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# **SECRETS** *of* **BUYING** **THE RIGHT BUSINESS** *(for you)* **RIGHT**

A ROADMAP TO YOUR FAMILY BUSINESS

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— *From a declaration of principles jointly adopted  
by a Committee of the American Bar Association  
and a Committee of Publishers.*

*This book and video are dedicated to . . .*

America's family business owners in our hometowns - both present and future. They make "Main Street" work even when "Wall Street" doesn't. They are our neighbors. They get up every day, usually before sunrise, to open their businesses to provide goods and services that make our lives better, provide jobs for others and contribute greatly to the quality of our lives and our communities and our country.

They are "America's Amazing Economic Engine" that celebrates and nurtures the entrepreneurial spirit that has made this the greatest economy in history. They are part of the American Dream of business owners - they create value.

**GOOD for THEM, GOOD for US!**



Ed Pendarvis, Sunbelt Founder, and Sunbelt Office owners welcome Peter Shea, CEO of Entrepreneur Media, Inc. as keynote speaker to the Sunbelt Annual Meeting in San Diego, California in 2004.



Members of the Class of 1965 attend the Business School Hall of Fame Dinner at the Citadel's Holliday Alumni Center. Edward T. Pendarvis (holding award, center) was one of the 2007 Honorees.

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## Contents

|            |  |    |
|------------|--|----|
|            | Preface  | ix |
| Chapter 1  | Decisions                                      | 1  |
| Chapter 2  | Start Up/Buy Existing<br>/Buy A Franchise?     | 11 |
| Chapter 3  | What Are You Buying?<br>– Earnings (Lifestyle) | 17 |
| Chapter 4  | Business Size Makes a Difference               | 23 |
| Chapter 5  | Value Drivers of a Business                    | 31 |
| Chapter 6  | How Do You Find the Right Business?            | 37 |
| Chapter 7  | Focus Is Important                             | 41 |
| Supplement | The Family Business, the Family Farm           | 47 |

|            |   |     |
|------------|---|-----|
| Chapter 8  | How Much Can I Make?                                    | 53  |
| Chapter 9  | Financing, the “Mother’s Milk”<br>of Buying and Selling | 61  |
| Chapter 10 | Negotiate with a<br>Buyer/Seller-Friendly Offer         | 71  |
| Chapter 11 | Due Diligence – (Never Fun and Easy)                    | 85  |
| Chapter 12 | Closing the Purchase and<br>Taking over Ownership       | 95  |
| Appendix   | Sample Forms and Agreements                             | 113 |
|            | About the Author  | 131 |

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## Preface

**W**OW! 2008 was an interesting year. The “Earthquake on Wall Street” has redefined our national economy and helped recalibrate our personal economic world at about 65 percent of where most folks were. Our home value and home equity may be down, our personal retirement portfolio is down, and our job security is down. If you still had a job after the meltdown of the housing market, the financial markets, the stock markets, the auto industry, \$4 per gallon gas prices, and a low consumer confidence level that has translated into a very slow retail recovery . . . you were doing pretty well. But, for how long?

Did you see the longtime employees of Lehman Brothers walking out of their headquarters building on Wall Street in New York last year with their “jobs and other possessions” in cardboard boxes? As the unemployment numbers rise, are YOU ready for, or do you dread the possibility that, a “pink slip” might be in your future - perhaps through absolutely “NO FAULT” of your own? I maintain that the prospects for economic stability and growth are far better on Main Street

than they are on Wall Street. And this may be the best time for you to consider going into business for yourself and providing for your own job security.

That is exactly why I wrote this book. You have some very good and powerful options available to you in the “world of work” that I believe you should consider. And these opportunities are available to you right in your hometown where you live or want to live. One of those options is to OWN YOUR OWN BUSINESS - “You Can Do It,” as Home Depot says, and, “I can help.”

Just as I have helped thousands of other buyers and sellers of businesses over the last thirty years, and just as I have helped train thousands of business brokers as I helped build Sunbelt ([www.sunbeltnetwork.com](http://www.sunbeltnetwork.com) - click on tab “About Us” for more information) into the largest business brokerage network in the world with hundreds of offices and thousands of brokers in the United States and thirty foreign countries.

However, I do not believe that this goal can successfully be reached simply by purchasing and reading a book - this one or any other one. It will take some specific decisions, actions, and “heavy lifting” on your part in concert with expert, experienced, and professional advice and counsel. We have laid out a road map to help you follow a proven step-by-step process (protected all the way as best as is possible), to finding, valuing, negotiating, financing, buying, and owning your own successful business.

Although the process may have some cost and risk (some known and some unknown at this point), the potential results

are priceless! (And, any cost and risk will be defined, disclosed and discussed ahead of time - I do not like surprises, unless they are happy surprises, and I’ll bet you don’t either.)

This process or journey will be a “partnership” between you and me. We will develop a TEAM APPROACH to assist you in reaching your goal. Our TEAM will consist of you, the buyer, me, the buyer’s agent and advisor, the seller (who wants or needs to sell), any local business broker involved, accountants and lawyers as needed, landlords, lenders, and anyone else that would like to see a successful transaction between you and a seller.

We will incorporate many of the steps listed below and others, as the need arises. We will be:

1. Sharing experiences, processes and procedures, and recommendations as laid out in the chapters and pages of this book
2. Sharing ideas, back ground, methods and “war stories” based on years of successful business deals in DVD and CD formats, to enhance your and your spouse’s comfort level and understanding of the book information
3. Offering live telephone, Webinar, e-mail, and SKYPE conferences (in groups/one-on-one)

4. Offering actual business buyer's agency and advisor services to quarterback the team to assist YOU in locating and buying the right business (for you) - right
5. Using industry databases, experience, and valuation methodology to help arrive at fair and workable prices, terms and conditions on the business

You want to buy a business and the seller wants and/or needs to sell a business. This should not be an adversarial process. You are both trying to get to your own goal line. The good news is, . . . it is the exact same goal line. A business deal that allows you to buy a business that will provide a living for you and your family and, at the same time, allows the seller to exit the business and get paid for the value of the business. You both win!

Forget Wall Street. (Wall Street has most certainly already forgotten you.) Make the decision now, this day, to invest in a sure thing - INVEST IN YOURSELF. Decide to be a part of the American Dream and own your own business. Go to work each day and for the rest of your life on behalf of the man or woman you look at in the mirror. He or she always has you and your family's best interest at heart and they won't fire you in midcareer.

You just may accomplish three very important things:

ONE – You have a job for life (you are probably not going to fire yourself);

TWO – You have the opportunity to make more \$\$\$\$ (most every big business started off as a small business);

THREE – You are building equity in something that you own and can sell later, if you wish (you cannot sell your job).

Today truly is the first day of the rest of your life. If not now - WHEN? If not you - WHO? If not where you live - WHERE? Life is not a dress rehearsal. Your future and my future is here and now. And, I would consider it a personal honor and privilege to assist you in making the right decision for you and your family in “Buying the Right Business (for you) Right.”

Simply order or download a copy of my book and the DVD segments on the process, and let's get started. You can e-mail me or call me for a FREE confidential initial consultation.

E-mail me at:

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Best Wishes and Respect,  
Ed Pendarvis, CBI (Fellow of IBBA)  
Business Broker, STUDENT/TEACHER  
Sunbelt Founder, Chairman Emeritus

# 1

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## DECISIONS

**C**ONGRATULATIONS! You are the person that has the responsibility of being the breadwinner in your family and you have made the decision to look at all of the possibilities of making a good living for yourself and your family, including owning your own business. **GOOD FOR YOU!**

In most cases that journey started long ago with a “paying job.” You may have started earning your own money with an after-school, weekend, or summer job. However, once you became a grown-up, the part-time job was replaced by a real, full-time job that provided an income for you.

If you were determined enough and fortunate enough to graduate from high school, tech school, college, had military experience and training, or a postgraduate degree, your chances of getting a better-paying job were greatly enhanced. Through the development and use of your skills and talents, both learned and “God given,” you have added value to your employer and hopefully, grown with your employer - both in job status and income.



While that has worked for you so far, you have probably also noticed that there is a limit to your opportunities as an employee - both in growth potential and income potential. And, as you “play down the board,” there is very little chance that you will (1) stay in that job for life (either by your choice or by circumstances that you do not control) or (2) ever become wealthy working for someone else.

Please think about this: what do you need from a job? You need an income. You need an income to provide a “lifestyle” for yourself and your family. You need an income to make the house payments, the car payments, and to feed and educate your children. You need an income to provide for trips, vacations, new and bigger “stuff,” and for “the pursuit of happiness” (however you may define it). And, you need an income to provide for eventual retirement.

There are basically two ways for you to provide an income for you and your family - you can work for someone else or you can work for yourself. Both have rewards and both have risks. And, as Brian Tracy, noted business coach and author of several excellent business books says, “either way, when you think about it, you are always working for yourself.” The difference is that in the first case you are helping to build someone else’s business, and in the second case you are building your own business.

I believe, with all my heart, that you are far, far better off using your skills and talents to build your own business. And, incidentally, there are reasons that owning your own business is often referred to as the American Dream. We will explore

several of these reasons in this book, on DVDs and in Webinars, as well as show you how you may apply them to your own and your family’s benefit.

Now, that does not mean that it is easy, or that “dreaming” will get you there; however, everything begins with a dream, an idea. That is followed by desire and decisions, followed by planning, preparation, and specific actions that move you in the direction of your dreams.

You have taken a very important first step by picking up this book. **DO NOT STOP!**

I can help you and I can work with you and show you how to marshal several other good, experienced professionals in your community to help you. I have spent my work life helping folks just like you to value, sell, and/or buy existing successful businesses and franchises. Hopefully, you will look at your options and decide to look further into the process of “How To Buy the Right Business (for you) Right.”

This is a very specific process, and, while it is not necessarily easy, it is definable, and it definitely is important. In fact, it just may be the second-most important decision that you will ever make in your adult life. (How are you going to provide an income or lifestyle for yourself and your family?)

The most important decision that you will probably ever make in your adult life is choosing a spouse. It has been said that 90 percent of your future happiness and success (or lack thereof) may be tied to that one decision. Since I do not claim any qualifications in affairs of the heart, I would not touch that decision with a ten-foot pole. However, the second-most

important decision is how you are going to provide a living for yourself and your family through buying a business, which is my specialty - it is what I do.

With the Lord's help, and with the help of very good friends and associates, I founded and built Sunbelt into the largest business brokerage franchise network in the world. I have personally sold or helped manage the sale of over one thousand businesses, in all categories, over the last thirty years. Now Sunbelt sells one thousand businesses every three to four months. COOL!

I have also learned a great deal from other professionals in business brokerages over the last twenty years as an active member/student/teacher/participant and board member in our industry trade group, the International Business Brokers Association (IBBA), [www.ibba.org](http://www.ibba.org). As I have traveled around the United States, Canada, and the United Kingdom I have been surprised and pleased at how small, private businesses sales and transactions work, with some degree of similarity, in all fifty states and all around the world.

I have also been pleased and impressed with the education, experience, market knowledge, ethics, and value that a good business broker brings to the marketplace - for both the seller and the buyer. That can be important to you as we move through this process because of the confidentiality of business sales - it is very difficult to find a good business that is for sale in your community. There are no "for sale" signs like you see in real estate sales.

Each deal has a very important seller that is probably selling his or her largest and most valuable asset, except for the seller's family, of course, and the seller probably wants as much as he or she can get for the business. Each deal also has a very important buyer that is risking a substantial portion of his or her life savings in buying a business to obtain the owner's benefit that the business provides, and the buyer wants to pay as little as possible and does not like risk.

Somewhere in there is a fair deal, with price, terms, and conditions that work for both sides. And, keep in mind . . . we are usually not dealing with a foolish seller nor are we dealing with a foolish buyer. (Nor do we want to be.) For the deal to work, it has to work for everyone involved. The seller is probably going to have to take a little less than he or she wants to and the buyer is probably going to have to pay a little more than he or she wants to.

Also, for the deal to make sense, the owner's benefit has to be enough for the buyer to make a living and pay the debt service on the purchase as well as the other business expenses - or No Deal.

There is always a way to get there. However, before we approach the step-by-step process of making decisions on buying a business, let's look first at the process of decision making itself. Most all decisions, big and small, include these two steps:

1. It is a subconscious or conscious process of elimination that leads to a decision, and

2. It is encased in an all-things-considered decision that leads to action.

Let's start with the first, a subconscious or conscious process of elimination. When you bought your house that you live in now, didn't you look at several houses - perhaps different styles, different neighborhoods, different school districts? And for whatever reasons, you decided on the house that you did. When you bought your car, didn't you look at several different types and models of cars - different colors, different features, different dealerships? When you and your spouse got married, had you not dated others first?

For whatever reason or reasons - you eliminated the other choices and you chose this house, this car, this person. And, when you go out to eat - fast food or sit-down dining - they present you with a menu with from ten to thirty items that you could choose, and you choose "\_\_\_\_." All of these are a conscious, or a subconscious process of elimination. We choose the things that we want or like and we eliminate the things that we don't want or like. The results are the same - a decision, given the options that we have, about what we like.

Sometimes the second, all things considered, is a little more difficult to pinpoint. For instance, in making a decision to buy a house. All things considered, do we absolutely have and need to buy that house? Would the present house or apartment not do for a while longer? Do we have to have that car, or can we continue with our present arrangement? Do we have to get married, or could we not just continue to date for

a while longer? We do have options; however, at some point, all things considered (given the options that we have available), we decide on and choose "\_\_\_\_."

Well, that same process is the logical one that we will follow in this book, DVDs, CDs, Webinars, teleconferences, and business buyer agent and advisory conferences that make up a "holistic" approach that I believe is necessary to help you in making the best and right decision for you and your family. It is important to you and to me.

So, to really help you and add value to your process, I believe that I have to work with you just as I would if you e-mailed me, called me, or came into my Sunbelt office in Charleston, Myrtle Beach, Hilton Head, South Carolina, or Savannah, Georgia. We need to work as a TEAM; and to be successful as a TEAM, we have to define our relationship so that we know what we can expect from each other and how to proceed.

I believe that:

1. I have to get to know you.
2. You have got to get to know me.
3. We have to get local, trusted, professional help.
4. We have to have a menu of services to select from.

5. We have to understand each other's roles and responsibilities, and hopefully.
6. We have to like and trust each other.

This is a major decision that can have a huge and important impact on your family. And, just as in the medical profession, where there is a process, sequence, and procedure that the doctor follows: "examination, diagnosis, and then prescription" (and, prescription without examination and diagnosis is malpractice), there is a process, sequence, and procedure that we will follow. Your health is far too important to be handled without examination and diagnosis. Well, I maintain that your economic health is also far too important to be handled without examination and diagnosis. So we will utilize both, as a TEAM, and do our very best to write the right prescription for you.

Please note that I am not a lawyer or an accountant, and I am not qualified to give legal or accounting advice. Furthermore, even though I am and have been a real estate broker in South Carolina for over thirty years; I will not give you real estate advice or charge any fees pertaining to real estate. There will be times in the process when I will recommend that you seek legal and accounting advice. And keep in mind that all of the information on a specific business will be provided by the seller. The seller is the source of and responsible for all of the financial and other information that he or she provides about his or her business.

This is exciting - This is important and, no matter what, I congratulate you. You have taken the first very important step in owning a part of the American Dream of owning your own business for you and your family. It is my greatest hope that this book, its information, and this relationship will provide an easy-to-follow road map and prove to be of great value to you in making the right decisions and in getting you to your goal line.

Let's GET STARTED!

# 2

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## START UP/BUY EXISTING/BUY A FRANCHISE?

**O**K - Let's say that the first decision has been made. Now, or soon, you want to grab for the brass ring and go into business for yourself to make a living. You are choosing a path followed by Henry Ford, George Eastman, John Deere, Ray Kroc, Colonel Harland Sanders, Dave Thomas, Sam Walton, Ted Turner, Michael Dell, Oprah Winfrey, Bill Gates, and Martha Stewart. They all began with a small business, something that they liked and believed in, and with a lot of hard work, some course corrections, more hard work (and perhaps some divine intervention and a little luck), they built big and successful businesses.

These folks, and most other successful business people have three very important things in common:

1. They made decisions quickly and easily.

2. They liked what they were doing.
3. They owned their own businesses.

While all three things are important, I believe that 2 - they liked what they were doing - is probably the most important. You should keep these three things in mind as we move through the process. It is very important to find a business that you like. You will probably be spending more “awake time” in your business than you will be with your family (24 hours in a day, less 8 hours sleep, less 8–10 hours at work, less 1–2 hours travel = 4–7 hours left). That’s all right, you are the breadwinner, you are working for your family; however, you will be a lot better “family man or woman” if you like your work. And, you are human - you will always be more successful if you enjoy what you are doing.

As you make decisions, making decisions becomes easier. You set out on a course or a direction and start down that path and when you do there is a principle that will help you called the “corridor principle.” Think of a corridor in a building. You may not be able to see too far down the corridor just standing there. As you move down the corridor, however, you become aware of doors, windows, closets, stairs, skylights, bulletin boards, entrances, elevators, exits, and additional hallways that you never would have seen if you had not started down that corridor.

In order to make the best decisions for you as we move through this process, we need to start by gathering as many facts

and figures as we need; search for as much good information as is available and consider as many options and possibilities as are necessary. Study them and then select the best options for you. And, as we move down this corridor, additional options may appear.

There will be a series of small, medium, and large decisions that you will have to make as we proceed. It is also very important that we make sure that you are protected all along the way in this process. I will attempt to do that by keeping you informed, preparing you for the next step, and suggesting that we take one step at a time.

Now, I like analogies, so let’s say that there are several bridges that we have to cross to get you to your goal. All of these bridges have to be crossed and they are all important and necessary, and they need to be considered. However, let’s not let that overwhelm us. Whereas, some folks say, “We need to make sure that we agree on all of these ten–eleven bridges before we cross the first bridge,” I respectfully disagree. Let’s cross one bridge at a time. If we do not get across the first bridge, the remaining ten bridges do not matter.

Another analogy in finding and buying the right business is that it is kind of like finding the right mate and getting married. You would not go to the church dance, see someone you think is good looking, walk over and say, “Would you like to dance, get married, have four children and live in double-wide in Missoula, Montana?” would you? Let’s just start off with, “Would you like to dance?” If that doesn’t work - nothing else matters. In finding and buying the right business - let’s start

with the first decision, get by that and then take the next step, then the next, etc.

The real payoff to you and your family is in owning and growing your family business. You can add great value to your family's wealth by growing the value of your business. By far and away, the best route to personal and business wealth in America is through owning your own business. Day trading and flipping houses pale in comparison to the wealth that can be built in a successful family business.

So let's say that your first big decision has been made - you want to own your own business. The second big decision is (1) Do you want to start up a business, (2) Do you want to buy an existing business, or (3) Do you want to buy a franchise business? Each has some advantages and some disadvantages. Let's look at them individually.

First, a start-up. Whereas, this may seem the least expensive initially, US Department of Commerce statistics show that 65–90 percent of start-up businesses are not still in business after five years. There are many reasons for those numbers. One of the main ones being that no matter what type of business you start up, you have to get people (customers) to stop going wherever they have been going to get that product and/or service, and come and buy that product and/or service from you. And, you normally start with the normal costs and expenses (rent, inventory, furniture, fixtures, equipment, leasehold improvements, employees, training, advertising, insurance, etc.), and at first you have no customers and no sales (no income).

How long will you have to “burn” through your start-up cash before you start “cash flowing”? That means taking in more income through sales of your products and/or services than it cost you in cost of goods sold and expenses to produce those sales and operate the business. Can you and your family go for “XXXX” weeks/months/years without an income? Remember, in owning your own business, you are paid only “after” all of the other expenses have been paid.

Obviously, start-ups sometimes work very well, especially, if you have a product and/or service that is new and different and the marketplace accepts your new business. In most cases, however, I do not recommend starting up a business.

Second, buying an existing business. The same statistics that apply to the failure rate of small businesses show that if you buy an existing successful business (it already has trained employees, an existing customer base - existing sales, and an established cash flow - sufficient to pay the business' expenses and provide the owner with a living), there is a 90–95 percent chance that the business will still be in business after five years (provided, of course, that you buy it right).

Third, buying a successful franchise. The 90 percent plus success rate applies to buying a successful franchise also, provided that the franchise has already proven the market's acceptance of that franchise concept. This may be true even though the franchise that you buy may be a start-up in that location. For example, you are starting up a donut shop, and the franchise company has twenty-eight hundred other stores that have proved

successful in making and selling donuts. There is a pretty good chance that your franchise start-up will be successful.

Each of these business opportunities have some advantages and some disadvantages that we will discuss in the following chapters. As we look at your options, keep in mind that business brokers sell business opportunities, they do not sell business guarantees. In fact, if someone were to guarantee you success in a business venture, I would be very skeptical of that person and that business venture.

In business, in marriage, in life - we make the BEST DECISION, the BEST GUESS, that we can based on the best data, education, experience, and information available - then we add to the mixture two things: (1) that all important dose of common sense that the good Lord has given to all of us, and (2) a gut feeling that usually helps us make the right decision - or at least helps prevent us from making the wrong decision.

I am a big proponent of buying an existing successful business and working hard to first maintain that success and then to grow the business through the improvements that you make to management and to the business. It is the same rationale that big businesses use in merger and acquisition (M and A). They merge and acquire another business that has a product and/or service that has proven itself in the marketplace rather than starting a business from scratch. Most every big business has grown through buying another existing business that already had market share, customers, trained employees, cash flow, etc.

Now comes – ALL THINGS CONSIDERED!

# 3

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## WHAT ARE YOU BUYING? – EARNINGS (LIFESTYLE)

**O**K – Let's say that the second decision has been made. All things considered, you and your family see that the safest and best option for you to get to your goal of making a living (by owning your own business), is to buy an existing successful business or a successful franchise in a community where you live or wish to live. Uniquely, either way, you will have the opportunity of being in business for yourself, but not by yourself.

The existing business owner, who knows more about that business than anyone else in the world, or the franchisor, who knows more about that franchise than anyone else in the world, will have a vested financial interest in your success and they will help you to learn how to manage and operate the business successfully. That is a good way to start.

Please understand, no matter what kind of job you have, whether you are a clerk, a construction worker, a nurse, a school