantage will enable the buyer to close any deals on their terms. These procedures are simple to apply with the understanding that all transactions are clear and accepted between both parties (buyer and seller) in question.

Think about it: The parties in a business acquisition transaction rarely, if ever, reveal the intimate details of their deal, so you aren’t likely to know much about the “no cash” acquisitions that happen every day. With that said, I would estimate that one of every two small
businesses is sold or started with absolutely no cash investment from the buyer—yet still satisfies all the seller's objectives.

**Question:** Is there any good time for me to consider buying a business?

**Answer:** It is imperative that you think thoroughly before considering the purchase of a business. You should consider your experience and what you enjoy doing. If you are interested in a business that has a product or service that is outside your area of expertise, then you should make certain that key employees will stay on after the change in ownership or that similar expertise can be hired.

It is equally important that you should identify the desired location(s) and the amount needed for the purchase. You should then assess what the realistic possibilities are of obtaining the funds from outside sources (family and friends). One should also decide on the size of the business in terms of sales, profits, and the number of employees.

It is important to determine if the business you wish to buy is to be one that is profitable and stable or one that is losing money and in need of new management. The more profitable and stable a business, the more it is likely to cost. In retrospect, a healthier business can be easily presented to potential investors to obtain the
desired amount of money (if this option is chosen).

**Question:** Give me some examples of entrepreneurs who "made it" without any of their own money?

**Answer:** Here are a few stories of entrepreneurs who have always inspired me and I think they'll do the same for you. (You may even recognize a few...)

*Example:* Paul Orfalea, a student with below average grades just out of college, started the now-famous Kinko's copy stores without a penny of his own money. It began in 1971 when he convinced a commercial bank there was a big demand among college students for a convenient, multi-purpose photocopy shop. The bank loaned him $5,000 to take over an 80-square-foot hamburger stand for the purpose, and Orfalea went on to build his tiny operation into a $400 million chain of nearly 800 stores throughout America. By studying the market and the needs of the student community, he was able to pull through and follow his dream of being his own boss. Not bad for a small start-up.

*Example:* Ray Kroc was a 52-year-old milkshake salesman back in 1955 when he convinced brothers Mac and Dick McDonald to sell him their lonely little hamburger stand near Burbank, California. Since Kroc didn't have any money, he worked out a unique and highly leveraged no-cash-down arrangement. On his first day in business, Kroc's cash register rang up close
to $400.00. “It rained that day,” he later explained. The following week, the sales doubled. Today, McDonalds reaches the 20 billion dollars/year sales mark. Quite impressive isn’t it? McDonalds is both the biggest owner of commercial real estate and the biggest food service corporation in America. Ray Kroc didn't have to spend a penny of his own to start it all.

Example: Tom Monaghan, a 1960 college drop-out, partnered up with his brother and bought a bankrupt pizzeria in Ypsilanti, Michigan, securing a bank loan in order to satisfy his end of the deal. A year into the business, Monaghan bought out his brother and developed a soon-to-become brilliant game plan: open stores near college campuses and military bases and promise delivery in 30 minutes, or the order is free. Domino's Pizza is now an America fixture, taking in annual sales of nearly $1 billion. Monaghan gets to indulge in a rich man fantasy by owning a major league baseball team, the Detroit Tigers. Not bad for a guy who didn't have a spare dime to his name starting out.

Example: Ernest and Julio Gallo knew nothing about winemaking when they started out back in 1933. So what did they do? The brothers studied pamphlets on the subject at the local library! Then, because these future bright entrepreneurs were unable to secure a bank loan for their proposed winery, they arranged to get 90-day credit terms from a maker of crushing and
How do you buy or start a business with none of your own cash

fermenting equipment. And they got their first grapes from local farmers with the promise of paying them once they sold the wine. The Gallos sold their first 6,000 gallons to a Chicago wine distributor, and the rest is history. Gallo is now the largest winemaker in America with annual sales approaching $600 million. And it all started without a penny of their own.

**Question:** You're right, these are tremendously inspiring stories. But do entrepreneurs today have the same kind of promising opportunities?

**Answer:** Absolutely. In fact, according to an issue of *Inc. Magazine*, “the financial system that was accessible to [earlier entrepreneurs]... remains equally accessible today.”

We are in an era in which technology is improving at the speed of light. We hear everyday about new entrepreneurs selling their businesses (internet and software companies) to corporate giants for several millions of dollars.

In trying to understand how this kind of acquisition is being done, there are a few questions that come to mind. Under whose terms is the business being sold? Are the buyers actually submitting a check for the amount of the announced purchase price? The answers to these questions are not readily available to the public. It is kept between financial experts and the parties involved in the transaction.
Glossary

Sole proprietorship: A business having a single owner who receives all the profits and who is personally liable for all debts the business may incur. For more details, report # 4 explains different business legal entities existing in the United States.

Limited liability corporation: Liability is limited to a stated amount. A shareholder of the corporation enjoys a limited liability because, in general, one cannot lose more than one’s capital investment in the company. Property owned outside the corporation is not jeopardized unless criminal action is involved.

IPO (Initial Public Offering): A method by which a company seeks outside financing for the purpose of stimulating its growth in the stock market. This can be considered another form of leverage. Once the I.P.O is made, the company can determine the issue price for its shares’ price/unit.

Notes and Reminders

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What you need to understand and not be afraid of is the wheeling and dealing of these kinds of acquisitions. They do not happen in the ways portrayed by newspapers and magazines. Be very aware of the information about to be revealed to you.

Let me give you more details on this subject. These new start-up companies in the I.T (Information Technology) industry have something that corporate giants want. A large corporation meets with a newly formed start-up company and proposes a deal to its sellers. The amount revealed in the newspapers is only the market price or potential future revenues of the start-up company. The company can be a *sole proprietorship* or *limited liability corporation* (see report #2). By acquiring the company, the corporation will create a different entity out of the newly acquired start-up and submit an *IPO (Initial Public Offer)*, by which the company enters the world of the stock market.

By submitting the IPO, the Corporation is using outside financing or leverage (other people’s money) to finance the acquisition. The public has access to the company’s stocks and has the ability to buy them.
Glossary

Shares: A written document evidencing a fractional ownership in a corporation.

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With the money received during the IPO, the former owners will receive their *shares* (in dollars) and the Corporation will continue managing the newly acquired company. Only major acquisitions are published and talked about (after the transaction has been completed).

I don't want to pretend it's easy and automatic to achieve these same levels of success. It takes a lot of determination to attain these goals. What I can assure you, with great certainty, is that money should be the least of your concerns. With some savvy advice and a love of independence, you WILL succeed, perhaps far beyond your expectations.

**Summary**

- You can open any size or type of business with absolutely no cash of your own (and make a six figure income).

- You can often use the assets of the business you're buying to pay for the purchase.

- Though rarely publicized, it is estimated that one out of every two small businesses is sold or started with absolutely no cash investment from the buyer.

- If you are interested in a business that has a product or service that is outside your area of expertise, then
you should make certain that key employees will stay on after the change in ownership or that similar expertise can be hired to help you through the initial change.

• Entrepreneurs, such as Paul Orfalea, Ray Kroc and the Gallos started their businesses with no money of their own, and became some of the most successful businessmen in the 20th century.

• Money should be the least of your worries when starting or buying a business.
Second biggest myth about buying or starting a business

Have you ever heard of the concept of leverage? You definitely have. As a matter of fact, you already know how to use it. By using your credit card, you’re actually using other people’s money to purchase a desired item. You're able to just sign your name to "borrow" for your purchase. So leverage is just a word for the simple idea of using “other people’s money”. It is no more complicated when you buy a business on leverage. Having adequate limits on your credit card can help you with the down payment on your business venture. Make sure you maintain a good credit rating. If not, hope is still there.
Note: These pages are offered to you to help extract the necessary information learned in the book. During future negotiations, you’ll be able to use these notes as quick reminders for reaching your necessary goals. During our seminars, our guests will add more information to complete what is offered in this book. Note taking is advised.
Our Program Report #6 will provide you with other potential strategies to effectively finance the business you desire to acquire.

**Question:** What other secret of starting or buying a business is available to the public?

**Answer:** Information, my friends, is the secret. The more information you have, the more powerful it will make you. You need no business ownership background or fancy education to start or buy a business without cash of your own. In fact, you might be better off without these typical preconditions, which can discourage you in reaching your goals. Research will help you find out more of these secrets. The information you will accumulate through your research will allow you to open your eyes to new opportunities out there. Where other people see obstacles, you’ll see a challenge.

**Question:** How simple is it to buy a business on 100% leverage?

**Answer:** It is as simple as A-B-C (under the following conditions):

**A:** The seller is willing to finance 70 to 100% of the purchase price, a concept that will be explained later.  
**B:** Any remaining amount can usually be financed through the seller's bank. Financing can also be
Glossary

**Business broker**: An agent who represents either buyer or seller. He seldom has a physical access to the goods with which he deals, and has limited power as to price and term sales. The term broker is often applied to institutions and individuals active in the investment field. You can find them in the related fields of real estate, business, and personnel placement.

**Commission**: A compensation plan by which a salesman receives a percentage of his sales revenue as all or part of his income; the amount charged by a securities or business broker for buying or selling securities for a client, or for finding the right business for them. Since business brokers have an interest in closing deals, they will cater to the clients’ needs, finding them the best opportunity possible.

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handled in a different way, with the bank picking up the largest share and the seller contributing the rest.

C: A business broker or a supplier to the business can also be called on to contribute to your no-cash deal. The idea is to build "stair-steps" of financing to reach your goal. It can be advantageous for a broker to get involved in the transaction. Most of the time, the broker represents the seller; however, if you approach him and request a specific business, he may find it for you. At that point, he’ll search around to see what business will best suit your interests. He will attempt to close the deal and can give you a temporary break on his commission. That doesn’t mean that you are exempt from repaying his hard-earned money. Your broker will give you a time frame in which to pay your dues. Within this time frame, the business will generate enough money to pay for all operating expenses, the first month of the bank loan, and the broker’s fee, including the seller’s advance on the down payment. This amount can be exonerated from the initial purchase of the business. You’re probably wondering when your six-figure salary will appear. Sacrificing income for the next few months will be necessary to get the business running. This applies to start-up Internet companies as well. The Chief Executive Officers are making a mere $200 per week, if they are lucky. However, their goal is to be purchased by a big corporation; and if this scenario
happens, their time and effort will be worth their while.

**Question:** Is the seller going to accept this maneuver?

**Answer:** Why not? As long as you can make sure that the seller gets what he or she wants, one way or another. Buying a business on no-cash terms doesn't necessarily mean the seller ends up with no cash. It's just not your cash. The key is to know the leveraging possibilities you can bring to the table, and which to suggest for a given situation. You'll discover a number of them in this book, as well as other leveraging techniques available in the program reports. I should point out that it's somewhat easier to buy a business on leverage than to start one from scratch. As I mentioned earlier, you can often use the assets of the company as "other people's money" to arrange a none-of-your-own-cash transaction.

**Question:** But what if I have a great start-up idea and need to start from scratch?

**Answer:** No problem. Program Report #2 explains more precisely the possibilities offered through start-up procedures. It will offer a step-by-step method to get yourself organized. Organization will be to your advantage. The reports will show you how to approach and win over bankers, prospective suppliers, **venture capitalists**, and “Angel investors” as sources of funding for your idea. In addition, we can show you
how to get started via a **limited partnership**, selling companies’ stock, going through **the Small Business Investment Companies (SBIC)**, and using **home equity loans**. All of these methods will get you much more money than you could by your own means.

The Small Business Development Center in your area can be a great help to your new start-up. You should contact the SBDC (subsidized by the Small Business Administration) in your area and ask to talk to a business consultant. They will provide you with additional information about the trends and **demographics** for where you reside. This can be vital information, especially if you desire to cater to the local residents. The government plays a major role in helping new start-ups, depending on several criteria provided in Program Report #1.

**Question:** Can you give an example of how I would bring leverage to the bargaining table to buy a business?

**Answer:** Sure. Let’s take the example of our dear friend, Larry. Perhaps like you, he was more than ready to say goodbye to his day job and was extremely interested in going out on his own. His dream was to own a vending machine route, a business he had found stimulating and exciting. He also thought the business had great potential because of the possibility of servicing the student community. His concept was different.
**Glossary (for previous page)**

**Venture capital:** Money or property, which is invested at considerable risk to develop a new product or business; money used to start a new business enterprise; any investment in the ownership of an enterprise. Venture capitalists form associations of individuals investing in a multitude of different business who request in return, a high return on their money.

**Limited liability partnership:** see limited liability corporation. A minimum of two individuals shares the monetary responsibility of the partnership.

**Small Business Investment Companies (SBIC):** An association similar to those formed by venture capitalists; however, in this situation to help individuals with their new businesses. Venture capitalists are involved in multimillion dollar ventures compare to SBIC.

**Home equity loan:** Using the present market value of your homestead and borrowing against it. This money can be used to grow a business or towards childrens’ college funds. A second mortgage on the home is usually applied.

**Demographics:** In marketing, the general traits that typify a market segment, such as age, gender, family size, education race, religion, social class and the population’s preferences.

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**Notes and Reminders**

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He didn’t want to serve the typical junk food found in these machines; he wanted to offer a variety of healthy gourmet snacks instead. Reaching this health-oriented market presented a huge potential for new business. More students are leaning towards healthier eating habits and want something different in their diet. Larry analyzed the market and decided to change the unhealthy trends by offering new products that would revolutionize the vending industry. However, Larry’s homework didn’t stop there. He needed to find different suppliers for the type of snacks offered in the machines. All products had to be natural or organic. Health and freshness was Larry’s priority.

**Question:** How do you know a seller will always be so willing?

**Answer:** A seller won't always be so accommodating. But if they're motivated, sellers are a good bet for financing some portion of the initial investment. According to most experts, many see it as a good return on investment and usually benefits in the long run. Let’s continue with our example of Larry. Now where were we? Oh, yes…….Rather than asking IF the seller would finance his venture, Larry assumed the seller would do so. Making the assumption puts a little extra pressure on the seller to bite into the deal, if he or she is not initially inclined to do so. Assumptions do not make you dishonest in any way.
**Glossary**

Gross revenue/profit: The result of subtracting the cost of goods sold from the revenue or income received. This is called gross profit as distinguished from net profit, because other business expenses haven’t yet been deducted.

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They make you savvy in negotiation practices. By doing so, the seller will feel like there are no exits available and will have to accept the assumption. Thinking that he or she agreed to it will make them feel guilty if they change their mind during negotiation. These techniques can be very helpful.

**Question:** What happens next?

**Answer:** Diplomatically, Larry asked about the existing debts for the vending machine business. Larry explained to the seller that he'd be willing to assume the debts as a way to finance the purchase price. For example, if the vending business generates $1 million dollars a year of *gross revenue*, and has an existing debt of $750,000, the buyer will be able to negotiate the purchase price to be $250,000. This purchase price represents the difference between the annual gross revenue and the existing debts of the business.

**Question:** Will this fact change his mind about selling you the business?

**Answer:** Absolutely not. In most cases, the vending machines might still be on lease with the manufacturer. The easiest thing to do would be to take over the lease payments. At this point, you don’t owe much to the
Glossary

Title: The exclusive rights, powers, privileges, and immunities to property, real and personal, tangible and intangible, possessed by the holder or holders against all persons.

Depreciation: The loss of value sustained by tangible fixed assets as a result of wear and tear, the passage of time and the action of elements; the stated loss of value of a fixed asset in an accounting statement in order to adjust as it gradually wears out.

Opportunity cost: The money-outlay required to get a commodity or service; the money outlay to obtain a valuable income. In the case of opportunity cost, it is the money lost for doing another activity instead of another. For example: if you go study abroad and your cost of living and tuition is $25,000 for that year, then your opportunity cost will be the $25,000 plus the salary not earned during that year abroad. If you typically earn $50,000 a year then your opportunity cost will total $75,000.

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seller because he doesn’t hold any title on these machines. The take-over can be simple. All that is left to do is to advise the manufacturer to change the names on the lease and the deal is done.

By doing so, this will change some terms of the lease. These modifications offer several advantages to the buyer, such as lower monthly payments because of the machines’ depreciation, as well as complimentary maintenance agreements. However, you need to make sure to ask the manufacturer for all these changes before signing anything. The lease has to be signed on your terms or you walk out of the deal. Don’t be afraid. You need to take a stand, no matter with whom you are dealing. Remember that they probably started the same way. In addition, these manufacturers will go along with some of your terms because they would like to continue leasing you the equipment. If not, these machines would have to go back to their facilities, incurring storage fees and a high opportunity cost.

**Question:** So what's the moral to this story?

**Answer:** Once you realize price is nothing but a means to an end, reached by walking up individual financial steps, you'll never again be frightened off by an asking price or a down payment. Nor will you believe any longer the myth that it takes something you don't have (money) to make such a transaction. As of today, you
should pretend the term "down payment" doesn’t exist anymore. You should go into negotiations knowing that all transactions are going to be completed in such a way that both of the parties will leave satisfied. You have to realize, though, that going into debt is not a myth. Like most people, you are probably programmed to think of owing money as something to avoid at all costs. The secret is to structure the debt so that it fits the payment capabilities of your business. That way, you can very safely start up a business with 100% leverage. Program Report #6 will enable you to understand more of this concept. All of the program reports available are numbered so that you know exactly which one to order.

**Summary**

- By using your credit card, you’re actually using other people’s money to purchase a desired item.

- You need absolutely no business ownership background nor a fancy education to get into a business without cash of your own. You might actually be better off without any financial background that can cloud your thinking about what’s required when getting into business.

- You can often use the assets of the company as "other people's money" to arrange a none-of-your-own-cash transaction.
• The seller, the seller's bank, and even the seller's suppliers are likely sources to fund your purchase.

• Buying a business on no-cash terms doesn't necessarily mean the seller ends up with no cash. It's just not your cash.

• Remember, there's no reason to be frightened off by an asking price or down payment. In fact, for you, the term "down payment" shouldn't even exist anymore.

• You should never be afraid of debts, because it is possible to structure them so that they fit the payment capabilities of your business.
Note: These pages are offered to you to help extract the necessary information learned in the book. During future negotiations, you’ll be able to use these notes as quick reminders for reaching your necessary goals. During our seminars, our guests will add more information to complete what is offered in this book. Note taking is advised.
Strategy 3

Buying a business with its own cash-and not a penny of your own

After reading this chapter, you will be ready to start applying your knowledge and reach your American Dream of owning a business. This comes with a serious effort on your part; however, by reading this book, I assume you’ve decided to take this long journey and start making a change in your life. I'm going to introduce you to some easy ways to get the money you need through the modern-day miracle of leverage. We'll start with an approach that enables you to make the business actually pay for itself without requiring you to reach for your wallet.
**Glossary**

Cash flow: The net income of a corporation plus bookkeeping deductions which are not paid out in actual money, such as depreciation, debt payments, and reserves. Cash flow is a yardstick of a company’s ability to pay dividends and to finance expansion from self-generated sources.

Strategic financial markets: includes the money markets, the stock markets, swaps (an expression used in transferring money from bank to bank, by various countries’ exchanges rates and **LIBOR**) and all other financial transfers done in a specific location.

**LIBOR**: is an abbreviation for "London Interbank Offered Rate," and is the interest rate offered by a specific group of London banks for U.S. dollar deposits of a stated maturity. LIBOR is used as a base index for setting rates of some adjustable rate financial instruments, including Adjustable Rate Mortgages (ARMs).

**Notes and Reminders**

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Note: These pages are offered to you to help extract the necessary information learned in the book. During future negotiations, you’ll be able to use these notes as quick reminders for reaching your necessary goals. During our seminars, our guests will add more information to complete what is offered in this book. Note taking is advised.
Question: Is it true that the method of taking money out of the company’s cash flow is reserved exclusively for financial gurus?

Answer: It is partly true. Most leveraging techniques have that reputation. And frankly, they shouldn’t. If more people knew about them, many entrepreneurs would have been in business long ago. Such techniques only seem to be reserved for financial experts because they [the techniques] appear more frequently in strategic financial markets. You hear of many major acquisitions worth billions of dollars. Yet, you will never hear how it happened or what was involved. This information never goes public. As will be mentioned in Strategy 4, by developing a strong network with corporate leaders, you will definitely have access to that valuable information even though you might not work in the field.

These are actually hidden secrets that I’m revealing to you right now. The power of information will allow you to go far. However, it’s up to you to make the effort in searching for more information about the company that you want to acquire. Remember, the most powerful tool you have while you are dealing with the seller is showing him your knowledge in the industry and how it can be beneficial for him (and yourself, of course) to sell you the business. And, believe me, you too can put these powerful, yet simple, tools to use immediately.
Glossary

C. P. A: Acronym for Certified Public Accountant. A person who has met certain requirements in education and in experience in the field of accounting and who has passed a state examination in that field.

Operating expenses: The costs of running a business that are incurred in ordinary business activities such as administrative expenses, production costs, sales, and marketing expenses.

Notes and Reminders

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Question: What is the easiest way to explain how to use a business's cash flow for financing purposes?

Answer: Let me start by giving you some perspective on how much money we're really talking about. One expert explains it this way:

“The amount of cash an average business puts into its cash register over just two or three weeks is usually enough to cover the down payment to buy that business”.

Think about it. The cash that collects in just a matter of days is usually enough so that, with some creativity, you can use it to satisfy the seller's down payment. That can work no matter what type of business you are pursuing. Since there is no law that says you can't "borrow" that money, all you have to do is figure out how to use the cash collected to pay for the business once you have acquired it. This easy if you have a C.P.A to calculate your cash flow in order to know how to approach the seller with your proposal.

Question: How does the process work?

Answer: A few steps are required. You, or your C.P.A, must determine the net cash flow generated over the first several weeks of business by determining the difference between cash receipt totals and operating expenses.
**Question:** What are the proper procedures to evaluate a business, and what should I prioritize to make my decision?

**Answer:** There are several methods used to evaluate companies. Typically cash flow, assets, or replacement values, or a combination of these, are considered when determining the value of a company. The following lists various valuation methodologies typically used by valuation firms.

*Replacement Cost Analysis:*
- Generally, the value of a company does not relate to the value of replacing the assets of the company. Sometimes the replacement value of the property, plant, and equipment (PP&E) is far higher than the fair market value of the operating business. Sometimes the value of goodwill, such as customer relations, corporate logo, and technical expertise are far higher than the replacement value of the PP&E.

You can often choose a particular industry by expanding facilities already owned, investing in entirely new facilities, or by purchasing all or part of a new company operating in the industry. The decision as to which investment to make depends, in part, on the relative cost of each. Of course, an investor will often consider capacity utilization, location, environmental, political, and legal issues among other things in determining where and how to invest. These issues may outweigh the
importance of the replacement cost analysis; in such cases, this valuation method is not used to determine the fair market value of the company.

**Asset Appraisal Analysis:**
- It is generally possible to liquidate the PP&E assets of a company, and after paying off the company’s liabilities the net proceeds would accrue to the equity of the company. It is necessary to determine whether such liquidation analysis should be performed assuming rapid or orderly liquidation of the assets. However, even when assuming an orderly liquidation of a company, it is generally the case that an operating company will be of substantially higher value. It is not appropriate to use the asset appraisal approach in this case because the company is operating successfully; under such circumstances, in the industry in which the company operates, the company's fair market value will almost certainly be in excess of the value of its assets on a liquidated basis. The sum is more valuable than the parts. It is appropriate to appraise non-operating assets using an asset appraisal approach to determine their value as part of the fair market value of the company.

**Discounted Cash Flow Analysis.**
- Another determinant in a company's value is the anticipated cash flow. Discounted cash flow analysis is a valuation method that isolates the company's projected cash flow that is available to service debt and provide a return to equity; the net
The present value of this free cash flow to capital is computed over a projected period based on the perceived risk of achieving such cash flow. So as to take into account the time value of capital it is typically appropriate to value the company's cash flows using a discounted cash flow approach.

**Total Invested Capital.**

- Each method of valuing a company or its business units places a value on the total invested capital. These various values are compared to reach a definitive fair market value. Often it is appropriate to weight the various implied values for total invested capital based on the relative effectiveness of each valuation method used for the analysis. When the value of the total invested capital has been determined, any claims to that value that have a more senior right than common stock are subtracted to determine the fair market value of common stock. These other claims include the fair market value of all debt, outstanding preferred stock, outstanding stock options, and share appreciation rights. Non-operating assets that had not been previously valued must be accounted for and added to total invested capital. These generally include cash and the fair market value of any non-operating assets.

**Terminal Value.**

- An owner may expect cash to flow to capital over an indefinite period of time. While valuation models often use predictions of future cash flows, it
may be necessary to represent the value of the cash flow that can reasonably be expected to extend beyond the horizon of the projections. This value, known as the terminal value, is often calculated by multiplying the fifth year cash flow by a multiple. Selected multiples commonly use the median multiple of total invested capital to comparable companies selected in the comparable public company analysis. The selected multiple may be discounted to reflect the company's performance or size characteristics relative to comparable companies. This is quite similar to dividing the cash flow by the weighted average cost of capital and including a growth factor.

**Question:** Well, that is all great. However, how will that help me in the purchase of the business?

**Answer:** You negotiate a deal that enables the seller to receive the down payment directly out of the cash flow once you’ve taken over the company. If this sounds too good to be true, here is an example of its viability:

An aspiring young entrepreneurial couple, Sandy and Kevin, wanted to buy a thriving restaurant and pastry shop in Northern Virginia. Although they were bright and energetic, and possessed some experience in the food industry, they nevertheless lacked—by a long shot—the ability to pay the $100,000 the seller wanted down on the total price of $500,000. (The restaurant’s
annual sales equaled $1 million, some of which came from a thriving commercial business selling its fresh roasted coffee to local gourmet supermarkets and coffee shops.)

Fortunately, the seller agreed to pitch in and finance the $400,000 difference over five years at 10% interest. This happens often, especially with a good deal of persuasion. The couple's problem, however, was raising the remaining $100,000. Kevin’s parents believed strongly in their son and daughter-in-law’s skills and determination and decided to loan them $20,000 to be paid back at their convenience. That certainly helped, but they still needed $80,000. In order to reach this goal, the couple's C.P.A developed a cash flow statement for the first month of his clients’ new ownership. Their suppliers wouldn't require any payment for a month so Sandy and Kevin would not have that expenditure. However operating expenses such as rent, payroll, and utilities had to be considered.

Upon seeing the numbers from the financial analysis, Sandy and Kevin were convinced they could easily draw $80,000 from their business within four weeks. But the big question was: How could they convince the seller (who expected a $100,000 check on closing) to wait three to four weeks for his money?

This is where creativity, persuasion, and earnestness were required. Strategizing with lawyers and their
C.P.A, Sandy and Kevin devised a plan that enabled the seller to withhold the final papers of the sale for four weeks. During that period, they would pay the seller approximately $20,000 a week. If they missed a payment, the seller would have the right to renege on the deal. The seller agreed to this proposition giving Sandy and Kevin their American Dream for no cash of their own.

This example represents over 80% of all take-over and acquisitions. In the worst-case scenario, the seller may not cooperate; in this case you should understand that he probably was never seriously interested in selling his business. It is possible that the seller was waiting to see how far you would go during the negotiating process, which brings us to the next question.

**Question:** *If the seller is not cooperative and demands an immediate down payment to close the deal, what alternatives exist?*

**Answer:** Sellers can have cold feet during negotiation, but this not a deal-buster. A leverage-oriented C.P.A can help you find alternative no-cash solutions. However, because it may take a little more than just financial tap dancing, you may also require legal counsel for contract negotiation purposes. Our program reports will help you find professionals who know about these procedures.
Glossary

Escrow: Property placed in the hands of a trustee for delivery to a third person after certain specified conditions have been fulfilled. This is common practice in the real estate industry.

Franchiser: A privilege or right conferred by grant by THE sovereign authority upon an individual or a business (franchisee); the exclusive right granted to an individual to promote a product or service within a specified territory.

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As mentioned earlier, knowledge can be a very powerful tool during your negotiations because it provides you with alternatives for making a no-cash deal happen. I'll touch on a few likely scenarios you'll need to overcome:

"The lawful pause": Once you have reached an agreement for the payment of the business, your uncashed check will be held in escrow until all conditions of the agreement are met. Actually, this method enables you to buy more time. You are placing legal requirements on the seller, knowing specifically that these official documents will take at least four to six weeks to be processed by the city or franchiser.

In the meantime, you are able to take over the business and put away the required cash over the ensuing weeks in order to validate the check when the time comes for the seller to cash it. In this way, the business ends up paying for itself.

"Solution for the hardheaded": Here we're talking about the seller who adamantly rejects all of your financial maneuvers to pay him off. As a solution, showing proof of the business’s financial stability to the bank can actually be considered equivalent to a letter of credit, meaning that the company’s assets can be held as
Glossary

Letter of credit: An instrument or letter issued by a bank, agreeing to accept drafts to be charged against established credit of an individual or business.

Collateral: Something of value, which is used as a pledge to secure repayment of a loan.

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collateral by the bank. This letter of credit is just proof that you have the money, but that does not mean you have to use it. Program Report #1 will supply you with a list of entrepreneurial-friendly banks, which can serve as valuable sources of financial help. A bank can offer you a loan but it will be under harsher conditions than those of a long-term loan (remember this should be your last resort).

Having this financial support can make you feel more comfortable when negotiating with the seller. It helps to know that you actually have an alternative just in case the seller is hardheaded and uncooperative.

Question: How easy is it to postpone payments to suppliers?

Answer: Credibility and integrity are essential before attempting to do anything. Make sure you explain to the suppliers how you intend to use their products or services. Convince them that it is to their advantage to keep you as a client rather than losing you to their competitors. In order to maintain your loyalty, the supplier may extend every reasonable courtesy by being lenient regarding payments on their accounts. Sophisticated suppliers are familiar with such negotiating techniques and the so-called trade payables by a new owner. (Usually, they extend up to 60 days credit, giving you plenty of time to pay them back). This strategy is possible if your C.P.A can help attest to the viability of the plan. Finally, you might also be
able to return some existing and unused inventory towards credit from your suppliers. Virtually every business has excess stock or supplies that can be returned and applied to what you owe. The suppliers will buy back the unused inventory at a lower price and if miscalculated (be careful to evaluate what you need in inventory), you might need to buy back the same inventory at the market value, which can eventually be more expensive.

Supplier financing is not a new concept. Many industries have been built through supplier financing. Some businesses have remained open because of this avenue. Big supermarket chains set up some franchise stores and offer similar options to the franchisee.

**Question:** How can I structure a profitable deal with a supplier?

**Answer:** It always has to be a win-win situation. This is what this book is about. In each transaction, both parties (you and anyone else involved in the transaction) will come out as a winner; it is no more advantageous for either individual involved. You need to first determine who your primary supplier is. Many businesses deal with a handful of suppliers. It is necessary for you to identify which one of them represents or generates the greater revenue for your business. Calculate the approximate amount of annual business your supplier can expect to receive from you.
You need then to determine the percentage gross profit on his sales to you. By doing so, you’ll be able to determine what your business generates for his profit. You can then borrow this amount from him and he will lend to you to keep you as a client. He doesn’t want to lose you, so he’ll go the extra mile to help you out in the acquisition. However, this extra amount of money comes at a price. He’ll loan you this money in return for the tangible assets of the newly acquired business. Be prepared to offer mortgage on the business assets, and if necessary a personal guarantee. He’s taking a risk with you, you should too.

**Question:** Can a supplier take advantage of this situation to take over most of my assets if the loan is not repaid on time?

**Answer:** Why shouldn’t you pay the loan in time? The supplier needs his money back. He is lenient for a limited period of time, hoping that you’ll get enough cash flow rolling into the business to pay him back. However, a good way to protect yourself and to get the most advantageous deal with the suppliers, is to shop around for them. You don’t necessarily have to deal with the current supplier of the business. You can get other suppliers to bid on your business. I don’t mean that you would sell your business but for you to market the opportunity to suppliers to do business with you. You can choose from a large sample of suppliers who offer the same product, selecting the best one with
the best offer of financing. He’ll offer you a deal which should satisfy you both. Many business deals are made this way. Make it a habit of using suppliers as a major source of financing. If you don’t dare to ask, you’ll never get.

**Summary**

- The amount of cash an average business puts into its cash register over just two or three weeks is usually enough to cover the down payment to buy that business.

- There's no law that says you can't "borrow" a company’s money—but you need to figure out how to pay for the business after you’ve taken over.

- Some sellers won't budge on cash-flow acquisition so you may have to do some creative maneuvering to overcome their objections.

- You can withhold the final papers for a few weeks by asking the seller for an extension on the down payment, guaranteeing that any missed payment would enable him to take back the business.

- Deferring payments to suppliers are relatively easy if you've established your credibility with them. They need you as much as you need them.
• You might also be able to return some existing and unused inventory towards credit from your suppliers. Virtually every business has excess stock or supplies that can be returned and applied to what you owe.

• A good way to protect yourself and to get the most advantageous deal with the suppliers, is to shop around for them. You don’t necessarily have to deal with the current supplier of the business.
Strategy 4

Additional leverage techniques: Helpful methods for buying a business without using your personal bank account

There is so many other leverage techniques available, of which many people are unaware. Many of us have heard the phrase “you need money to make money”. This expression is partly true. However, it does not take into account that the money does not necessarily have to come from your own pocket. Leverage is a method used everyday by large financial organizations and by consumers. For example, when you buy a car, you are using leverage by borrowing someone else's
money (either the bank’s or the car dealership’s, depending on which one offers the best rate).

A **leverage buyout** (or LBO) requires the same method to buy a business, except you can often use the assets and cash flow of the business to make the complete down payment and the monthly installments. Now, let's discuss some leverage strategies you can use to buy any size company without a penny of your own, making it possible for the business to literally buy itself.

**Question:** What kinds of leverage techniques have been used most successfully to acquire companies?

**Answer:** As mentioned previously, you can use the assets of the company for the initial down payment (covered in the previous strategy). Directly contacting the entity that stands to benefit the most from your transaction, your prospective supplier, can be a successful strategy. Think about it. You're going to be a potential “cash cow” for them, especially if you make the business grow beyond its present level. By approaching the prime supplier of the business with a simple offer, you can convince them to loan you X thousands of dollars in return for your continued business. Once you present them with the offer, you should work out an agreement stipulating that if you
Glossary

Leverage buyout (previous page): A leveraged buyout (LBO) uses the assets of the business to collateralize a loan to buy the business. The difference is that the buyer in a leveraged buyout typically invests little or no money, and the loan is obtained from a lending institution.

Account receivables: Unsecured assets due a business arising from all credit sales; the records showing persons or businesses to whom merchandise was sold on account and the status of the account.

Fixed-asset lender: Institution or banks lending money against assets of a company such as equipment, a fleet of cars, and other durable assets which will be used over the years for the business.

Notes and Reminders

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switch suppliers and not use their products or services anymore; you would pay the balance of the loan immediately.

**Question:** What other ways can suppliers help me in this process?

**Answer:** Selling off excess or unwanted inventory prior to acquisition can be another way to raise cash needed to purchase the business. Make sure the inventory is determined by physical count and divided by finished goods, work in progress, and raw materials. Suppliers may be willing to buy this inventory. Make sure as well that you know how much inventory is necessary for your business to function properly. In fact, there may be enough unused goods to cover the entire down payment or more.

**Question:** How does the deal work?

**Answer:** A seller is identified, often with the help of a supplier, and an agreement is drawn up stipulating that upon change of ownership, the inventory is shipped to you, the buyer. You can either sell the goods directly for cash or convert them to *account receivables*, from which a *fixed-asset lender* can immediately loan you the cash. This can satisfy your down payment. You need to find out precisely what your needs are before you sell anything. You do not want to find yourself in
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a position in which you will have to repurchase the same items at a more expensive price. The same approach can be used for liquidation of hard assets, such as machinery, equipment, or fixtures, which can be sold for cash and used towards your down payment.

**Question:** What techniques are available in which I can use account receivables as a form of leverage in my future acquisitions?

**Answer:** Program Report #6 list other forms of leverage buyouts and the necessary procedures to follow that any aspiring entrepreneur can use to make a none-of-your-own-cash business transaction. A bank or financing company will lend you up to 80% of the value of all receivables under 60 days old. After 60 days, you may have a problem borrowing the money. So it makes a lot of sense for you to focus your attention on the value of the receivables that the business holds.

**Question:** If I assumed the payables of the business, will I be able to "buy down" the seller's down payment?

**Answer:** This leverage approach utilizes credit as a means for taking over the business with a temporary exemption from paying the suppliers. You will have to pay them within 30 to 60 days, but that will give you extra time and money to resolve financial obligations
Glossary

Trade payables: Amount owed to another business because of credit purchases; the records showing persons from whom purchases were made on the account and the status of the liability accounts.

Annual Percentage Rate (APR): Everything financed in a mortgage loan, for credit cards or cars, expressed as a percentage of the loan amount.

Balance transfer: Activity used to transfer money from one account to another; used mostly with credit card accounts in which funds are transferred to take advantage of low annual percentage rates.

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with the seller. One possibility for you is to assume all *trade payables* with your suppliers (as Sandy and Kevin did when they took over the deli pastry restaurant). This will enable you to delay payments to the suppliers while you concentrate on more immediate concerns, such as making money for the business and repaying your other existing debts (bank, seller and business brokers).

**Question:** *Is it recommended to buy or start a business strictly on credit?*

**Answer:** If credit card companies look at your credit history and judge you worthy enough to receive a number of pre-approved, $5,000 to $10,000-limit cards in the mail, I say, "Go for it." This is among the easiest form of leverage to use to start up cash-free.

**Question:** *If I use credit to purchase or start a business, will the high interest rate affect its success?*

**Answer:** Nowadays, some credit card companies are offering 0% interest applied to any purchases made within the first several months. Take advantage of these offers (Program Report #6 will supply you with the list of these credit card companies). Other companies are offering low *APR financing on balance transfers*, a rate that depends on your credit history. You should apply for several credit cards to take advantage of these benefits. You should use the
first credit card with 0% interest to initially purchase the business (Obviously, make sure it has a large enough credit limit). In order to avoid high interest rates after the 0% interest period has expired, begin conducting balance transfers from one card to another. Continue doing so until all initial debts are fully paid.

This strategy will allow you to minimize your interest payments.

Questions: How can a buyer take control of a business with high liabilities, without putting himself in jeopardy?

Answer: We often hear of large leverage deals in which the buyer assumes the huge debts of a company to take control. If this seems too risky, can it also be done on a smaller scale?

Debt can, of course, be a burden to the company. However, it can also bring new opportunity to the buyer. Very often, sellers want to rid themselves of their business to avoid further litigation from creditors. Some of them cannot wait to escape this financial strain. At this point, these sellers will practically give away their business to relieve themselves of the stress caused by their never-ending debt. In this situation, any conditions you pose to the seller could actually benefit them. Meanwhile, you will be able to utilize a no-cash down payment and keep your savings for the
operating expenses of your new business. Knowing the reasons why a seller gives up their business can be a source of strength for the buyer during negotiations. In the past several years, I've assumed ownership of a number of distressed companies without using my own cash, returning them to solvency and health and then selling them for a comfortable profit.

My academic background, having earned a Bachelor’s degree in Finance and a Master’s degree in Business Administration, has given me the opportunities to learn about these kinds of transactions and their rates of success. Through my experiences in the corporate world, I have applied these concepts and have helped many of these failing companies regain their position in the market.

The program reports offered throughout this book enable you to pinpoint the troubled areas on which you need to focus your attention. However, during a leverage deal, being overly cautious and concerned about possible mistakes can slow down the negotiation process. Because there are often several qualified buyers hovering around any one good business opportunity, it is to your advantage to have the adequate professional support to guide you in making the right decisions. Mind you, this doesn't mean you should rush into ownership without absolute certainty that it's the right business and the right deal. (In fact, you should be ready to "walk" if it doesn't feel right.)
It's a buyer’s market (and a jungle) out there, you need to be prepared and act calmly in order to keep the process moving.

**Question:** *Is it worth the risk to borrow against the equity on my home?*

**Answer:** Let me put it to you this way: home equity allows you to benefit from the wise investment you made toward a home that has increased in value, without having to sell it. It is also a means of coming up with quick cash through an equity line of credit when an exciting opportunity presents itself. You will have the power to be your own banker. Also, a flexible seller might accept an offer for a $25,000 note secured by the equity on your home. Program Report #6 will help you go through this method of financing.

**Question:** *What if, despite all the leverage options, I still have the difficulty working out a no-cash transaction? Who can I turn to?*

**Answer:** As mentioned previously, if you're working with a business broker (report # 7 will help you how to find them), he or she might loan you the commission they will eventually make on the transaction. Brokers may rightly protest that financing is not their business, but you might respond to that by giving them the incentive to loan you their commission on interest. If you convince your broker to loan you their money, the
deal will go through and they will eventually be paid back in full (with interest).

**Question:** *Is there any other no-cash down approach that you have not mentioned?*

**Answer:** Actually, there are many others. Keep in mind that, if you are truly serious about buying or starting a business, there is a strong likelihood that more than one leverage technique can be used to close a deal. There are so many leverage techniques that exist that you have the choice in selecting which ones are the most appropriate for you and learning how to master them. More leveraging techniques are offered in report #5. Keeping everything in perspective, if you see money as an obstacle to achieving the American dream, you should erase that idea from your mind right now.

**Summary**

- Using your credit cards as leverage is a popular method employed by entrepreneurs for purchasing a business.

- Program Report #5 will provide more detail on no-cash deals and the science of leveraging.

- Suppliers can be very helpful sources of financing because they need and want your business.
• Using a business' own receivables, either by borrowing against them from a bank or selling them, can bring in the cash you need for your down payment to the seller.

• Using home equity (report #6) is another form of self-financing that does not require you to use your own money.

• Assuming a company's debt is another way to take over a company without using your own money.

• A business broker may serve as a viable form of financing because he wants to close the deal.
Strategy 5

How to learn about any business and find out which one suits you best

One of the biggest mistakes the no-cash buyer can make is to be caught up in the excitement of having found what looks like the ideal business. This can result in taking short cuts in evaluating the business' worth in order to get the deal sealed—unless the seller gets impatient and sells it to someone else. Make sure to evaluate and thoroughly research the reasons why the business is being sold. You are probably doing the seller a favor by taking the business out of his hands; he’ll accept any strategic maneuvers you offer him.
You might think at that point that all your business deals will be successful. Well, an easy purchase can bring suspicion; be discreet while conducting your research. Don’t make it too obvious. Remember that you will not offend a serious seller if you exhibit the professionalism of a serious buyer. So do not compromise any essential acquisition standards. Once you do the deal, that "baby" is yours...and you want to make sure it’s a healthy one before you sign any ownership papers.

**Question:** *Is there any checklist I should follow while evaluating the business I am interested in?*

**Answer:** Developing an acquisition strategy is a business planning exercise that defines the specific criteria to be applied in searching for and screening acquisition candidates (these candidates are businesses, not individuals). There are many reasons for this planning exercise: it gives you a frame of reference to evaluate acquisition candidates, it keeps you from wasting time on acquisitions that cannot be completed, and it helps you avoid acquisitions you will later regret. A defined acquisition strategy demonstrates that you know what you want to do, making it easier to retain qualified outside advisors as part of your acquisition team. These advisors don't like wasting time on unsuccessful transactions, and you don't want to waste advisory fees on poorly thought-out transactions. There are important issues to tackle
and information to seek. A firm looking to acquire another company needs to focus on its current operations and identify current strengths and weaknesses. There should be an analysis of future industry growth potential and trends within the existing business sectors, and an analysis of the competition.

Next, review past acquisitions and internal growth of the company, noting success and failures, and identify the reasons for those successes and failures. Based on the analysis, you should now outline your reasons for embarking on an acquisition program, determine financial resources available and define the characteristic of the desired acquisition, and finally define your company's policy regarding financial intermediaries.

**Question:** How can I locate the right business?

**Answer:** There is a few ways to locate the business that you are interested in.

*Print Advertising:*
- Business opportunity classified ads are a viable way to advertise a business for sale. Many ads are placed by intermediaries (business brokers or merger and acquisition specialists), but some are placed directly by business owners. The larger local newspapers are the best source of such ads for smaller, privately-held businesses. Sundays are
generally the most popular days for these ads. Business opportunity ads, whether for small or large businesses, usually describe the business in several short phrases, keeping its identity anonymous, and list a phone number to call or post office box for reply. The ad should be worded to demonstrate the business's best qualities, (both financial and non-financial) and many include a qualifying statement describing the kind of cash investment or experience required. A telephone number in the ad will draw more responses than a post office box number, but may not permit the anonymity of a post office box.

**Trade Sources:**

- Trade sources can be a viable source of information on businesses for sale. Key people within an industry or in companies on the periphery of the industry, such as suppliers, often know when businesses come up for sale and may be aware of potential buyers. Every industry has a trade association and trade association publications can do a good job of communicating the sale of a business in their industry.

**Intermediaries:**

- Business opportunity intermediaries generally can be divided into two groups:
  1) business brokers
  2) merger and acquisition specialists

The differences between these two groups are subtle, but in general, business brokers primarily handle the
smaller businesses, and merger and acquisition specialists handle the larger middle-market companies. Both groups usually ask for a contract with a 180 day period or a more exclusive right to sell the business.

**Question:** Are there other ways to find the right business?

**Answer:** Definitely. Another good way to increase your chances in locating the right business for you is to advertise your interest in buying. You’ll often read or notice that most advertising is undertaken by sellers, so it can be even more effective for you to advertise your desire to buy a business. Advertising will allow you to reach many prospects that other avenues cannot present.

**Question:** What are the next steps after finding the company?

**Answer:** Once a business has been identified as a candidate, there are slightly different means to approach the next step. If the business is publicly up for sale (through newspaper, trade journals, etc.) or if an intermediary is involved, the first meeting between the buyer and seller can be easily facilitated. An experienced intermediary can offer assistance in:

1) pricing the business,
2) setting the terms,
3) compiling a comprehensive presentation package,
4) marketing the business,
5) screening potential buyers,
6) negotiating and evaluating offers,
7) making certain that proper legal steps are taken.
The result can be a considerable saving of the business owner's or business buyer's time and effort.
However, for some businesses that are not officially for sale, it is often that a direct personal contact between the interested parties may be the right approach. It is also important to remember that the accountant and corporate attorney should be brought into the negotiation process early. The sooner these individuals are brought into the team, the sooner the buyer and seller will know whether to proceed with the transaction. During the early stages of the negotiation process, the parties have the opportunity to establish a price and the buyer has an opportunity to learn more about the seller, his business, and his motivations of selling his business.

**Question:** Whom should I contact for professional advice during these transactions?

**Answer:** A variety of resources are available for those buyers and sellers wanting to obtain professional advice. These resources include business owners in the industry, some business brokers, professional intermediaries, business valuation experts, accountants and attorneys. Each of these resources can be of assistance and each has its limitations. Business
owners, consultants, and intermediaries are the best source of industry information and operating suggestions. Business owners may be able to give free advice, and they are often the best source of information. No one knows more about an industry than someone who is running a business in that industry. Business valuation experts can appraise independently a business's value. You can do your research as well, however, they have thorough experience in this field and are usually pretty accurate. Bear in mind, that they rely on the representations of the seller to make their evaluation. They render a conditional opinion based on the assumption that the financial statements are accurate and complete. They will attempt to independently verify only certain information.

Accountants are best used to perform an audit (if one is needed), help interpret financial statements, or provide advice in structuring the transaction to minimize tax consequences for the buyer and seller.

Probably the most often consulted advisor in the purchase or sale of a business is an attorney. Attorneys are asked to do everything from assessing the viability of a business and appraising its value to negotiating the purchase price and preparing the necessary documents. Attorneys, however, cannot assess the viability of a business undertaking. That is something only the buyer and seller can do. Attorneys also
generally cannot value a business, but they can occasionally help negotiate a price between buyer and seller. The involvement of an attorney (or any individual other than the principals) can, however, strain the lines of communication between buyer and seller, so they should not be allowed into the negotiation process.

The primary function of an attorney is to prepare the purchase and sale documents as negotiated by the parties. It should include reasonable and balanced protections for both parties. Experience and reputation are important criteria when selecting an attorney. The attorney chosen should have experience handling similar transactions. It may make sense to choose one attorney to represent both buyer and seller. This avoids the adversarial relationship that opposing attorneys often adopt and improves the odds of successfully completing the transaction. It also eliminates some of the emotion in the negotiation process, improves the lines of communication between the parties, expedites completion of the deal, and is less expensive.

**Question:** How will a professional’s evaluation help me in my buying decisions?

**Answer:** Firstly, it will enable you to confirm the seller's real reason to sell the business. Is his or her representation accurate? Is this business truly a deal or is he “taking you for a ride”. The evaluation will also
help you determine the true market value of the business. By analyzing many facets of the business, you will be able to uncover any problems or weaknesses that will affect how you negotiate. It will equally enable you to forecast the business's future potential. And, finally, it will help you in arranging the financing of the business. Naturally, the evaluation criteria will vary depending on the nature of the business, whether it's a manufacturing firm, retailer, service business, or wholesaler. Unless you have your own deep roots in this business, don't attempt to evaluate it on your own. Don't be a "Lone Ranger": Although it is in the nature of an entrepreneur to be independent, most experts in this field agree that you should not give into the "do-it-yourself" temptation when it comes to evaluating your business.

**Question:** *Who should help me with this evaluation?*

**Answer:** "Pick a deal-oriented C.P.A (Certified Public Accountant)," recommends Lionel Haines, a widely read authority on no-cash acquisitions. Says Haines, "It is not necessary to bring your C.P.A in on each and every part of your deal, but when you get to the due-diligence evaluation, you're going to want him there." What Haines is referring to is the ability of a C.P.A to interpret and evaluate the business's financial statements, specifically the balance sheet and *profit and loss (P&L) statement*. Even if the seller's finances were rendered more arbitrarily, which often
Glossary

Profit and loss statement (previous page): Also known as an income statement. A detailed statement showing revenue less the cost of goods sold and other expenses with the resulting net profit to a firm for a special period of time.

Notes and Reminders

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happens with smaller businesses, you will need professional assistance to unravel them. You should be very careful when a seller is in a hurry to get rid of his business. Even though financial statements can be falsified and show good health, it is important for you to go with your instinct. A good accountant can filter out most of the “unkosher” deals, but can’t always be there. There is so much a seller can hide on paper; however, his facial expressions or behavior can be a sign for you to walk out of the deal. It can be to your advantage that the same business has been through an audit. The reason is that our great friends from the IRS went through the same financial statements you are going through at the moment of evaluation. These same statements show all the true values with no possible falsification. You can always trust audited financial statements.

*Note:* Don’t make it a habit to request an audited financial statement. This request may offend the seller.

**Question:** What signs should my accountant and I look for?

**Answer:** Both you and your accountant should be looking out for positive and negative signs when analyzing a business. One positive sign is an abundance of current assets including accounts receivable (anything that you can turn into cash within the next 12 months) and inventory.
The most negative sign to be aware of is a business with heavy liabilities, especially the short-term kind—like account payables and bank loans. This red flag can affect your decision whether or not to continue pursuing that particular business.

The difference between assets and liabilities is the company's net worth. A high net worth, or what's called the book value of a company, makes the business a good no-cash candidate because you can literally use those assets to buy the company, as I'll describe in more detail later. You should also be looking at fixed assets—typically furniture and fixtures, machinery and equipment, vehicles, and real estate. These are slower-to-liquidate assets and must help produce a profit for the company or they should not be considered assets at all.

*A professional secret:* A seller may often declare that such fixed assets are actually worth more than is shown in the books. Should you arm-wrestle him or her over it? My notion is that it may actually be good for the buyer to accept the seller's argument. Since you can depreciate those assets substantially each year as an operating expense out of pre-tax profits, the seller is actually lowering the price of the company by declaring the higher value. In tax law, when a fixed asset is fully depreciated within the company and the same business changes ownership, the fully depreciated item can again be depreciated to its full
original value to arrive at a fair price for the company. This strategy can be applied to increase operating expenses and reduce tax payments. Gotcha, Uncle Sam! 😊

**Question:** Should the cash flow of the business be a necessary index in the evaluation of the business?

**Answer:** Cash flow is the lifeblood of your business. If you're like me, before you dream of going into a new business you have dreams of big, fat profits. But once you're in business, you dream instead of positive cash flow. Crucial to controlling cash is having a detailed cash-flow projection, updated at least every month. But don't just add up the numbers--manage the numbers. Often by careful management you can realize huge cash savings without changing the course of the business.

One of the first candidates for cutting that I'd look at would be inventory. Look thoroughly at the company financial statements. Most of the time, these companies have an excess of inventory that can be sold immediately for cash. This cash will give you positive cash flow to the newly-acquired business. Always make sure to look at the statements before making any purchasing decisions. You’ll find “hidden treasure” in them.

Other ways to increase cash flow to a business is to look for the account payables of the business. It must be a big surprise to you but payables can be just as
important as receivables in boosting cash flow. Know the payment norm in your industry--not just the stated terms, but when suppliers actually get paid. Then delay your payments to the slow end of the accepted norm. Some suppliers offer extended terms--a few even offer outright financing (More details will be explained later). The ultimate solution is to eliminate your inventory entirely by buying on consignment, meaning that you don't even own the goods until you either sell them or use them in your manufacturing process. Evaluate Your Product Mix! You can change your product mix to boost cash flow-and perhaps improve your return on investment at the same time. Consider dropping those products that tie up cash the longest and replace them with faster moving items.

One of my clients purchased a vending machine business. He had a problem regarding some of the products staying too long in the machines. He had to reevaluate his line of products and find new and original products to serve the community. He then came up with his line of healthy products. Vending machines allowed him to distribute his products and create for himself a brand name. Reeducating the population in eating healthier was one of his priorities. By offering this possibility, more of his clients decided to take advantage of this new avenue.

Turn Assets into Cash! Of course, you can always sell assets to improve your cash position. You can sell your
receivables (more details explained later on) to a commercial finance firm. It'll usually be more expensive than traditional receivables or working capital financing—but it does create cash and cleans up your balance sheet. You can also put together a bundle of all of your used equipment and get a leasing firm to buy it and lease it back to you. Using this strategy can help you cash out faster and save more on unused inventory.

**Question:** If the cash flow of the business is in bad shape, what other course of action do I have?

**Answer:** You actually have two choices. The first one, you can walk out. It is as simple as that. Remember, it is better to get out than get stuck with a business that is bound to fail. If you do believe that the business presents an enormous potential, you can always try to take in investors. However this option can be detrimental as well. By allowing others to come in, you'll dilute your ownership and probably be left with nothing at the end. This should probably be your last option.

**Question:** How does the "hidden treasure" I hear about in so many businesses, factor in into the no-cash deal?

**Answer:** When you ask the seller the right questions during the evaluation, you will often uncover a hidden
gold mine in the form of inventory or equipment that may be included in the financial statements at a certain value but may be worth a good deal more. You may also discover an asset totally overlooked by the seller. What can you do with these hidden assets? Basically, they can be turned into cash and enable you to let the business pay for itself.

**Question:** If I can’t afford the services of a professional to evaluate the business, can I do it myself?

**Answer:** You can evaluate the business yourself. It will take you a lot of time and thorough research about the desired business, and you might expect some little mistakes along the way. Are you ready? The following information can be pretty technical.

There are several methods used to value companies. Typically cash flow, assets or replacement values, or a combination of these, are considered when determining the value of a company. The following reviews various valuation methodologies typically used by valuation firms.

*Replacement Cost Analysis:*
- Generally, the value of a company does not relate to the value of replacing the assets of the company. Sometimes the replacement value of the property, plant and equipment, or P.P&E, is far higher than the fair market value of the operating business. Sometimes the value of goodwill, such as customer
relations, corporate logo, and technical expertise are far higher than the replacement value of the P.P&E.

You, as the buyer, can often choose to invest in a particular industry by expanding facilities already owned, investing in entirely new facilities (mostly if you have a very generous family that can pour several hundred thousands of dollars in the business), or by purchasing all or part of a new company operating in the industry. The decision as to which investment to make depends, in part, on the relative cost of each.

Asset Appraisal Analysis:

- It is generally possible to liquidate the P.P&E assets of a company, and after paying off the company's liabilities the net proceeds would accrue to the equity of the company. It is necessary to determine whether such liquidation analysis should be performed assuming rapid or orderly liquidation of the assets.

However, even when assuming an orderly liquidation of a company, it is generally the case that an operating company will be of substantially higher value. It is not appropriate to use the asset appraisal approach in this case because the company is operating successfully; under such circumstances, in the industry in which the company operates, the company's fair market value will almost certainly be in excess of the value of its assets on a liquidated basis. It is appropriate to appraise non-operating assets using an asset appraisal
approach to determine their value as part of the fair market value of the company.

*Discounted Cash Flow Analysis:*

- Another determinant in a company's value is the anticipated cash flow. Discounted cash flow analysis is a valuation method that isolates a company's projected cash flow that is available to service debt and provide a return to equity; the net present value of this free cash flow to capital is computed over a projected period based on the perceived risk of achieving such cash flow. So as to take into account the time value of capital it is typically appropriate to value the company's cash flows using a discounted cash flow approach.

*Comparable Public Company Analysis.*

- The fair market value of public companies is determined every day through the decisions made by many buyers and sellers of its publicly traded securities. These minority interest values can easily be determined and can be adjusted for control premiums. Since there are generally several public companies that are similar to any given private company, the fair market value of comparable companies can generally be compared to private companies.

Comparable companies often are different in size and performance to a target private company; it is generally necessary to compare a comparable company's fair market value to some performance measure such as revenue, cash flow or assets. This
comparison generally results in a **multiple** (usually 8 to 10 times the gross revenue minus assets, inventories, good will and liabilities, depends on the industry you desire to operate) that can then be applied to the same performance measure of the private company.

*Comparable Transactions Analysis.*

- A company that has recently sold all or a large portion of its equity provides an immediate indication of value. Its performance indicators can be used as a benchmark for a similar private company to measure its fair market value.

*Total Invested Capital:*

- Each method of valuing a company or its business units places a value on the total invested capital. These various values are compared to reach a definitive fair market value. Often it is appropriate to weight the various implied values for total invested capital based on the relative effectiveness of each valuation method used for the analysis. When the value of the total invested capital has been determined, any claims to that value that have a more senior right than common stock are subtracted to determine the fair market value of common stock.

**Question:** *What else should be included in an evaluation that will impact my offer for the business?*
**Answer:** In Program Report #3, a master checklist is provided to assist you in a thorough investigation of your business prospects. This is often called a due diligence checklist. This is a preventative measure used to make absolutely sure you have considered every facet of the business you are negotiating. The checklist includes topics such as financial ratio analysis and trends. These are a necessary tool to find out if the business is in deep distress. Other factors needed to take into consideration is the 80-20 rule, which states that 20% of any company's customers accounts for 80% of their annual gross revenue.

Also, you should know how the seller's products are marketed—and how specific techniques are used. If there's a sales staff, you need to learn whether their compensation program offers sufficient motivation. You will need to develop a strategy to increase sales, depending on the product or service. Developing a telemarketing sales team can contribute to reaching your goal. Other examples are given in Program Report #4, enabling you to understand the functioning of these operations.

**Question:** By doing the business evaluation myself, should I expect mistakes along the way?

**Answer:** It is actually part of the learning-by-mistake approach that we all use from time to time. I made several mistakes myself, we're all humans. The
reasons why it is more difficult to appraise small businesses compared to large publicly-held companies are as follow:

*Lack of true financial records:*

- As mentioned previously, it is difficult to obtain true financial records of companies, especially if they have never been audited. Audited statements are a true value of the company’s worth. Since the IRS can put their fingers on the financials, you can be sure they are validated. However, not all businesses for sale carry those audited papers. In this case, it is the seller only, that can give a true value of the company’s worth since you have no way of knowing the business’ earnings. So if the seller is unable to prove all the historic data of the business, it deserves a lower valuation.

*The emotional element:*

- Some small businesses represent, in some cases, a part of the heritage of their owners. They’ve put energy and money into them. They have strong emotional attachments as well as financial relationships with their businesses. This psychological bond is present when the seller owned the business for several decades and relied on it while supporting his family. This is the reason why in some cases, it is difficult for sellers to truly measure the value of the business in strict economic terms.
Projecting the future:

- The value of the business is based on how much the business will earn under a new management (which is you). It can be difficult to determine exactly. The success of the business relies as well on the owner’s talents, such as personality, effort, and management skills. A successful pattern of their practice by the previous owners cannot be duplicated by you. You will have to use other successful methods to be as prosperous as the previous owners. Do not hesitate in asking the seller for some pointers. He’ll be glad to help you out. Let’s face it; he still wants to see his business alive out there.

**Question:** Is there any valuation techniques I should follow?

**Answer:** As mentioned to you previously, small businesses are hard to value. This is why some rules of thumb are used to give the most accurate valuation of the business.

*The sales multiplier approach:*

- This approach depends on the industry. I would say it is not the most accurate method to use while valuating a business. It varies a lot depending on what kind of business you desire to purchase.

*The comparison approach:*

- This approach is pretty self-explanatory. You compare the same kind of businesses, in the same
industry, located 5 miles from each other. By doing some thorough research, you can give a more accurate value to the business. Other factors will depend on the success of your business. Remember, the same business you are using for comparison, will eventually become your competitor. You’ll have to deal with that later on.

*The asking price approach:*

- As all of us use everyday, it’s bargaining. We should actually call it the bargaining approach. You ignore the seller’s asking price and you assume that the business has no value whatsoever and you take it from there. At the same time, don’t pay too much attention on the seller’s comments on why his business is the best, because if it were, he wouldn’t be selling it. However, don’t ignore them. A wrong facial expression can be detrimental to a potential good deal. Make sure to show respect when bargaining. More details on valuation are offered in report #6.

It is important to remember that while you evaluate the business, take in consideration the customer base of the business. Customers have an enormous value to the company. They will help you raise enough cash to pay the down payment to the seller. Customers will continue buying the company’s product, however, quality should remain, especially after changing ownership. Customers were used to a good standard of
quality in the products they purchased, don’t disappoint them.

**Question:** How do you encourage customer loyalty?

**Answer:** The first step is to segment your customer base, identifying customers who are receptive to developing high value, high profit relationships. That is value for the customer and money for your company. It is easier to cater to existing customers than working on getting new ones. Your customers are looking for low prices and high quality, and this is what you need to offer them. However, many of them would sacrifice a less expensive product for better customer service. Many existing companies can actually fail within the first three years because of a lack of good customer service. In Program Report #4, we show you how to investigate whether a firm is dormant in the area of encouraging repeat purchases and customer loyalty. We realize that it's far easier and less costly to grow by marketing to existing customers rather than attracting new ones.

**Question:** Can you give me example of how companies create customer loyalty?

**Answer:** Customer loyalty will remain elusive unless you have positive employee relationships. Let’s take the airline industry for example. Southwest Airlines has earned a strong reputation for service that has
translated into customer loyalty. They make their employees happy and then make their customers happy. This is the secret of a successful relationship. If you can’t deliver customer service internally, you can’t expect to deliver it externally. You can agree with me that if you don’t have loyal and committed employees, you can’t expect them to serve your customers with dedication and motivation. Make sure when you acquire the business, you make it a smooth transition and tell them that it is not a hostile take over, but just a slight change of management. Ask the former owner to be present with your company for the next few months so the transition of ownership is done appropriately. You can pay him a consulting fee during that time.

**Summary**

- Make sure to evaluate and thoroughly research the reasons why the business is being sold.

- Analyzing many facets of the business will permit you to uncover any problems or weaknesses that will affect how you negotiate.

- Make sure you have a "deal-oriented" C.P.A nearby to assist you in evaluating the company's finances.

- Positive signs include many current assets (meaning anything that can be turned into cash within 12 months).
• Don't dispute with a seller over the net worth of fixed assets - it benefits you in negotiating the final price of the business.

• What can you do with these hidden assets? Basically, they can be turned into cash and enable you to let the business pay for itself.

• Talk to customers and suppliers about the quality of their relationship with the seller.

• If you don’t have loyal and committed employees, you can’t expect them to serve your customers with dedication and motivation
How do you buy or start a business with none of your own cash

**Strategy 6**

Best no-cash deals: How to find them even though you may never see them advertised

Most of us have been conditioned to think there is always a cash requirement to buy a business. Sellers are equally conditioned to ask for cash because they feel the understandable need for a tangible payment in exchange for turning over their business. That's why you will always find a down payment figure attached to the announcement of a business for sale. Unfortunately, that monetary figure scares many potential buyers. The fact is, virtually any business is available without a cash-down payment of any kind if
you approach the seller in the appropriate way. But first, you need to narrow down your choices and determine what business suits you best.

**Question:** What's the best way to decide on the business I'd like to buy or start?

**Answer:** Obviously, if you already have a "burning yearning" to enter a particular field, that's the one you should pursue. It is just a matter of studying the market and identifying current trends.

Are the Beanie Babies still a hot item? What will be the next craze? You need to find out what are the present needs of consumers. They are the ones who are going to use your products or services. Our program reports are provided to help you choose your niche. If you're still undecided, we can show you ways to accelerate your search and make it a lot more fruitful. There are so many avenues to take and we will guide you to the best one. No advice can be given about what kind of company you should start or acquire. With any business you choose, you will be able to enter it without using your own cash. In fact, at least 5,000 good, solid businesses with annual sales of over $400,000 are sold each year to people who use none, or little, of their own money. Sometime soon, one of those businesses could be yours.
Question: You were talking about “studying the market and identifying the current trends”; what are the first steps toward accomplishing that?

Answer: It is necessary to approach this process step by step. First, a market research is necessary to determine the need of your potential customers. What is a market research? Well, it is a cost-effective way of finding out what people believe, think, want, need, or do. It is information that cannot usually be obtained from any other source. Industry, commerce, and government use research to help them produce goods, services, and policies matching the public's needs. Market and social research is used, amongst other things, to test new products (everything from foods, to magazines, to cars) during their development stages:
1) to assess customer needs and reaction to a company’s and its competitors' products
2) to learn about and monitor customer satisfaction with shops, holiday destinations, products, etc.

Question: How is market research being done?

Answer: There are two main types of data quantitative, and qualitative. Quantitative research provides numerical data. At the completion of a quantitative project it is possible to say (for example) what proportion or percentage of the population falls into different groups - those that want something, those that would be likely to buy something, etc. The
The essence of quantitative research is that every respondent is asked the same series of questions. **Qualitative research** is the way in which typical or relevant people’s attitudes and beliefs can be explored, and ideas can be generated. It can be used for everything from testing reaction to a potential new advertising campaign, to exploring staff attitudes to a new management structure or procedure.

Over the years I've learned that much more goes into market research than asking my existing or prospective clients/customers targeted questions. Here are a few lessons learned that will take you to examples of each point in action.

1) Identify the market opportunity of your product or service before committing to your home business idea. Ask "what's the potential?" before investing in the business.

2) Collect the demographics of your market before and while your business is up and running. The more facts you can gather about who wants/needs what you have, the easier it will be to promote and advertise your service or product to them. With this information, you’ll take a wiser decision regarding purchasing the desired business.

3) Scout out the competition. Carve your niche in the business community by exploring what your competition has and doesn't have, then fill in the holes.
4) Track trends. Awareness of what's happening around the bend in your industry and among your prospects will keep your business current.

5) Survey the market. To better understand what makes your market tick, ask the people involved in your industry.

With market research, you’ll be able to determine what industry you are interested in and how to approach with simplicity and ease what will be the ideal business to purchase. The more information you gather, the better it is for the future success of your business.

**Question:** *All this is great. Now I have accumulated a mountain of pages of information about the market. What’s next?*

**Answer:** You need to analyze your market. You need to find out if the business will succeed. Find out if the business failed because of mismanagement or a lack of research. You can’t sell a product if you don’t know how to reach your potential customers. Every buyer should have some measurement of what the future will offer. This includes not only the possibility of maintaining the same volume of sales as in the past, but also the opportunity to increase sales and profits. The buyer must have some idea of what he is acquiring besides the physical assets of the business. He is, in fact, investing in or obligating himself to the
continued operation of the business. The true value to him lies in the ability of the business to generate sales at least equal to its current position in the market. This calls for an analysis of two potential factors:
1) The past growth of the company within the market of which it is a part.

(2) A forecast of the future sales pattern.

You should take into consideration the fact that the seller will also need a market analysis (or marketing plan as most people calls it) for the business that he proposes to sell to you. He wants the best possible price for the business and the better the outlook, the more likely you are to agree to the asking price (without it necessarily being you who pays for it). It is to your advantage that you understand the market so you’ll have a great advantage over the seller. The more you know about the market, the better you can determine the true value of the business.

You need to do the work. It will vary depending on what industry you are interested in. However, detailed market research will be required on your part. Our Program Report #4 will give more details on how to position the desired company, showing its relative importance, and then how to rate it according to a uniform system.

You must understand that purchasing a business is not an overnight deal. You need to think about it and make
sure that this business responds specifically to your interest.
If you are among those who are interested in flipping businesses, then this advice does not apply to you.

**Question:** *Will a single market analysis make me understand more about what business to purchase?*

**Answer:** Two different perspectives are present here. The seller has access to data about the business that you don’t have any access to. Unless you have had wide and recent experience in the same kind of business, you may rightly or wrongly tend to rely on the seller's statement of the market position of the company.

No two studies of the same company will produce exactly the same results. Your analysis is almost certain to be on the conservative side, and a compromise will be necessary between you and the seller.

Another question is whether you and the seller should conduct your own market studies or hire specialists to do it. The detailed and complex type of investigation conducted by a professional market analyst is valuable, of course, but the cost is considerable. The basic purpose of a market analysis in the buy-sell situation is to get a clearer picture of the company in the marketing scheme and some indication of the general direction in which it is moving. You
should be able to gather and analyze the basic data you need for this specific purpose.

**Question:** What about fierce competition? Should it have affect my decision regarding purchasing the business?

**Answer:** Competition is always good and healthy. It keeps your creative mind active. By purchasing a new business, you don’t only acquire the physical property of the company; you also inherit its competition. You’ll probably be able to do little or nothing to lessen the competitive pressure operating against the business, but you can develop a clear working knowledge of its state of competition, the relative strength of the business within the market, the general patterns of development, and change. A detailed analysis of the competition is highly recommended in deciding whether to buy an existing business. Further details are offered in report #4.

Attention should be given first to competitors of about the same type and size as the business in question, since they are on a more realistic level of competition. A small clothing store would be wise to concern itself with other small clothing stores rather than with a high-volume department store. In time, a small operation might grow to the point of competing successfully with major firms, but the immediate pull of competition will come from other businesses of about the same size and description.
Investigation of large businesses, if any is made, should focus upon the extent to which they enlarge the total market, stimulate demand, or otherwise open market possibilities to smaller businesses.

**Question:** How can I differentiate myself from my competitors? What should I offer to prevail over them?

**Answer:** This is "branding" for creative people. To do that, there are three things you need to understand:

1) The brand’s personality:

2) The relationship the brand has with the audience:

3) Visual icons, symbols or other representations of the brand such as the logo or a character.

So the three steps to building a brand are:

1) Create a character or personality for the company, the product or service. Just as you would for a real person, based on that brand-person's reputation, their attitudes and behavior.

2) Build a relationship with your target market based on that personality. Do this over time, using advertising in addition to all other communications, including the way employees are trained to interact with customers.

3) Reinforce the relationship and trigger recognition with consistent visual symbols. These symbols can include everything from a color scheme and logo to an imaginary character, or even the president of the company.
**Question:** Can you give me some example of brands out there?

**Answer:** Definitely. Think of some existing brands, consider Sony or the famous McDonald's, Coca Cola or Pepsi. Now think of those brands, or one of their products, as a person. Pause a minute and think about the way you really regard them and how they make you feel. Go beyond generalizations like, "young, exciting, professional". Create for yourself a brand that will characterize the product you offer. Open your eyes to what is around you. Creativity comes around with new or existing ideas. Potential customers will remember you by it. Obviously some brands you recognize, but don’t really know. And some brands, like some people, are a part of your daily life. Those are the brands you know very well. And by owning or using them, well, it says something about you. There are probably other brands you would like to bring into your life. Brands you aspire to possess. because they would say something about who you are by virtue of association. "Hey, check out my Porsche. Yes, I'm making a six digit income." The artistry in all of the above lies in creating a brand that has a relationship with consumers, one that fulfills a genuine psychological need, one that is meaningful in human terms. Get the idea? Then let's get down to business.
**Question:** How can I create a brand? Is it a difficult process?

**Answer:** It can be a lengthy process. Patience is a must. Time is required for people or clients to get used to and trust your products. For some clients you will need to create a brand personality for the company, and one for each individual product or service. So for a large company with multiple services, you’ll create an entire family, with distinctive personalities for each. So to start, pick a product or service or company, then define a brand personality. Next, describe your brand in one short paragraph as you would a person. Now that you have a clear definition of the brand’s personality, bring it to life in your ads:

1) In the way you write, which should express the brand’s personality, not the writer’s.
2) In the appearance of your ads, which should be formal or friendly or whatever is appropriate to the brand’s personality.
3) And remember that a brand should differentiate the product from competitive offerings. Make it distinctive.

Next, describe the relationship between the brand as a person and the target market. Report #4 will give you more examples on the subject.

All these methods will help you to differentiate your product in the market and to select the right business in the right industry.
Question: How do I start looking for that right business?

Answer: There are two ways. You can shoulder the assignment on your own, developing experience by looking at as many businesses as possible and, by trial and error, discover how to approach the subject of a no-cash transaction with sellers. I'd call this the learn-from-your-mistakes approach; we’ve all used it from time to time in other areas of our lives. You can start out with the guidance of people who've “been there”...people who'll stand by and support you through the process, helping you cut down the search time dramatically and enabling you to avoid the inevitable and sometimes costly mistakes of flying solo. That's why these program reports are established to assist you in areas where you feel help is most needed. They are intended to aid serious, dedicated entrepreneurs (like yourself) through the search and acquisition process so you don't have to go through it alone.

profitable extra advantage: Once you learn the no-cash process, you'll have the additional power of being able to "flip" businesses regularly—quickly buying and then selling them for profit, potentially making hundreds of thousands of dollars a year. (I’ll cover this option later in the book.)
Question: Where do I get leads on businesses that might be available for no cash?

Answer: I never rule out traditional sources among the areas to investigate. Your timing could be impeccable and you could find acquisition opportunities in the newspaper classifieds, like the Business section of Thursday's Wall Street Journal. Several other specialized publications have such business listings. The key is to scan for descriptions that indicate an owner's possible motivation to consider a no-cash offer. Do not worry about the quoted price or terms of the business. The sellers are trying to pre-qualify buyers by doing so. If you show that you are serious about buying their business, they will listen to you and your proposal. At that point, you can sell them on your strategy and close the deal efficiently. Make sure to keep in mind that you’re dealing with someone who’s been in business during the past decade; and your strategy should not be too aggressive. If you are subtle in your offer and make it very appealing to the seller, you’ll have a win-win situation.

Question: Can I approach the business suppliers?

Answer: This can be an excellent idea. Suppliers always know who are the sellers in their industry. They will feel an obligation to give their best leads to valued customers, to built good will and assure a strong relationship with you.
Ask people in the trade which suppliers tend to sell to your target industry. Don’t forget the follow up. This can be THE most important task to accomplish. Make it a point to call them once a month to remind them that you are still interested in becoming their customer.

**Question:** Should I approach business brokers? Or do they "jack up" the price of the business to accommodate their commission.

**Answer:** Rarely does the broker's commission affect how much you pay for the business. Plus, the participation of someone who's motivated to get the business sold is a plus for the negotiation. They will actually help you in getting the deal closed. They will participate in the negotiation and will help you get the best deals. Think of them as real estate broker who wants to sell homes in order to earn commissions. Their job is to unite the buyer and seller to conclude the deal. Keep in mind that it is estimated that more than half of all businesses are sold through brokers meaning that they must not be overlooked as sources for your new business. The important thing to remember in approaching a broker is to come off as a qualified buyer, not as an amateur. You can find the buyer’s guide to business brokers in report #7.

**Question:** Can I simply seek out the seller directly? If so, how?
Answer: Actually, most buyers don't consider this strategy even though this is exactly the way business brokers get their best listings. The advantage is that you are able to get to good candidates before the business is "officially" up for sale and thus avoid the competition of other prospective buyers. You’ve heard the saying before: “EVERYTHING IS FOR SALE”. This includes businesses as well. What you need to know is that all business owners are probably dreaming of an early retirement and want to travel around the world. Don’t worry; your time will come to do so. Now by offering the seller a good price for his business (again, not using your own money) you should be able to get it on your own terms. Plus, by going directly to them, the seller will not need to pay extra fees during the transaction. The seller might want to avoid the lengthy procedure of prospecting the ideal candidate for the business. By placing an exclusive ad in the paper, the seller eliminates jokers by identifying serious buyers in the initial stage of negotiation. This is when your strategy can be used to your advantage because by eliminating the jokers, practically no competition will exist. At this point, you will be able to close the deal on your own terms. Voilà!

Question: How do I locate these businesses?

Answer: Mailing lists with specialized business brokers are available to you. You can get this information through our program reports. We’ll supply
you with quality business brokers so you can reach them and start your preliminary research. With this in hand, you can shop around and select the brokers, depending on the industry you’re interested in. After all, extensive research is required to make sure that the broker will participate fully in finding the business best suited to your needs. Make sure not to reveal too many of your secrets in the preliminary stage of negotiation. Noticing your level of expertise in business, they’ll be very impressed and will want to deal with you in the future.

**Question:** *Is there any specific business terminology I should use during negotiation?*

**Answer:** In our program reports, we teach the language of respect and credibility. That's the key.

You want to be taken seriously and, at the same time, you want to convey your respect for the seller’s company. You should also make a statement of interest in a carefully constructed way. In addition, you will always provoke interest when you include and underscore the phrase: "I am a cash buyer." (not necessarily your cash). A response of from one to two percent of the businesses you contact by mail is excellent. You can follow up by phone if you don’t hear from them. Remind them of the letter you sent and make the same general inquiry.
Question: If they say "yes" or "maybe", what's the next step?

Answer: Invite the owner to breakfast or lunch, and also ask for a tour of his or her facilities. You might call this the "sniffing and circling" phase. I will discuss later how to qualify and analyze a business and what documentation (financial mostly) to request from the owner.

Question: What other ways can I obtain quality leads?

Answer: Advertise your interest in buying. Many specialized magazines are offered for these purposes. The yellow pages and local newspapers can attract potential sellers. Look for categories, such as “Business for sale”, “Business opportunities”, and “Franchise for sale”. These ads offer possibilities to buy available businesses throughout your city or state. Sellers place most ads under these different categories, a method that can be especially effective for potential buyers because there is very little competition in purchasing businesses through classified ads. You have to know precisely what kind of business you’re looking for in order to carve a niche. Always make yourself available to visit the seller and cut yourself an interesting deal. Now, you probably want to know where to place your ad. Our Program Report #4 will help you select newspapers and will
list telephone numbers to contact these specific newspapers or magazines. For broader categories, the local Sunday classifieds will do just fine. Advertising in this way could also flag down sellers who cannot be reached by direct mail. And, as I've mentioned, when the prospective seller calls you, it means he or she is a solid lead. Because they're pursuing you at this stage, rather than you pursuing them, you have gained a psychological advantage.

**Question:** You mentioned previously: “in order to carve a niche”. How can I carve myself a niche in the market place?

**Answer:** A niche is another way of referring to a “target market”, discussed in the previous pages of this strategy. In today's hyper-competitive marketplace, long gone are the days of mere prospecting and crafty (and often misleading) sales tactics using 1,000 approaches to "close the deal." Due to the information revolution, consumers are now more informed, more educated, and incredibly more sophisticated than ever before. Using an over-abundance of techniques is no longer effective, or in the very least, they are not as effective as they used to be. Let's face it. People can no longer be "sold" let alone tricked. With information at their fingertips (such as with the Internet), they can find out almost anything in a matter of seconds. However and unfortunately, there are many companies still training
their sales people to use these outdated approaches. Prospects not only see them coming but they also consider such techniques to be insulting. I do say "outdated" because, in our knowledge-based economy, more and more sales tactics are being frowned upon with each passing day.

Several methods can be used to carve yourself a niche. 

1) The first rule in pre-qualifying prospects is to specialize. The most common mistake newcomers to any field of business make is to think that by expanding their portfolio they will secure more business. Nothing can be further from the truth. Specializing and narrowing one's focus as much as possible will paradoxically increase the likelihood of getting more business.

2) Specialization is in itself a fundamental marketing process. It's amazingly effective in creating "top-of-mind" awareness among a specific target market. For instance, an accountant specializing in car dealerships will get more business than a general accountant will. An advertising consultant specializing in print media for home furnishing stores will get more business than a typical advertising agent will. A photographer specializing in weddings will get more business than a regular photographer will. And the list goes on and on.

Over the years, specialization has been referred to as "niche" marketing. As more and more businesses get started, the less time, energy, and money people will
have to spend in making choices of those with whom they choose to do business. Specialization helps to solve that problem.

**Question:** *I understand the concept of carving a niche. However, how can I now attract consumers to my newly acquired business?*

**Answer:** Consumers will choose when they have a choice presented to them to go to a business that specializes in a unique area in which they have a need. Think of it as a laser, which is basically a beam of highly concentrated light. You want to focus like a laser on your niche and, when you do, you will plant your business and your product into your prospects' minds. Specialization casts an aura of superiority and exclusivity. When you deal with a specialist, you will automatically assume that this person has greater expertise, has greater knowledge about the field, and offers greater service since, by catering to a unique market, it implies that he or she will have a better understanding of your situation, needs, and concerns. Additionally, niche marketers generate far more serious prospects than general, curious ones. Specialization is the wave of the future. And the greater the competition will become, the greater the need for more specialists. For example, why do you think there is a trend in specialty stores these days? They are popping up everywhere! Today, there are
stores selling only dry foods in bulk. There are vitamin and food supplement stores. There are electronics stores. There are toy stores. There are even mothers-to-be and baby clothing stores! The need to specialize is obvious. With the media bombarding you with information and with your very limited time to be able to shop around for the best product from the best company at the best price, you will more than likely go the store that pops into your mind and do so only when the need presents itself. For instance, you can buy a toaster from a department store, a home furnishings store, a kitchenware store, an appliance store, a grocery store, and a drugstore -- even a bank! Heck, if there were a toaster store, you'd probably go there first. So ideally, your job is to find your niche and to narrow it down as much as possible.

**Question:** *With the fierce market competition, how can I be the leader and be nationally recognized by the consumers?*

**Answer:** You want to be the leader in your category or in your unique area of expertise. By doing so, free publicity will flow to you quite easily. Non-traditional mediums will seek you out. Specialized publications, strategic marketing alliances, and community television stations are wonderful mediums through which you can get the word out effectively at little or no cost. For instance, speaking of the entrepreneur who ran his own healthy food vending machine
company. He also had a tremendous knowledge in the personal training field. He had a spot in the local radio show that enabled him to promote his business to the wide public. Since it was something different and new to any other radio show, he had his spot for free--yes, free! He also took calls on the show, had his phone number broadcast during the show, and had an question-and-answer format where people listening to the show had the ability to ask questions to which he (or his guests) would answer directly on the air. The show was not meant to advertise him directly but meant as a public service gesture.

Publicity is remarkably different than advertising. It is far more credible and believable. And there are many ways to get publicity for you business, let alone free publicity. In a hyper-competitive marketplace, specializing causes people, other mediums, as well as other companies (looking to refer clients or to form strategic marketing alliances) to seek you out. Your goal is to become known as an expert in your field. If you have narrowed your focus to a very specific, highly specialized field, publicity will come easily to you. The media (and particularly those that are specialized as well) love to hear from people who are uniquely qualified.

**Question:** All this information is great and helpful. However, to locate the right business, what should my classified ad say?
Answer: That's the easiest part of all. All it needs to say to get your phone ringing is this: "I'd like to buy a business in the (fill in the category) field. Immediate cash available (again, not necessarily your cash). Our Program Report # 4 can actually help you write other successful ads that will attract potential sellers.

Question: Are there any "back door" ways to find good businesses for sale?

Answer: Actually, those individuals who come through the back door are your potential suppliers, who always seem to know who in their industry is eager to sell. How can they be convinced to help? You can tell them you would like it to be a mutual back-scratching situation, meaning that they give you the names of clients they believe would be willing to sell and you, in return, would become a loyal and perhaps more active customer of theirs.

Question: How do I find the suppliers?

Answer: Simply ask people in the business. For example, if you wanted to buy a bookstore, ask the manager of your bookstore for the name of their local wholesaler. Then call and ask to speak to the salesperson for the particular geographic area in which you are interested. Suppliers frequently have close relationships with their long-time customers and can be a very good resource in finding the right business
opportunity. They will save you time and money in your search for potential sellers in your desired industry.

**Question:** What about making an offer to the company you work for? How often does that happen, and how would I broach the subject?

**Answer:** Actually, nearly 20% of all business buyers eventually buy the company they've slaved for as employees. This strategy became very popular in the 20th century, and is also called a M.B.O (Management Buy Out). In most cases, employees would want to approach their employer and propose to them their strong desire to takeover. It is important not to go bluntly about it. Use your charm, your negotiation techniques and you’ll be set. In this scenario, your new business may literally be right under your nose. However, keep in mind that the criteria in selecting a business should not only be for the following reasons: *Convenience, ease of search* in a particular industry, and *knowledge* of the business. Rather, you should consider whether you like the business, the people you work with and the possibility for growth. Good standing with an employer you have worked with for years will be a great advantage to you by opening opportunities for possible future internal acquisition. Your employer will trust you in handing over the business to you before contacting an outside buyer.
This happens more often than you think and the result can be a no-cash bonanza if you handle it right. In many situations, the business is family owned and therefore can represent sentimental value to the owner. This should be treated delicately because the business is not yours until the papers are signed and transferred.

**Question:** What is Management buyout all about?

**Answer:** Management Buyouts (MBO) have been successful at thousands of small and large companies over the past 20 years. Such transactions represent a sizable percentage of all corporate transactions that have occurred during that time. Increasingly, managers have come to expect participation in the ownership of the companies in which they work. Often, managers become owners in the context of a corporate transaction. These transactions compete with the more common strategic acquisitions by corporations that are implementing either vertical or horizontal integration strategies. MBO’s have a number of advantages over strategic acquisitions.

**Question:** How does it work?

**Answer:** During the 1980s, it became more common for members of management, assisted by an investment group, to purchase their company, subsidiary, division or product line. These transactions are commonly known as leveraged buyouts, or LBO’s, because the
buyout group finances the transaction with funds borrowed against the assets and projected cash flows of the entity being acquired. These transactions usually rely heavily on senior debt and subordinated debt. However, LBO’s received negative press for their use in hostile takeovers. As a result, leverage buyout firms began to refer to themselves as private equity firms and to leveraged buyouts as management buyouts.

**Question:** What are the advantages of an M.B.O?

**Answer:** Existing senior managers that team up with a private equity firm have a number of advantages over other bidders when competing for the purchase of a company. At times, these advantages give management the edge in the bidding process:

1) The existing management of the company usually understands the company better than any other prospective bidder.

2) Management may know of hidden values in the company that will be hard for others to discover or realize.

3) Management also requires less time to evaluate the company and generally knows in advance that the company will soon be for sale.

4) Management often has well-thought-out plans for operating the company independently, including strategies to spur growth or reduce costs. An independent company requires less corporate
How do you buy or start a business with none of your own cash

reporting and can eliminate overhead costs associated with its parent. Management usually has close, personal ties with the company's financing sources. A management-supported bid is often viewed sympathetically by the board of directors, which must ultimately decide to whom to sell.

**Question:** What kind of management buy-out exists?

**Answer:** There are several kind of management buy-out out there. An MBO can be initiated by the owner, the management or a third party.

*Owner-initiated MBO:*

- A corporation’s owner or board of directors may realize that selling the company may be most effectively accomplished through an MBO. The board of directors may assist a management/employee buyout in either a privately negotiated sale or private auction of the company.

*Private sale:*

- In a private sale, the board can control virtually all aspects of the transaction. The board can negotiate with management regarding the terms and conditions of the sale. Additionally, the board can divest the company to raise the necessary financing to implement an MBO. This can be done entirely at the expense of the seller. The board's control of a private sale is, however, limited by its financing
sources and by the need to protect the interest of minority shareholders.

_Private Auction:_
- The board can also conduct the sale through an auction yet still support an MBO as one of the bidders. The company can assist the MBO by using corporate funds to help fund the management's retention of expert advisors. It can also give management complete access to company books, records, and advisors. This offers the seller an additional bidder with certain competitive advantages and may result in the seller getting a higher price for the company than it might otherwise have obtained. Where the company is in distress, this often assures the seller of having at least one non-liquidation bidder for the company.

_Management-Initiated Buyout:_
- A management-initiated buyout is typically initiated by senior management and can be supported by the board and owners of the company, even to the extent of providing corporate funds to conduct such an effort.

_Third-Party-Initiated Buyout:_
- Any prospective bidder for a company can integrate the management into the overall ownership structure of the transaction. Such an effort can reap the various advantages associated with MBOs
noted above and therefore enhance its competitiveness. However, strategic buyers are generally not willing to provide management with ownership and so generally would not be willing to participate in an MBO.

**Question:** How is the financing done in MBO compared to LBO?

**Answer:** It is done differently; however, the concept of using debt to finance the acquisition is practically the same. Virtually all MBOs are financed with a combination of senior debt, subordinated debt, and equity. The amount of equity required in a transaction is determined in part by the amount of debt that can be borrowed. The following describes the various components of financing in a typical MBO.

(Note: All the following information requires complex negotiation techniques with the help of a professional team of lawyers, accountants and business consultants. But please, don’t try this at home. 😊)

**Senior Debt:**
- Typically, 50% to 70% of an MBO's financing takes the form of senior financing. A senior loan is collateralized by a first lien on the current and long-term assets of the company. Senior financing is generally made available from banks, although privately placed notes to institutional investors are also possible, or a public issue of bonds or stocks is on occasion the source of senior debt.
Revolving Line of Credit:

- One component of senior debt is almost always a revolving line of credit. It is loaned to an MBO based on a certain percentage of the appraised orderly liquidation value of the eligible accounts receivables and inventory. Such loans are further limited by the predictability of cash flow to service senior debt. A revolving line of credit typically has a term of one year with renewal provisions. The interest rate ranges from the prime rate to three over prime.

Senior Term Loan:

- Another component of senior debt is a senior-term loan. This is a loan based on a certain percentage of the appraised fair market value of the land and buildings and the orderly liquidation value of the machinery and equipment. Such loans are further limited by the predictability of cash flow to service senior debt. The term for senior term debt is typically five to eight years. The interest rate ranges from the prime rate to three over prime.

Subordinated Debt:

- Typically, 15% to 30% of the financing of an MBO is in the form of subordinated financing. These funds are subordinated to senior debt and generally have only second claim to the collateral of the company. Subordinated financing is generally made available directly from subordinated debt private and public funds and, in large transactions, directly from insurance companies. Alternatively, it is
raised through initial public offerings of high-yield ("junk") bonds to insurance companies, pension funds and other institutional investors. In many MBOs, a large part of the debt is given back to the seller, comprising a portion of the purchase price. The term of such financing is typically six to 10 years, and principal payments are commonly deferred until after the senior debt is retired. These funds are loaned based on the amount and predictability of cash flow exceeding that required to service senior debt.

**Equity :**

- Typically, 10% to 20% of the financing of an MBO is in the form of equity financing. These funds make up the difference in the financing requirement and the financing available in the form of debt. Management usually invests in the equity of an MBO company together with a private equity, a corporate investor or a group composed of institutional equity investors. The seller and subordinated lenders sometimes receive equity in the new company. An institutional investor investing in the equity of an MBO typically seeks a 30% to 40% compounded annual total return over five years, depending on the perceived risk. Our Program Report #5 will give you more details on how an LBO is structured as well as other leverage techniques offered to acquire a desired company.
Summary

• The fact is, virtually any business is available without a cash-down payment of any kind if you approach the mistakes by getting some guidance from people who've "been there". You can avoid costly mistakes by listening.

• An extra benefit is learning how to "flip" businesses—buying and then selling quickly for a handsome profit.

• Do not worry about the quoted price and terms of the business. The seller is trying to pre-qualify buyers by doing that.

• The participation of the broker who's motivated to get the business sold is a plus for the negotiation. Brokers will actually help you in getting the deal closed. They will participate in the negotiation and will help you get the best deals.

• Increasingly, managers have come to expect participation in the ownership of the companies in which they work. Often, managers become owners in the context of a corporate transaction.

• There are several kind of management buy-outs out there. An MBO can be initiated by the owner, the management, or a third party.
Strategy 7

The smartest ways to close a deal on Your Terms

As a savvy entrepreneur, you already know that every business negotiation requires courage and determination. The negotiation process can seem daunting for those out of practice. (After all, when's the last time you bought a business?) But I must tell you, once you become familiar with this very old game, you will be surprised how intuitively and naturally you play it. Closing a deal is as much a function of addressing a seller’s emotional and psychological needs as it is ironing out the financial terms. What makes this situation so fragile?
Probably what you might call seller's remorse. The seller is so "married" to the company—having perhaps started it from the ground up—that the thought of separation from it becomes unbearable. Seller's remorse tends to become more pronounced as negotiations continue. It can emerge at any time during the negotiation period and can become a serious potential deal-killer that should be anticipated. When you present yourself to the seller, your primary goal is to leave with the title to their business. It is understandable to hurry through this process; however, this tendency can scare off the seller, whose time and energy initially built the business. His emotional attachment to the business (possibly being family-owned) would make it difficult to let it go. It can be quite discouraging to the seller that you are trying to purchase his business without using a penny of your own. In this perspective, you must be able to sympathize with him and show him that you value his determination to have created a great business. This strategy will allow you to close this deal in a tactful manner.

**Question:** How can I structure the closing procedure to the business?

**Answer:** Before signing any final agreement, you need to decide upon the method of transfer, as it requires important legal, financial, and tax issues. Depending on how the seller used to operate the business, either
as a sole proprietorship or partnership, the sale must be handled as a sale of assets. Under this transfer, the buyer hands the title of the assets to the seller. You will then set-up a new corporation to accept all titles of the new assets, entering a new lease under the newly formed corporation.

**Question:** How can I protect myself while buying the seller’s assets?

**Answer:** Buying his assets is the most common type of transaction for smaller businesses. However, you will need to protect yourself from any liabilities that you may encounter in the future. For your maximum protection, the agreement between both of you should includes the following points:

*Who will be included in the agreement:*
- Anyone and everyone who will use the business in any future transaction should be included in the agreement. Shareholders, owners should have their names and titles included as well.

*What assets are to be sold:*
- The agreement should accurately specify what assets are to be sold so there will be no misunderstanding while transaction are to be done. The seller should specify what assets have already been sold to other suppliers and what are left remained.
Some examples are as followed:

- Accounts receivables
- Notes receivables
- Interests in other businesses
- Tax rebates
- Insurance claims
- Inventory
- Furniture and fixtures
- Equipment
- Motor vehicles
- Real estate
- Good will (customer base)
- Patent
- Trademarks
- Copyrights
- Trade secrets
- Franchise and distributorship rights
- Licenses and permits

Most sellers will retain all liquid assets such as cash, receivables, prepaid expenses and securities, such as bonds and CD’s (Certificate deposits). The sale of the business will mostly include inventory, furniture, equipment, and good will as the essential operating assets.

Question: How can I help close this deal in my favor?
**Answer:** By nurturing a good relationship with the seller based on mutual trust and confidence, you will already have gained an advantage during the negotiations. While the financial aspects of the deal are critical, establishing an understanding with the seller can prevent the deal from crashing.

**Question:** Are there any other reasons why the seller might decide to withdraw from closing a deal?

**Answer:** As said previously, besides seller's remorse, there is also the danger of seller's envy, a more common situation you may encounter in a no-cash deal scenario. The following illustrates how sellers envy can play a role in ruining a no-cash deal: you've learned all the leverage possibilities and used them to whittle away at the down payment until you've reached your goal of no money down, with 100% being financed- perhaps by the seller himself. You're feeling pretty good about your accomplishment, when out of the blue the seller's body language—and his rapid eye blinking—tells you something's wrong. At this point, he might reconsider the whole deal and walk away from it. The fact is that he might want to protect his own reputation. Knowing he sold you the business for almost no money, he feels cheated, especially if he bought the same business from someone else for a substantially higher price.
Question: After the agreement is signed, is there any escape route for me in case I want to withdraw for the purchase of the business?

Answer: After you sign the agreement, the business is yours. However, you can ask your attorney to include in the pre-signed agreement, some escape clause. You should add a clause that the agreement is conditional on several factors such as satisfactory leases, approval of the seller’s book by your accountant, certain assets to be included etc…

Make sure you buy the business through a limited liability corporation that you’ve created for these specific purposes. It is your choice to determine the business legal entity that suits you best. With the corporation, you will be protected from personal liability should you decide to default. Always make sure you cover all corners while negotiating. It can be a very exciting time for you to acquire a new business, but you need to follow the rules diligently and carefully. It will save you time, money, and headaches.

Question: Now that I know some of the negative signs to be aware of, what are some of the bargaining basics I can use during the negotiation?

Answer: A comprehensive knowledge of the seller’s business is essential. Most importantly, you should
know why the business is for sale. Is it for financial or personal reasons?
Motivation to sell is another issue to consider. Knowing this information can give you a great deal of power in negotiation. Imagine if you could see the other players’ cards in a game of poker. Once you know the hand they have been dealt, you can play the game accordingly. However, bargaining techniques should not be seen as just a game. Of course, there is more at stake here because you need to satisfy everybody's needs, not just your own. To do so, ask the seller for ideas on any issues that need to be resolved. Do more listening than talking. If you take this advice, you will be amazed at how much sellers will reveal about themselves once you have won them over.

You most probably have heard the saying “patience is a virtue.” You must remember this throughout the whole process of negotiation. Think of yourself as a real estate broker. You would show houses to a prospective buyer and would bring their offer to the seller, who may propose a counteroffer to the buyer’s price. This process continues until both parties are satisfied with the terms. This whole process might take up to 35 days, more or less. Don’t feel pressure that the deal needs to be closed immediately. Make sure that if a specific clause in the contract doesn’t seem right to you, you discuss this with your accountant so further negotiation can take place. Always mention to
the seller that your accountant is the one responsible for verifying all the clauses in the contract.

**Question:** *Is there any good time to make the offer to the seller?*

**Answer:** Before making the offer, you will have to investigate a number of businesses. At some point in the investigation process, it may be necessary to sign a confidentiality agreement and show the seller a personal financial statement. A confidentiality agreement pledges that you will not divulge any information about the business to anyone other than immediate advisors. If you do divulge any information without permission, it can be considered espionage, and it is a felony. A seller needs to protect his investment.

You should determine a range of values for the business. An appraisal of the business can be used to establish a pricing floor. A pricing ceiling can be established by using an appraisal that capitalizes projected future cash flows under new management.

You should also have access to all records needed to prepare an offer. If some information is lacking, you must make a decision to either discontinue the transaction or make an offer contingent on receiving and approving the withheld information. The nature
and amount of withheld information determines which course of action to take.

An offer may take the form of a purchase and sale agreement or a letter of intent. Purchase and sale agreements are usually binding on the parties while a letter of intent is often non-binding. The latter is more often used with larger businesses. Regardless of which form of the agreement is used, it should contain the following requirements:

1) Total price to be offered.
2) Components of the price: (amount of security deposit and down payment, amount of bank debt, amount of seller financed debt).
3) A list of all liabilities and assets that are being purchased: the minimum amount of accounts receivable to be collected and the maximum amount of accounts payable to be assumed may be specified.
4) The operating condition of equipment at settlement; the right to offset the purchase price for any undisclosed liabilities that come due after settlement and in the amount of any variance in inventory from that stated in the agreement.
5) A provision that the business will be able to pass all necessary inspections; a provision to make the sale conditional on lease assignment, verification of financial statements, obtaining financing or other provisions.
6) A non-competition agreement: this document is sometimes part of the purchase and sale agreement and is sometimes a separate exhibit to the purchase and sale agreement.

7) Allocation of the purchase price: restrictions on how the business is to be operated until settlement. The purchase and sale agreement is a complex document and it is a good idea to get professional help in its drafting.

**Question:** While making the offer, is there any negotiation techniques I should work on?

**Answer:** The art of negotiation plays an important role in buying a business. Differences of opinion are inherent in the negotiation process and only realistic negotiators can find creative solutions to such differences.

Businesses change hands most easily when the parties assume a non-hostile posture. It is imperative that the parties know the issues that are important to one another. Each should understand the other's position on these issues.

Price is just one aspect of the transaction to be negotiated. Terms are just as important, particularly the period of time over which the debt is to be repaid. Sellers naturally have the upper hand in negotiations since they know the business best. A seller should
make full use of that advantage. A buyer should minimize the seller's advantage by learning as much as possible about the business.

It is important to do more than study the business to prepare for negotiations. The parties must both understand each other's motivation for wanting to buy or sell the business and each other's plans after the transition takes place. They must also understand why the other party has taken a certain position on an issue. Developing a working strategy means each party must not only know the other's position, they must develop their own position as well. They should prepare in writing a list of reasons that validate their positions. They should also think through possible weaknesses in their reasoning. In this way, each can anticipate and respond to the objections the other party may raise. Make sure to be respectful to the seller and always stay professional while negotiating the purchase.

Buyers should request that the seller not negotiate with other buyers while the specifics of the offer are being negotiated. Sellers, on the other hand, have the advantage when they can negotiate with more than one buyer at a time. The most important thing in negotiations is to be able to see things from the other party's perspective. Have an open mind and expect a battle.
These techniques eliminate much of the difficulty of reaching an agreement and keep the parties (buyer and seller) from wasting time.

**Question:** You were talking about “evaluating the business”. Is there something else I should know about business negotiations?

**Answer:** The first step a buyer must take in evaluating a business for sale is that of reviewing its history and the way it operates. It is important to learn how the business was started, how its mission may have changed since its inception and what past events have occurred to shape its current form. A buyer should understand the business's methods of acquiring and serving its customers and how the functions of sales, marketing, finance, and operations interrelate. General information about the industry can be obtained from trade associations. The business financial statements should give you a clear indication on how the business will eventually succeed. This way, you are not jeopardizing your relationship with the seller. While you may need some professional advice from your accountant or attorney, you must always be the final judge of when to call off the deal, especially if your instincts are telling you to do so.

**Question:** What are the various seller personalities I'm likely to encounter, and how do I deal with them?
Answer: Most first-time sellers will be nervous, just as you'd be if this were the first time you were selling a business. After all, this is not just a transaction of fixtures, inventory, and cash flow, but one of livelihood and personal identity. A business is, for many, the meat of one's life—and it is now about to be bartered. The process can be emotional as well. With that said, you should also know that virtually every seller will try to cover up his feelings to gain the upper hand in the bargaining process. This is an instinctual tendency used to protect personal territory.

The first seller personality you might run into is “The Trekker”. The main character trait of “the Trekker” is an air of indifference towards you, the buyer. When you propose a deal, you will most likely hear this: "I'm more or less just exploring the possibility. A lot depends on the offer." This posture is designed to make the seller look as if he or she could take it or leave it. In this case, he wants you to dismiss any notion that he or she is desperate and would sell the business for “pennies”. It would be most appropriate for you, the buyer, to respond with a similar answer, "Well, to tell you the truth, I'm more or less just exploring the possibility myself. You can also add another comment such as "I'll tell you, if you give it some thought and decide you want to make a move any time soon, I might be interested in making you an offer at the right price." That should, most definitely, raise the seller’s interest.
The second seller I call “Mister (or Ms.) Magnetism”. This is the person who says, "There are a lot of people attracted to this business." As mentioned before, there are usually a number of buyers circling around any good business. Sellers automatically make such a claim to make you think you'd better act quickly or risk the chance of being outbid. Never let that kind of pronouncement sway you in the least. You can play this game in return. Give the seller your name and tell him or her to give you a call when things quiet down. Chances are, you'll get a call within two days.

The third seller is “the Pretender”. This type will run some ads for the business just to test the market, but will never fully commit to sell. He or she may offer the business at an exorbitant price just to see if there's a buyer out there willing to take the bait. If there is one, he or she will sell out for the full amount and nothing less. This is also the person who wastes your time by indicating interest in selling, but just wants to see what his business is worth on the open market. Another type of pretender is the type who shows seller's remorse- he thinks he or she wants to sell, but when it comes down to it, can't bear to let go. To respond, you must pretend as well. See how far the seller goes with the negotiation, but regard it only as practice since you’ll never get anywhere with him or her. For that reason, there is no need to stress out here as long as you
remember that, with a pretender, you will most likely never see a deal go through.

**Question:** *How do I find out exactly what the seller will accept for the business before I make an offer?*

**Answer:** The deployment of so-called "strategic tactics" often works. This is when you ask friends or associates, or “decoys”, to approach the seller playing the role of a serious buyer by offering a ridiculously low price. Should they be successful in getting the seller to agree to some of their terms, this would be invaluable information for you to use during negotiations. If an associate or friend were to offer a price much below what the seller required, this would raise doubts in the seller’s mind about the worth of his business. Once the seller’s guards are down, you will be able to easily convince him to sell it at your desired price.

**Question:** *How can I determine if the seller will accept my offer?*

**Answer:** The seller should look for all the same provisions in an offer that were enumerated in the section on making the offer. The types of offers a seller is likely to receive depend in some measure on the size of the business. A seller should ask for a resume and financial statement from an individual buyer and an annual report if the buyer is another
company. Find out what attributes the buyer brings. Sometimes, a buyer with a commitment and a strong work ethic is all that is needed. In other cases, successful related work experience may be important. If the acquirer is another company, look for the logic behind the acquisition. Perhaps some kind of synergy or an economy of scale is created. A buyer should prepare and show the seller a post-acquisition marketing plan. It will help the buyer obtain credibility. This can only help you down the line. The marketing plan will help you obtain credit from suppliers, brokers, and potential investors. It takes time but it is all worth it. Some homework will be required.

One final note - carefully study offers to determine what assets and liabilities are being purchased. An offer for the assets of a business may be worth considerably less than an offer for its stock even though the price offered for the assets is higher.

**Question:** You mentioned marketing plan? What should I include in a marketing plan?

**Answer:** An excellent question to ask yourself is: "What business am I in, and how can I market it to the public?" This answer to this question should include your products, market and services, as well as a thorough description of what makes the business unique. Remember, however, that as you develop your marketing plan (which is different from the business plan), you may have to modify or revise your initial
questions.

The marketing plan is divided into seven primary sections.

- **Section 1**: Strategic Situation Summary,
- **Section 2**: the market, Targets and Objectives,
- **Section 3**: describes the positioning statement of the company
- **Section 4**: which itself is divided in 5 sub-sections: the product strategy, price strategy, distribution strategy, promotion strategy and marketing research.
- **Section 5**: describes the organization plan of the company.
- **Section 6**: are mostly numbers: sales forecasts and budgets
- **Section 7**: are the contingency plans.

**Question:** *You mentioned franchising. Is it a good idea if I choose that route?*

**Answer:** With many people living out their dreams running franchises, there's got to be something right with the whole concept. Literally hundreds of thousands of franchise operations exist, offering some people a chance to become millionaires buying and running them. Many are willing to pay significant sums to get into a franchise.
I'm told it costs about $750,000 dollars to open a McDonald's, which by some measures is the most successful franchise operation in history.

All that aside, buying a franchise is not an easy ticket to business success. For every success, there are many more failures, and the business landscape is littered with franchise fiascos due to conflicts between franchisees and franchiser. You have to practice the same due diligence as a franchise purchaser that you would with any major investment. In fact, in some ways you have to ask even more questions than you would if you were simply opening a business, mostly because you have to understand issues involving the franchiser, as well as the usual risks involved in opening a business.

**Question:** Can you give me more details about the franchise business?

**Answer:** My pleasure. Here are some key questions I would ask before getting involved in a franchise operation. More details on franchise operation can be found in our reports. See at the end of the book for more information.

1) What's my up front cost going to be (unfortunately, it is difficult to use the none of your cash strategy in this case)? This is the most obvious initial
financial question. The immediate out-of-pocket costs are only one consideration in franchising.

2) What other fees should I plan on? You may be required to lease property or equipment from the franchiser. You may also have to pay the franchiser a percentage of your annual sales. These numbers must be put into your own equations when you're trying to figure out if a franchise deal makes sense.

3) How is the franchiser making money? Franchisers may make money by owning their own establishments, by providing services to franchisees, by simply collecting initial franchise fees from people like you or by some other combination. It's tough to make a blanket statement about whether one model is better than another, but surely you want to know where the franchiser's own interests lie.

4) What restrictions do I have on suppliers? Are you going to be required to purchase certain goods or services from particular vendors and/or from the franchiser? If certain purchases are required, are they going to cost you more than you would otherwise have to pay if there were no restriction on where you could buy them?

**Summary**

- Negotiating is a very old game and once you have some coaching, you'll be surprised how intuitively you
can play it. The most important thing is to establish a relationship of mutual trust and confidence with the seller.

- Seller's remorse and seller's envy can both get in the way of closing a sale, and that's when you have to be most understanding and patient.

- Come to the bargaining table knowing as much as possible about the seller and his business so you can be in control.

- Anticipating the various seller personalities will enable you to keep a step ahead and negotiate on your terms.

- You may want to use the "decoy" approach to raise the seller’s doubts about the value of his business, enabling you to purchase it at your desired price.

- The description of your business should clearly identify goals and objectives and it should clarify why you are, or why you want to be, in business.

- Literally hundreds of thousands of franchise operations exist, offering some people a chance to become millionaires buying and running them. Many are willing to pay significant sums to get into a franchise.
Financing your business acquisition should be the least of your concerns

At this point in the book, you should feel confident about getting into a new business without using any of your own cash. Then there's the obvious question: “Where am I going to get the money for the rest of the purchase price?” Coming up with a way to cover the $100,000 down payment on a $500,000 deal seems relatively easy once you know all your options and opportunities. However, getting the remaining $400,000 can be a more difficult task to accomplish. To your big surprise, it is not. Like the process of arranging no cash down, the methods of paying for the
rest should not be a concern. Let's begin with this simple thought: if you think of money as a commodity, or product, you'll have an easier time finding it, asking for it, and getting it from those who can afford to lend it. Many people have these resources to lend to you. All you need to know is how to ask for it the right way.

**Question:** Whose door should I knock on first?

**Answer:** You may already have your foot inside that door. That's because, as I've mentioned before, the most likely source could be the seller. In fact, before you consider any other funding source, discuss the prospect with the seller. (Later, a few other avenues of financing will be discussed, in the event that the seller is not cooperative with your pitch techniques.) Borrowing from sellers typically offers some key advantages:

1) Sellers are not fanatical about earning interest. Their objective is actually to sell their business at a price they feel most acceptable. The seller wants to get rid of their business for a reason, whatever that might be. This may be to get rid of a financial burden, and for you, an opportunity to put into practice your management expertise to transform the same business into a towering mountain of profit.

2) Sellers can be far more understanding than banks. Let's say your new business has a slow couple of
months, and cash flow has become more like a cash trickle. So now you're forced to miss a payment, or even two. Which lender is more likely to penalize you—the bank, or the person with whom you've formed a solid relationship and who can empathize with your business problems? I am sure that you and I share the same answer.

3) And no, sellers won't take away your personal assets. Whereas most banks are obsessed with collateral, sellers rarely demand the same. Yes, they may want you to put security interest on the business, but beyond that, a handshake will often close the deal.

**Question:** If seller financing can't be worked out, should I simply go to my bank?

**Answer:** Actually, the ideal bank may be the one the business is already using. They know the business and if the seller can introduce you to his or her long-time banker, it could facilitate the transition of ownership. However, you can also apply at any commercial bank for a business acquisition loan. As you might imagine, though, there's much more required of this kind of transaction than filling out an application like you would for a car loan. They want to know a lot more about you and your chances of success before they approve the loan; and of course, that depends on your credit history and management skills. One thing you must remember is not to beg. You should never go
into any financial institution, "hat in hand", to plead for a loan. As intimidating as banks can be, they're really just money supermarkets with shelves full of a commodity they want you to buy. They need you as much as you need them. If you have a deal that makes reasonable sense, they'll go along with it and make plenty of money from you. If you come into the bank with an idea for a start-up company, a good business plan is required as well. Solid projections will also be needed as part of the package. Using the business plan, the bank can analyze the feasibility of the venture and will decide accordingly.

**Question:** You mentioned “business plan” early in the book”. What kind of information can I submit to the banker that can be relevant to what he’s looking for?

**Answer:** Here’s what you can find in a business plan that will help you gather the necessary information for the banker.

Elements of a Business Plan: cover sheet, statement of purpose, table of contents, description of the business, marketing, competition, operating procedures, personnel business insurance, financial data, loan applications, capital equipment and supply list, balance sheet, breakeven analysis, pro-forma income projections (profit & loss statements), three-year summary, detail by month, first year, detail by quarters, second and third years, assumptions upon
which projections were based, and pro-forma cash flow.

It is also necessary to present supporting documents to the business plan. A banker will need to see them before even considering you for a loan. Some supporting documents are: your tax returns for last three years, your personal financial statement (all banks have these forms), in the case of a franchised business, a copy of franchise contract and all supporting documents provided by the franchisor, a copy of the proposed lease or purchase agreement for building space, copies of licenses and other legal documents, copies of resumes of all principals, and copies of letters of intent from suppliers. In Program Report #8, you will find detailed information about a business plan and what goes in it.

**Question:** *Is there a difference between a marketing plan and a business plan?*

**Answer:** Marketing plays a vital role in successful business ventures. How well you market your business, along with a few other considerations, will ultimately determine your degree of success or failure. The key element of a successful marketing plan is to know your customers—their likes, dislikes, expectations. By identifying these factors, you can develop a marketing strategy that will allow you to arouse and fulfill their needs. Identify your customers by their age, sex,
income/educational level, and residence. At first, target only those customers who are more likely to purchase your product or service. As your customer base expands, you may need to consider modifying the marketing plan to include other customers. In report # 8, a sample of a marketing plan is included to give a more detailed idea of its components.

The business and marketing plans are both necessary tools to help you obtain a good idea of how you should pursue your future business. However, if you are looking for a loan at the bank, the business plan should be enough. The marketing plan can be useful when presenting it to business brokers, venture capitalist suppliers and of course, the seller. Since many businesses are seller’s finance, he will be curious to see what are your ideas that will enhance the sales of the business. By doing so, his shares of the business will increase in value and will be comfortable when you’ll take over.

**Question:** Can you describe in more detail some elements found in the marketing plan?

**Answer:** My pleasure. A marketing plan is necessary to direct your new business in the path of success. Consider it like your bible. It will help you target the market, or as we said previously, carve your niche. The marketing plan will help you answer the following questions: How you can position yourself with your
competitors? How is your product perceived by the consumers? How should you establish a price for your product? Who will distribute your product? How will you promote the product to the public?

In your strategic situation summary, you should summarize the key points from your situation analysis (market analysis, segments, industry, and competition) in order to recount the major events and provide information to better understand the strategies outlined in the marketing plan.

The second section of the marketing plan should include the targets and objectives. This section explains how to define the market demographically–geographically in social and economic terms. Each market target should have needs and wants that differ, to some degree, from other targets. These differences may be with respect to types of products purchased and the frequency of purchase. Objectives should include the following program components:

1) Product
2) Price
3) Distribution
4) Promotion (or sales force)
5) Technical services

As for the third section of the marketing plan, here you will provide the position statements that will help you describe how you want each market target to perceive each product relative to competition. State the core concept used to position your product (brand) in the
eyes and mind of the targeted buyer. The position statements should describe:

1) What criteria or benefits the customer considers when buying your product along with the level of importance.
2) What you offer that differentiates your product from competition.
3) The limitations of competitive products.

All these details gave you a general idea on the content of a marketing plan. The most important segments are as follow:

**Product strategy:**
- You’ll need to identify how each of your products fits the market target. Other issues that may be addressed would be new product suggestions and adjustments in the mix of existing products.

**Price strategy:**
- The overall pricing strategy should be identified along with the cost/benefit analysis. Identify what role you want price to play, increase share, maintenance etc…

**Distribution strategy:**
- Describe specific distribution strategies for each market target. Issues to be addressed are intensity of distribution, how distribution will be accomplished, and the assistance provided to distributors.
Promotion strategy:
- Promotion strategy is used to initiate and maintain a flow of communication between the company and the market target. To assist in developing the communication program, the attributes or benefits of your product should be identified for each market target.

Marketing research:
- Describe the market research problem and the kind of information needed. Include a statement that addresses why this information is needed. You can find a full marketing plan available in report #8.

Question: How can I define my financing needs while evaluating the business?

Answer: Good question. It is important to consider a couple of factors. When looking for funds, you can’t simply ask for the down payment or the price to purchase the business. You should also forecast the capital requirements to properly operate and build the business once you’ve acquired it. Many buyers approach the financing process in two steps. The first step is to borrow for the down payments or purchase price of the business. The other is for operating expenses. In doing so, they exhaust their capital or borrowing power in the first step process and can’t obtain financing in the later stage of the business. These buyers are unsuccessful because the collateral has been used against the purchase of the business and
is therefore not available to accommodate additional financing. Make sure to analyze your needs first and always anticipate what your financial needs will be in the next few months. This way, you can borrow once and use this money not only for the purchase, but also for further expenses that might come along.

**Question:** What other kind of expenses will I need to use the money for?

**Answer:** When projecting your financing requirements, you should take into consideration these expenses:
1) Renovate and modernize the business facilities,
2) Add or replace needed fixtures and update equipment,
3) Maintain adequate working capital (wages, insurance etc…)

**Question:** How can I avoid looking like an amateur when I approach the bank?

**Answer:** Banks certainly do not lend money to amateurs. To be a "professional borrower”, the most essential source of information you can have is who to talk to at the bank. I say that because, most likely, you will end up talking to a junior officer, and although that person may be welcoming and cordial, he or she does not have the experience level necessary for your
demands. Because they are in an entry-level position, they may try minimizing their risk by not giving any loans. If the borrower *defaults* on the loan, the blame might be deferred to the lender. The best approach is to meet with the senior lending officer, the manager, or the bank president to avoid losing precious time and the valuable patience you need to save for the negotiation.

**Question:** *How do I sell my proposal like a "pro"?*

**Answer:** As mentioned earlier, you need to have completed a loan application proving good credit history, solid cash flow, and managerial experience. What the bank needs to know is your name, address, family status, education, and experience in related business, personal assets and liabilities, and credit references. A concise description of the business you want to buy or start, its lease terms, a brief history of the business (if you're buying), the business' tax returns and financial statements dating back three years, the projected cash flow statement for the loan period, and a list of proposed changes you intend to make in the business are also required. Additionally, the bank needs to know the business' assets and their liquidation values. And finally, you need to tell them how much money you want to borrow from them and for how long.
Glossary

Default (previous page): Any debt obligation which has not been honored according to its term.

Notes and Reminders

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Question: After all this, what if the bank says "no"?

Answer: If this happens, then there's probably a weakness in your application, and other banks will also identify a flaw in your acquisition prospect.

This “no” can save you money and grief in the future. Look at the loan officer as an ally in evaluating the health of your plan.

"No" may mean "maybe": In any sales seminar, you’ll learn that before a “no” actually means “no”, you need to understand what the other party really means. They should give you a good reason to support their refusal. It is possible that they misunderstood your request. You may be wondering how this applies to requesting a loan from a bank. Remember, if you can sell your idea to a loan officer, this can actually be your first sign of success. Banks are tough and demanding consumers. They may refuse your idea from the start just to see how determined you can be in your quest for your new business acquisition. This whole strategy is used to test the buyer for his belief in the potential of his business idea. Don’t let current liabilities be an obstacle in your presentation to the bank. You need to overcome any fear regarding the financial history of the business. Think of this as a mutual arrangement, from which both parties (you and the bank) will profit.
Question: *If I get the loan, do I simply have to accept the bank’s terms?*

Answer: That's a good question, because the assumption is that you must do what the bank wants when they loan you their money. But, in truth, there are a number of areas in which you can negotiate a "sweeter" deal, including interest rate, loan period (the longer, the better), and the depth of your collateral. With the right advice, you can structure your loan for maximum personal protection. Make sure to be armed with the right consultants (i.e. accountant, attorney.)

Question: *Should I consider a Small Business Administration (SBA) Loan?*

Answer: You might already know this, but the SBA loans process starts where a regular bank stops. In other words, you have to be turned down for a bank loan to qualify as a candidate for an SBA loan. Listed below are both the advantages and drawbacks of this type of loan.

Advantages:

1) An SBA loan can be stretched over ten years, or even as long as twenty. This compares to a bank loan that typically runs a maximum of seven years.
2) The SBA is more willing to lend to a business in distress.
3) The SBA is a very valuable resource when you live in an area in which no financial institution collaborates highly in the development of new local business. The SBA loan is guaranteed by the government; however, do not think of it as easy money that is given away with no obligation. Actually, the SBA borrows the money from the same bank from which you were turned down. However, since the SBA is a government entity, banks welcome them with open arms, knowing there’s no risk involved in the transaction. Program Report #1 will explain in more detail everything you need to know about bidding strategies.

**Drawbacks:**

1) The SBA wants more collateral.
2) SBA loans take longer to process—as much as six months.
3) The biggest "thumbs down" of all is that the SBA may ask you to put up 20% of the funding yourself.

**The welcome news:** In Program Report #2, we mention some of the venture capitalist associations and how they work, their regulations and criterias. Government agencies encourage new start-ups and acquisitions because the taxes those new companies pay will be reinvested into the economy and will also generate new jobs. The empowerment zone is one of the many programs available from the government to incite new businesses in hiring labor from specific zones of the district. These incentives come in the form of a tax credit for each employee, averaging
about $3,000 per employee, which in turn results in a substantial tax break. When it comes time to contact government organizations for extra financing, you should not hesitate to ask about the discretionary budget, which represents money set aside for a variety of needs. Many new entrepreneurs aren’t aware of this hidden available fund offered by the government. When this fund is not used at the end of the fiscal year, it is reinvested in the same budget for the next year, constantly accumulating in amount. As a new entrepreneur, make sure you approach this very delicately.

First, make sure you contact the right person, because most secretaries and other entry-level employees within the government aren’t aware of this discretionary budget either. You should ask for the accounting department of whichever government agency you contact. Since they hold the accounting books, they are more aware if there is any public funding available for start-ups, and if so, how much. Even though this is often privileged information, the fact that you ask about it obligates them to address your question.

**Question:** What should I know about venture capitalists and angel investors?

**Answer:** Both are actually great sources of outside financing, especially if you need more than $100,000. Venture capitalists look for a minimum of 20%-25%
return on their investment. In most cases, they want to become a financial partner and might want to invest enough in the company to own almost 50% of the common shares. At that point, they might want to sell out the company at a profit if their return on investment doesn’t reach around 20%. My advice to you is if you are looking for a venture capitalist, make sure you look for a few so that no one individual might own the majority of the stocks. Their biggest concern when they invest in a new company is the management team. They require that you have an excellent manager and if interested in contacting them for funds, make sure your resume emphasize your management expertise. As said previously, venture capitalists will eventually want to acquire a company that will go public or be sold for a substantial profit. That's how they expect to make a **return on their investment (ROI)**. They’ll expect at least between 20 to 25% of ROI. Program Report #2 will give you the added information on what you need to know about venture capitalists.

Friends, mentors, and family members can also be considered sources of funding. Let me tell you, if you can sell to family, you can sell to anyone in this world. Family members can be the strictest and most demanding investors you will ever find. Anyway, this is just the beginning of a long journey. You are building your family’s future. Make sure to work hard to achieve your goals.
Glossary

Return on investments (previous page): Ratio of net profit to net worth. ROI is a widely accepted measure of management’s ability to use capital productively. Some venture capitalists use this ratio as criteria when deciding to fund a company. They usually desire a high ROI for a start-up. For more detail on ratios, see report #3.

Notes and Reminders

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$Summary:

• The seller is a good bet to finance the remainder of the purchase price, plus he or she is more understanding than a traditional lender if you're late with a payment.

• If the seller won’t cooperate, go to the seller’s banker, who knows the business.

• Learn how not to approach an “amateur” in applying for a loan, and go to someone senior at the bank.

• The banker will analyze projected cash flow to make sure the numbers justify the loan.

• If the bank initially says no, that is not their final answer. Clarification will be required to get positive feedback.

• Venture capitalists are also an option, but they may want you to sell out or go public at some point in order to make a profit for them.
Notes and Reminders

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Note: These pages are offered to you to help extract the necessary information learned in the book. During future negotiations, you’ll be able to use these notes as quick reminders for reaching your necessary goals. During our seminars, our guests will add more information to complete what is offered in this book. Note taking is advised.
Some think it may be a difficult task to profit from troubled companies; however, it is easier than what you might think. It is considered one of the best-kept secrets in the business world today. The truth is, taking over bankrupt or troubled businesses can make you more money than you would ever imagine. You can create a perpetual money machine by buying them, quickly reorganizing them (of course, this requires some management skills), and then selling them for a substantial profit. Even if you're more interested in owning and operating a business than flipping it for a
quick profit, you’ll benefit greatly from the opportunities that take-overs offer. There are thousands of troubled businesses out there that you can buy without investing a penny of your own. The techniques for buying and making money with troubled companies are easy to apply.

**Question:** Why would I want to take over someone else’s problem?

**Answer:** In this situation, a company’s problems can work for you. Its existing debts actually offer you built-in financing for an easy no-cash deal. Let's say X Industries is asking $1,000,000 but the books show that the firm's debt to creditors is $965,000. At best, the seller can only get $35,000 from you if you agree to the asking price. Once that's understood between the two of you, you have locked in $965,000 worth of financing by assuming the seller's liabilities. Leveraging this amount to create a no-cash transaction is relatively easy (see previous strategies).

**Question:** Will this additional responsibility put my situation in jeopardy?

**Answer:** The situation is not nearly as terrible as it sounds. Many entrepreneurs specialize in takeovers and facilitate the deal by offering to the former owner a freedom from their debt. With this in mind, they know that, every day, new owners of troubled
companies strike deals with creditors who agree to walk away with less than twenty-five cents on the dollar.

**Question:** *Why would a creditor be satisfied with such a lousy ratio?*

**Answer:** They look at the alternative—what they will get if the business is liquidated? Creditors will often accept virtually any amount that's greater than what they'd get if the business' assets were put on the auction block. If you offer them just a bit more than that, they will grumble and groan, but they will quite often accept it. They need to recover any amount from the business, so they’ll accept the proposed offer. Very often, a company will seek court-ordered protection from creditors during this process in order to have time to negotiate a settlement. This is what's known as "Chapter 11" of the Bankruptcy Code.

**Question:** *What is the tagged price on liquidated assets?*

**Answer:** Appraisers are specialists for this kind of situation. Since the assets cannot be appraised at their original value, appraisers evaluate the product not on what it is worth presently in the market, but what people are ready to pay for. This situation arises with foreclosure.
When the bank seizes a house due to an unpaid mortgage, they will try to resell it in what we call “the court’s footstep” at 75% of its appraised value. No tangible value is actually given to liquidated assets due to the high desire of the creditors to get rid of the assets on hand and to recuperate some of their money. Most of the auctioneers are aware of this and will start the auction low and then reach a maximum price, representing only a small portion of the actual price of the asset.

**Question:** What if creditors withdraw from your proposal? Is this common?

**Answer:** Yes, it is, but there's an advantage to this situation. Some call it the "Dump buy-back" technique. Here's how it works: You make a fair offer to the creditors and they shy away. They want more than what was offered. As an option—or a subtle menace, if you wish—consider letting the company go into liquidation. By getting a bank loan, you will be able to pay for all of the assets at a fraction of their worth. The creditors will vanish, and you'll own a business at an extraordinary price.

**One caution:** No matter which route you take, it's critical to have a bankruptcy attorney and accountant guiding you through this phase. Our program reports will provide you with names of these professionals for you to use.
Question: So now I have a company for a fraction of a dollar. Should I be concerned about drowning because of this heavy responsibility?

Answer: This depends on your management skills. Most of the time it's bad management that weakens and makes a company go “belly up.” It may be the current operations of the business that are weak. Whatever skills you bring into the business are indicative of what you will get out of it.

Example: I like the story of a young entrepreneur who, at age 28, did something few individuals his age had ever done. He arranged a takeover of a bankrupted company, which manufactured coffee. By understanding the market of commodities (he was a stockbroker as well) involved in this industry (homework required), he discovered the best time to purchase the product, as well as in what quantity and at what price. As one of the only suppliers of green coffee in his area, he was able to stay competitive in the market and offer fresh roasted coffee beans at lower prices than the competition. By using several marketing strategies, he was able to reach a wider clientele by selling his roasted coffee online. He eventually resold the company to the former owner and made considerable profit on the resell. This example proves that any business can become a good business with innovative and knowledgeable management.
Question: What should I consider being a “bad business” to buy?

Answer: There is no such thing as a bad business. In reality, a bad business, as you mentioned it, is actually the victim. Incompetent management unable to properly utilize assets, failure to keep customers, expand a market, and control costs are the cause of business failures. Let’s take the example of the dot.coms. Since many people invested blindly in these businesses, ninety percent of them failed after the second year. I can’t give you the exact reason for each failure, however, many of them received a tremendous amount of money from venture capitalists and outside funding. Having those millions of dollars as cash flow, they decided to go on a rampage and spend the money ridiculously, without even consideration the negative repercussions which might lie in the near future. When the internet craze faded, many venture companies stopped funding these businesses and left them with no further cash input to continue operation.

Results: Many companies closed down and laid off thousands of employees in the market, which made our American economy weak and vulnerable. What did we all learn from their mistakes? It is to control costs and spend intelligently. Some of the dot.coms are still around and they anticipate this wave to last a couple of years. They were able to stand tall, even when the market crashed in the high tech industry. I can probably say that the era of the dot.coms was an
extreme that lasted a short while and made a few millionaires. However, small businesses can suffer if all factors are not considered. Besides controlling costs, the management team can affect the success of the business. If the former management team has no business experience and is unable to properly make decisions necessary to shape their business into a winner, you have the potential to come along and make a positive change to make the business successful.

**Question:** What are the best ways to find a good candidate for a takeover?

**Answer:** Since this is such a lucrative area for a no-cash deal, it would beneficial to you to learn how to find the ripest candidates for a takeover (since they're usually not advertised). Program Report #3 will teach you where to seek the information needed. We'll show you what to look for in a business' financial statements, specifically in their balance sheets. You’ll also want to find out the condition of the payables (how old are they?) and the business owners’ relationship with their creditors.

**Question:** How cooperative and helpful are sellers in situations like this?

**Answer:** Unfortunately, they are not very helpful. Who can blame them? Nobody likes to admit failure.
Sellers will most likely come up with several other reasons why they might be interested in selling... either because they are retiring to Cancun or have developed sudden allergies to hard work. The excuses may even be far-fetched, but to the owners, this is better than admitting to the company's failure.

**Question:** Is there a special way to deal with this type of owner?

**Answer:** Basically, you need to be unusually diplomatic because the owner’s self esteem has already been punctured by the reality of failure. Remember, the owner may still be in denial, not yet admitting that the company must be sold or reorganized. In contrast to the win-win situation in a traditional buy-sell transaction, the acquisition of a troubled company is usually a win-lose game, in which the seller basically hands over his business for nothing more than “pennies”.

**Question:** If I do acquire the troubled business, how can the seller’s debt work in my advantage?

**Answer:** Let us use the basic accounting formula: Asset = Liability + Equity. If a company has $100,000 in assets but also has the corresponding amount in liabilities, you actually owe the seller-absolute nothing. Zip. Nada.
You should just take over the assets and liabilities and go on your way. That accounting formula explains why troubled companies offer such interesting takeover targets: they have their own future potential within their existing debts.

Let us explore these types of takeovers. First you need to find the right business, examine it from every angle until you convince yourself that you can make it successful. Always choose a business in a field which interests you personally; doing so will be more beneficial to you in the long run.

**Example:** If a business carries $75,000 in assets and has $60,000 in liabilities, you should owe to the seller a mere $15,000.

Here are examples, or I should say, formula for takeovers:

1) Calculate outstanding debts: all notes, back taxes, account payables. Verification of these existing debts will dramatically reduce the liability amount needed to be paid to the seller.

2) Accept the debt for all or part of the purchase price: by structuring the deal adequately, it may require little or no money down.
Question: You mentioned the accounting formula: Asset = Liability + Equity. We talked about assets, liabilities. What about equity? How can I create a good equity in the business?

Answer: Knowledgeable entrepreneurs make phenomenal fortunes taking over sick companies, quickly reducing their debts, then cashing in their equity through a quick sale. This method is commonly used and successful. If the business has $150,000 in liabilities with only $100,000 in assets, logically, you would refuse to approach that situation. However, it can be advantageous for you to acquire that very business. With your management skills, you can reduce the debt to a minimum much less than the value of the assets, and seemingly out of nowhere, equity is there. It is all to the credit of your hard work, but it appears as though it was magically done by using some negotiating techniques with creditors and suppliers. If they refuse to budge, you can always allow the company to reach bankruptcy, give its creditors a dime on the dollar, buy back all business assets and leave from there a winner. (Dump-buy-back strategy).

Question: Bankruptcy? That is not what I had in mind. How is that going to affect me?

Answer: Not much. Chapter 11 of the Bankruptcy code is a more common method used by distressed
companies needing a break to rehabilitate themselves and find firm ground. Under bankruptcy court protection, a company is fully protected from creditors’ action while the debtors obtain time to negotiate a “plan of attack”. This plan of attack is actually a friendly agreement under the supervision of the bankruptcy court. Once the majority of creditors accept the plan, it binds all creditors.

**Question:** What do I need to know to make sure I'm choosing the right company?

**Answer:** As I have said earlier, this is a very seductive and exciting opportunity to make a handsome profit. Once you get the hang of it, you might even want to buy and sell such businesses regularly as profitable endeavors. But what are critical to your success are the relationships you develop with important entities within the organization, such as the present employees, loyal customers, current suppliers, sales representatives, distributors, and manufacturers. That's why it's essential that your advisors in the transaction be competent, deal-oriented, and fluent in the process of buying and selling healthy, as well as, troubled companies.

**Question:** When is the best time to take over troubled companies?
**Answer:** The best time is when it is still in the seller’s hand. The sooner you locate the business, the better, because terminal insolvency cases are harder to handle. Troubled businesses are sold in the “court’s footstep” once or twice a month. You can read about them in the Sunday newspapers. The same holds true for foreclosed properties. When an individual fails in paying their mortgage, the bank will repossess the property and sell it for up to 75% of its value. Depending on how much equity was built in the property, you can get great bargains on them. Businesses work the same way. However, you are not the only buyer out there. There are thousands of others like you out in the world eyeing the same troubled companies. When a business is auctioned off for the best offer, you might be fighting for a company that will cost too much to acquire.

**Summary**

- The possibilities for profit in taking over troubled and bankrupt companies are one of the world's best-kept secrets.

- Rather than buying someone else's problems, you're buying a company that comes with its own built-in financing: its financial debt.
• Creditors may take a small percentage on the dollar of what the company owes them—thus significantly reducing the debt.

• If the creditors hesitate to accept the proposed deal, you can always force the company into liquidation and get a bank loan to buy back the assets at a fraction of what they’re worth.

• Consider buying troubled companies on a regular basis and then "flipping" them (the concept illustrated by the 28 years old entrepreneur who bought the trouble coffee business and resold it to the former owner) for a considerable profit.

• Chapter 11 of the Bankruptcy code is a more common method used by distressed companies that need temporary breathing space. Under bankruptcy court protection, a company is fully protected from creditors’ action while the debtor obtains time to negotiate a “plan of attack”.

• What is critical to your success are the relationships you develop with important entities within the organization, such as the present employees, loyal customers, current suppliers, sales representatives, distributors, and manufacturers.
Finally, if you cannot close a no-cash deal with the seller, use the government’s money.

Having read this far in the book, you're already equipped with some powerful business-buying information, probably more than any knowledgeable buyer out in the field has. Part of your new savvy business approach is the understanding that to make a no-cash acquisition or startup possible, you need continuous knowledge of the market, and of course, seek continual support from professionals such as accountants and lawyers. It is important that you order the available program reports to supplement the
How do you buy or start a business with none of your own cash

information already provided in the book. These reports will help you recognize the strengths and weaknesses of your business deal. For some, this information will be tremendously valuable; for others, it might be information or knowledge that you, the buyer, have already accumulated throughout the years. The American government is a great source to start looking for free money. Many government programs are available and you can be eligible to obtain the desired amount of money to start or buy the business. Since all government programs differ in eligibility criteria, you need to get informed and find out which one suits you the best. The government is allocating over 250 million dollars to different programs that also include start-ups. You can get a slice of that pie. However, it is not as easy to infiltrate yourself in the government system. You will be bounced around a few hundred times to finally talk to someone that has no information whatsoever about the subject of grants for start-ups. It is like entering a labyrinth. You see yourself at the starting line, however, the finish line can take several years to reach. As I mentioned earlier, you will need PATIENCE, a lot of it.

What I figured out from the government, is that they are playing the same game as a seller. They are eliminating all jokers (which can represent individuals with a lack of patience) and allocate the money to serious buyers (which represent individual with tremendous amount of patience and understanding of
how to fill out the many forms to obtain the desired grant).
For the people who haven’t received the government help, or are not eligible, don’t despair. You have all the strategies from the book and they should be put in practice.
For those who have received the government help. One advice to you. Use the money intelligently. Don’t take any Club Med vacation to the islands. Most grants entitles to a follow up. Which means, they will give you the money for the purpose of starting a business and to the hope of creating jobs in the near future. By doing so, it will help keep the unemployment rate to a lower level. However, if you come back with a beautiful tan from the Greek islands and realize that you could of used the same money for other business purposes, you might regret the consequences of your actions. Most government agents will follow up with you regarding the grant. Don’t disappoint them. Show that you are serious in your future endeavor. They will be very pleased if their money was put in good use. By doing so, more money will come from the government later on.
Remember, this government money should not be used to pay the seller for the down payment. You need to apply all the techniques mentioned in that book and the following Program Reports to get the desired business. The money should be a cushion in case nothing else work and that you are dealing with an incompetent seller (or moron).
Question: What exactly are these program reports?

Answer: For starters, they are essential tools when starting your business deals. They are loaded with crucial information that you will require for present and future ventures. This information has been and will continue to be updated to keep it accurate. All the phone numbers and contacts are current. For those who see acquisition as a daily routine, added information might be needed to add to your knowledge on the subject. Even the most knowledgeable entrepreneur needs to know where to find funding sources and their daily activities might not allow them access to this information. This is why we believe in the necessity of these reports. Additionally, we will conduct seminars in your area, and explain to you in more detail the concept of the “none-of-your-cash” approach. In these seminars, we'll discuss specifically how you can conduct your individual search and acquisition for the right business—or learn how to start one up from scratch—without using your own cash. Many entrepreneurs experienced in “no cash down” transactions will be invited to these seminars to share their knowledge. Guest speakers specializing in the area of acquisitions and leverage buy-outs will attend these seminars and will answer many of your questions.

Question: What will I find in the seminars that can help me improve my performance during negotiations?
**Answer:** You'll be walked step-by-step through the process of finding the right no-cash opportunity for you, evaluating it, negotiating it (based on literally dozens of no-cash approaches), and closing the deal. Then we take you through the easiest, most advantageous ways to finance whatever amount you need to satisfy the seller. Moreover, you'll learn all about the "red flags" that will alert you to which "for-sale" businesses should be avoided no matter how attractive they look on the surface.

"**Flip**" lessons: You'll also learn all the techniques of taking over troubled companies for pennies on the dollar, and even "flipping" them, selling them for a substantial profit once you've gotten them back on their feet. These seminars will put into perspective everything you learned in this book and program reports.

**Question:** *Couldn't I get the same information from my own research?*

**Answer:** You could certainly pull together a stack of data on many of the details of buying a business through leverage. I've given you a small taste of various scenarios in this book. But to know all the possible no-cash options you have and to decide which would be the wisest for you would be difficult without any type of help. To write this book, I had to accumulate enough information through books,
seminars, contacts with professionals and business networking to provide you with a comprehensive understanding of the “hows” of buying or starting a business with no money of your own. I should admit this is a very difficult subject to grasp, and therefore, I used plain English, avoiding terminology which might have obscured the meaning of my explanations and hindered your understanding of the material. (Plus, I went through enough pain and suffering in gathering this information with the hope that you would not have to go through it as well). Patience is required with everything you endeavor and, I can promise you, it can only help you become a wiser entrepreneur.

**Question:** Once finished with the seminar, where do I go from there?

**Answer:** Our consultants will follow through with any needed counseling during process of learning about no-cash acquisitions. That means you can receive counseling, coaching, and assistance over the phone, by e-mail, or fax during any part of your no-cash acquisition or start-up—including the negotiation, closing, and search for possible funding. We will review any and all documentation (including the final closing contract), help you prepare a loan package, locate an attorney or CPA for you, as well as handling any other needs that might arise. We’ll put you in contact with all professionals in your area and you’ll establish the initial contact with them. These
individuals will help you through the process of acquiring the business with no money down.

**Question:** *If I previously owned a business and sold it, or bought a business using the same leveraging technique, how can your program reports help me in any other ways?*

**Answer:** Good question. Techniques actually don’t change from decade to decade. However, other techniques do arise due to many other opportunities that the market offers. Economic cycles are repeated many times. Consumers change their living habits depending on the approaching economic climate. In a time of recession, all consumers cut down on luxury items and live with only essential goods. However, in a healthy economy, like the one in which we’re living now, we see consumers flocking to Mercedes car dealerships. Our seminars can help you identify other methods that will enable you to use new strategies on your upcoming acquisitions. Make sure you fill in the information on the *SEMINAR APPLICATION FORM* by including all the requested data. We’ll make sure to contact you regarding upcoming seminars.

**Question:** *How can I purchase your program reports?*

**Answer:** In the preceding pages, we referred to the nine reports available to you and believe that they can help any entrepreneur. Upon receipt of your completed
form sent to our address, we will ship you your reports via priority mail.

**IMPORTANT:** We advise you to make a copy of the order form in case you need to order other reports in the future. We also can e-mail them to you at your convenience.

Thank you for taking the time to read my book. I hope it has enlightened you, surprised you, but more importantly, has motivated and inspired you. If you're truly serious about being your own boss and finally being the master of your own destiny rather than worrying about the financial uncertainty that lies ahead, then take the next step towards the American Dream.

**Hoping to see you soon...**
Congratulations! Now that you have finished this book, you have reached the end of one mission and are about to begin a new one. At this point, you either have a huge headache from reading or you are excited to start investigating possible business opportunities. In any case, you’ve learned something new, something that will help you in your future goals- whatever they may be. Have your initial answers (for the questions at the beginning of the book) changed? Now that you have finished reading, it is a good idea to formulate questions of your own, especially if there are concepts that you would like to explore further.

Our program reports can help you clear up some misunderstandings and give you more confidence to move on to more serious acquisitions. The more comfortable you are with these techniques, the more likely you leave the bargaining table as a business
owner. Remember, DO NOT feel threatened by the sellers. Sellers have just as much difficulty finding the right buyers as buyers have finding the business that best suits their needs. There are instances in which the seller is dishonest, and this book can strengthen your ability to identify this situation. For the most part, this type of transaction can be a win-win situation for both parties because, while you are not using your own cash, the seller’s requirements are still being satisfied.

You should practice negotiation methods regularly and start looking for local business opportunities offered in your area. Do not hesitate to contact them. The best deals are those that require a down payment because you will have less competitors hovering around the seller, enabling you to better apply the techniques in this book and to close a deal with none of your cash.

**Caution:** Do not show too much interest in the business you want to acquire. Showing too much excitement might make the seller reconsider your offer or increase the offer price. Stay calm and follow the advice given in this book and you will see clear and rewarding results. Now don’t expect to find yourself buying Microsoft Corporation after reading this book 😊.

Start small and go steadily from there. You need to take one step at a time. The program reports will enable you to fill the gap or answer any additional questions you might have. Make sure to order all of
the program reports that will help you attain your goals. Please mail in your Program report order form or e-mail us your requests. You should also photocopy the order form if you need to make future orders.

One last bit of advice before you start any negotiation. This book is being read by millions of entrepreneurs around the world. It will be translated into many languages as well, to reach a global audience. So before you start applying any of these techniques, remember that millions of others, both buyers and sellers, will be aware of the strategies mentioned in this book. Don’t be intimidated by this fact. By using these techniques, sellers will assume that you are a knowledgeable entrepreneur who has valuable expertise in negotiation procedures. Such knowledge allows you to show the sellers that you are serious about closing a deal.

Overall, what you need the most in acquisitions, takeovers, and start-ups is patience; a lot of it. Don’t rush through the deal too fast. You need time to make sure that the business in question suits your needs and interests. Rushing can be detrimental for you personally. Before you sign anything, do your research. Once the business is signed over to you, it is yours to manage. You have now reached your destination, 

The American Dream,
and it is up to you what you do next.
How do you buy or start a business with none of your own cash

Best of luck on all your future endeavors and negotiations,

Dan Amzallag,
The American Dream.

REPORT DESCRIPTION

REPORTS ORDER FORM

and

BIBLIOGRAPHY

Note: All further pages include the following sections mentioned above. If you have any questions regarding these reports, do not hesitate to contact us via e-mail. We’ll answer you as quickly as we can.
Program Report Order Form:
“Things You Need to Know About…”

Report 1: "How to reach for capital": This report describes ways to raise capital using banks and government entities and will guide you on how to bid for government contracts. I strongly advise you to use this source of funding, as the government is the biggest purchaser and spends over $250 billions dollars a year in purchasing products from small companies. This report also includes a list of telephone numbers and web addresses of government entities responsible for grants and bid submissions.

Price: $9.99

Report 2: "How to select venture capitalists or ‘angel’ investors": This report will supply you with contact information (the telephone numbers and addresses) of the most influential venture capitalists in the United States. You’ll also learn how venture capitalists work and why they accept some projects and refuse others. This is valuable information for those who desire to contact outside financing. Also provided is a full report on the type of business legal entities who exist to protect you during take-over or acquisitions. After reading this report, you will know how to register a company, what entities are available for support, and how to select the best ones.

Price: $9.99
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Report 3: "What to look for in financial statements before purchasing or taking-over a business": This report has been prepared in the form of a master checklist, geared to help you avoid costly mistakes while taking over a distressed business. This checklist contains a series of procedures (ratio analysis, interpretation, trends) to follow so you can easily determine the viability of a business and its future potential. Sub-report available to the prospective seller.

Price: $7.99

Report 4: "How to market your services or product": This report teaches you how to go around regulations towards the purchase of your new business using several legal strategies. After the acquisition or take-over has been successful, there is still work to be done to insure the health of the new business. You must be familiar with the tools needed to promote and improve the “health” of the company and know how to identify potential customers or market niche. This report will also show you how to target the right business in your industry and how to buy classifieds ads in newspapers and business magazines. Sub-reports within this report are also available regarding marketing, promotion (how to write effective professional ads) and other avenues to get the business up and running.

Price: $9.99
Report 5: "Leverage Buy-out (LBO) techniques": Several methods are available in this report to give you the necessary confidence to close any deal using this approach. The report will help your future endeavors in purchasing a company using its own money, rather than your own, for the down payment. This report mentions other new strategies, such as MBO (Management buy-outs) and other useful tactics that are popular in this millennium.

Price: $8.99

Report 6: "Use other form of equity to finance the business": Others form of leverage (credit cards, home equity) are available to finance your new business. We'll help you find the best deal for money equity, again, without having to use your own money to finance the acquisition. Lower interest rates (credit cards) are also available for this kind of financing. This report will provide you with contacts to find these

Price: $6.99

Report 7: "How to find business brokers and what to ask them": Brokers are available to supply you with the needed information to select the right business to buy. This report will enclose the contact information of several business brokers in the United States.

Price: $5.99
Report 8: "How to write THE marketing plan": Knowledge in this field is a must for potential funding. This report will take you through the steps of writing your marketing plan, which is needed if you are going to finance it through a bank, the government, or the Small Business Administration. This report will give you advice on who to approach, as well as the prerequisites necessary to obtain financing from them, both in present and future ventures. Samples of marketing plans are included on a floppy disk for your convenience. We will also include ways on how to get the necessary funds (mostly grants) to finance your business. The government can be a gold mine when you know where to retrieve the money. We’ll give you that path.

Price: $9.99

Report 9: “For Canadian residents only”. This report includes all government entities that are similar to the one mentioned in the book. These entities will help you with your business plan, market research, grants etc… This report includes telephone numbers, websites and e-mail addresses. Each agency will have a specific purpose and you need to be very specific in your demands. Bear in mind that these agencies will direct you to the right source of information, without losing you too much time in the process or giving you too many gray hairs and heart attacks.

Price: $6.99
Reminder: The more knowledgeable you are, the more smoothly the process of acquisition (or takeover) will be. How you use this information is your decision, but we are confident that it will help you reach your dream, The American Dream.

REPORTS ORDER FORM

Note: Tear this page and photocopy it for future orders. You can order the reports one by one as you determine your need for them. By ordering all the reports at the same time, you will pay one shipping and handling fee, which can save you money.
Please fill out the form below and make sure to mention the Program Report number you would like us to send you. Add the total cost of the reports plus (add $3.50 for S & H inside U.S, $5.00 for Canada (in U.S funds) and $7 for International orders. If reports are e-mailed to you, there is no cost of shipping). Send a money order or cashier check payable to:

Pro-Ace International.
29 Marwood Court
Rockville, Maryland  20850
E-mail: proace_intl@hotmail.com

Report #:________________________________________________
Total Amount*:___________________________________________
Full Name:_______________________________________________
Address:_________________________________________________
City:_____________________________________________________
State and Zip Code:_______________________________________
Telephone number:________________________________________
E-mail Address:___________________________________________
(used to notify you of upcoming seminars in your area and to e-mail you the program reports)

Tear this form from the book and make sure to make photocopies of it in case you need to order more reports in the future. These reports should be kept for reference and used as a tool to increase your confidence in all of your future endeavors.

*Maryland residents, please add 5% sales tax to total.
Bibliography:

I wish to thank the following authors and many other professionals in the field of acquisitions and take-overs for the valuable information I learned from their publications which has enabled me to write this book and the Reports:

**Major source of information:**
Material from the following:


Kossmeyer, Carl. “Bootstrap on entrepreneurship” seminar.


**Other sources of information, conventions and seminars**


Webpage: www.yahoo/SmallBusiness/BuyaBusiness/Buyersresources


Pictures in beginning of each strategy: Microsoft ClipArt.

I would like to thank equally, the authors of the quotes mentioned below, taken randomly throughout my many years of reading books and manuscripts about business. These quotes have been very inspirational to me and will definitely be to you as well.

“*The secret of a successful forty hour work week is to work at least sixty hours…”*

“To be a success in anything, be daring, be first, be different…”

“Work smarter, not harder…”

“An opportunist is a fellow who takes the cold water thrown at his ideas and makes ice cubes with it…”

“It is no disgrace to start over, it is usually an opportunity…”

“It takes twenty years to make an overnight success…”

“Six essential qualities that are key to success: sincerity, personal integrity, humility, courtesy, wisdom, and charity…”

“Progress is the activity of today and the assurance of tomorrow…”

“We work to become, not to acquire…”

“If there are moments when everything goes as you wish; Don’t be frightened, it won’t last. The only sure thing about luck is that it will change…”

“On the door to success, it says: Push and Pull… The journey to a thousand miles begins with one step… and finally,

“SUCCESS IS NOT A JOURNEY, IT’S A DESTINATION…”
How do you buy or start a business with none of your own cash

Notes and Reminders

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