

Red Flags in Choosing a Business Broker

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When selecting a broker to sell your business, be suspicious if:

The broker wants a significant or total fee paid upfront. Many brokers have begun taking upfront fees, but generally the total fee is a combination of an upfront fee and commission paid upon sale of the business. But in what Glen Cooper, president of Maine Business Broker's Network in Portland, Maine, calls a "take away" sale, an unreliable broker meets with you, runs some quick numbers, tells you that you can get your price or even more for your business, and then asks for a check to get started. In many cases, business owners are so relieved that they've found a broker and elated that they'll write a check on the spot, without checking any references. "They get to 'take away' your check when they leave," says Cooper. "You'll never see them again, if they can help it."

During your first meeting, the broker says he or she can get your asking price or higher. Be wary of too much optimism. "The key to selling is that the price be reasonable," says Jeff Jones, chairman of the board of Certified Business Brokers LC in Houston and president of Certified Appraisers, Inc., the firm's appraisal practice. And according to Tom West of Business Brokerage Press in Concord, Mass., most owners overvalue their businesses. An unreliable broker might suggest after a brief meeting with you that he or she can get you your asking price or higher for your business.

The broker doesn't have a Web site. Most likely, if the broker doesn't have a site, he or she is behind the times. The Internet is a powerful marketing tool for business brokers, according to Cooper. Is the site well written? That's another way to gauge a broker's competence, he adds.

The broker can't or won't show you printed marketing materials. "Today, all brokers prepare some kind of offering summary for each business they represent," says Cooper. He or she should be willing to share materials prepared for past clients to show you how they might handle your business.

The broker doesn't seem well grounded in business valuation. "Your broker should be able to explain business valuation to you clearly," Cooper says. If he or she can't, then how can he or she explain to a buyer what your business is worth? Make sure your broker is confident in this area.

The broker is not licensed to sell or lease real estate in your state. Ninety-two percent of business brokers have a real estate license, according to an annual survey of business brokers West conducted. Even if your business doesn't include real estate, make sure your broker carries the license. "Unlicensed brokers are usually new to the business or out-of-state con artists," warns Cooper. And just because the broker holds a real estate license doesn't mean he or she should be selling commercial or residential real estate too. A good broker will hold the licenses but be focused on selling businesses.

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