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INFORMATION

**THE CERTIFIED BUSINESS
COUNSELOR**

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EDITOR'S COLUMN



Another year. Optimism? Negativism? It's the old half-a-glass of water (or another beverage if you prefer) question. Is 2005 going to be a banner year? A dud? Are you changing your business model? Every good ICBC member is asking/anguishing over the same questions.

Personally, I see much more optimism in my little corner of the world for business in general and for making moves which involve risk. Theoretically, that means more transactions, more startups, more people looking for a business to buy and run and – hopefully – more revenue for me. Hope you all share my optimism.

This issue reflects yet again the energetic, can-do attitude of our member ship. All articles were written and submitted by our generous, hard-working members who volunteer to share the wealth of their experience so people like me can shorten their learning curve and their path to success. It is not only one of the many member benefits of ICBC, it may be the biggest benefit.

Another plug for the October, 2005 meeting. San Antonio will be gorgeous in the fall. Think about bringing a significant other and spending some extra time there. The best way to leverage a business meeting is to recharge your personal batteries around the meeting with some leisure time. Makes good fiscal and logical sense. See you there!

Onward,
Michael Coates

If you need additional information or assistance or if you have any information or articles you would like to share, please submit them to:
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A Win-Win-Win Idea!

The ICBC Board of Directors has embraced an idea that was advanced at the last conference in Chicago—a Mentoring Program. The original scope will be to partner experienced CBC's with new members to help them get the most benefits out of their membership.

In my opinion, the Mentor will **WIN** in the exchange from the networking opportunity, the Mentored will **WIN** in the same way plus realize their membership benefits sooner, and, ICBC as an organization will **WIN** because our new members will be more productive and involved. The Mentor can also refer them to other CBCs and MCBCs for the answers to specific questions, thereby demonstrating the friendliness and camaraderie of our organization.

I will begin pairing new members and their Mentors in February, so if you are interested in becoming a Mentor, please send me an email. It will be a rewarding experience, a great contribution to the Institute, and will be very appreciated by our newest members.

Thanks.

Charles Edmonds
My email address is:
charles@charlesedmonds.com.

PRESIDENT'S MESSAGE

Fellow ICBC Members,

May I wish you a highly successful New Year and prosperous growth in your individual professions. As we start the new year, your organization has been very busy. The committees have begun progress toward their individual goals for 2005 with input from members of each committee. The general goal is toward improving ICBC and increasing member benefits. It is gratifying to see so many members involved for the betterment of ICBC. If you are not currently involved on a committee, I urge you to contact any Committee Chairperson to learn more about becoming a member.

Regarding developing member benefits, I would like to hear from you regarding a program that would help you with specific questions. A perfect example occurred this week when an ICBC member contacted me about a business valuation issue he had while compiling the financial information on a business he is listing. My thoughts are to set up six-member panels from the various disciplines of ICBC and members could submit questions in a confidential setting. Your comments and suggestions would be greatly appreciated you may contact me at kc@conradvaluation.com.

I personally would like to extend a big thank you to Ray Hanson and Shannon Pratt for making a special trip to visit Wally Stabbert. See the story of their visit on page 5 of this newsletter.

As always if you have any questions or concerns, please contact me.

Respectfully,



KC Conrad, CBC, President

BUYER QUALIFICATION

BY J. MARK RICHARDSON, CBC



Most small and medium sized businesses are sold with some form of deferred payment. The deferral usually comes in the form of an installment note, non-compete contract, or consulting agreement. Whatever the deferral mechanism, they all create a risk to the seller that the promised and expected funds may not be collected. Apprehension about receiving payments in the future may be the number one reason why business sellers fail to complete transactions.

Buyers who recognize sellers' concerns early in the process have a better chance of purchasing companies. Serious, motivated buyers openly share information about their finances, borrowing capacity, management experience, credit and references and find that sellers are more open and willing to discuss the business because they know the buyer can complete the transaction.

Buyers should expect sellers to complete a due diligence review - similar to what the buyer will require when the books and records are examined. To verify financial strength, detailed financial statements should be presented as well as credit reports and references. Sellers will also want to know about the buyer's character, employment history, whether the buyer has purchased other companies, post acquisition performance, management style, relationships with acquisition lenders and, most importantly if the buyer has honored its obligations.

Business purchasers who anticipate a "sellers due diligence" in their acquisition approach are more likely to complete a transaction.

Frequently Asked Questions

Planning for the sale of your business is probably one of the most important tasks you will ever undertake - and our experienced staff is here to answer your questions. We encourage your questions by email to editor@jmrichardson.com (All replies are confidential)

How long will it take to buy a business?

The individual buyer should expect it to take from 18 to 24 months to locate a business, negotiate terms and close the transaction. More experienced buyers can locate and close deals in as little as 90 days.

Why the difference?

Individuals usually do not have their acquisition parameters well defined or a disciplined method of dealing with sellers. Since many of the better businesses for sale sell quickly, prospective buyers miss deals because they don't act decisively, or are not prepared to make an offer. Corporate buyers are generally better prepared and individual buyers seeking certain types of businesses are almost always at a disadvantage because they don't convince the seller at an early stage that they can complete the transaction. The individual buyer should develop a written acquisition profile, set aside funds for a down payment and get pre-qualified for financing prior to meeting with sellers. Most importantly they should communicate this to the seller at the first meeting.

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Seven Deadly Sins In Ill-Prepared Business Appraising Reports

James R. Palmer CBA, BVAL, CBC



Seven Deadly Sins? Actually, the errors that can be made in a business appraisal are infinite. Well, maybe not infinite, but more than I can list in this short article. What I want to convey to you is a list of some of the most common “deadly” mistakes that are made when preparing a business appraisal.

1. **Advocacy and bias.** A business appraiser should prepare a valuation in a nonadvocate and unbiased manner. Concealing or misrepresenting facts to produce a value that is preferred by the client is against ethics and standards in the profession. Avoiding methodology because it may be detrimental to the value the client wishes is also unethical. These are major reasons why the business appraiser should not be connected with the business in any way. There is an ongoing debate in the business appraising community as to whether simply disclosing a connection to the business in the report is sufficient. With the passage of the Sarbanes-Oxley Act of 2002 and the current political climate, it is more important than ever to observe the proper ethical business appraisal standards, including nonadvocacy. If you are the company’s accountant or business broker, should you be appraising the business?
2. **Inappropriate or unclear function or standard of value.** Correctly determine and define the function and standard of value. The function, or reason, for the appraisal can be many things. Selling, buying, estate and gift tax, marital dissolution, buy/sell agreements, acquiring loans, and economic damages are just a few reasons why a business appraisal is prepared. The standard of value is the type of value to be estimated. Fair market value, investment value and fair value are the most recognized standards of value when valuing a closely held business. However, it is not enough just to state the standard of value; a definition of the applied standard must also be explained. The exact definition of a standard of value can change, especially in the legal profession and from state to state.
3. **Lack of development and support.** Adequately develop and support the discount and/or capitalization rate applied. The method used to arrive at these rates may vary according to the specific appraisal assignment. Nevertheless, there are specific steps that should be followed when determining these rates. The appraiser cannot just say he has determined a rate without explanation for the basis of the rate. The steps must be explained and the determined rates must be supported with market data.
4. **Sole reliance on number crunching.** A value that has been calculated by just a page or two of number crunching does not equate to a well substantiated and thought out business valuation. Some business appraising “experts” rely solely on the same formulas or methods for every valuation. The numbers are just added into a pre-made template to conclude a value. This is often seen by people coming from an accounting background. An appropriate business appraisal is a lot more than that just crunching numbers. Internal Revenue Service Revenue Ruling 59-60 is still appropriate for guidance for some of the fundamental factors that require careful analysis for most business appraisals.
5. **Lack of site visits and management interviews.** The appraiser should make every attempt to visit the location and interview management. If the company has numerous locations, the appraiser should walk through at least two or three. Preferably, the appraiser should choose the locations in order to avoid being shown only those facilities that an owner or manager wishes the appraiser to see. Further, a lot can be learned from talking and listening to management and employees. Yes, there will be times when neither a site visit nor interviews are possible, but every attempt should be made and the details should be disclosed in the report. Much can be learned from what is known as “feeling the dirt” in the business appraising profession.

(Continued on page 5)

6. **Poorly constructed report.** A business valuation report must be arranged in a manner that allows the reader to follow the process and reasoning for the appraiser's opinion of value. This does not mean the reader has to agree with the appraiser, but enough information should be provided so that the reader can understand the process. A report that is poorly organized, filled with grammatical errors, or lacking a logical flow will not communicate the appraiser's thought process to the reader.
7. **Lack of consideration of premiums and discounts.** A major fault often seen in ill-prepared business appraisals is the lack of applying a premium for control or discount for lack of control or discount for lack of marketability when appropriate. On the other hand, if a number is applied, it may have been picked out of thin air without proper support for the premium or discount chosen. This number can greatly affect the concluded opinion of value and sufficient time needs to be spent preparing the calculation and explaining the reasoning behind it.

These are just a few of the errors I have seen in business appraisals. There are many others including arbitrarily taking an average of several factors and basing the valuation on the results, improperly explaining the interest being valued, not listing assumptions and limitations which may have affected the opinion of value, not examining competition and industry trends, or not attaching appraiser's education and experience in business appraising. All business appraisals should follow the standards presented by one of the leading organizations for business appraising, such as The Institute of Business Appraisers or the American Society of Appraisers. This only covers a limited list of sins that are seen in business appraisals. If you have any questions or comments, feel free to call me.

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Wally Stabbert Visitation by Ray Hanson, Past President

On Thursday December 16th, Dr. Shannon Pratt and I drove down to Eugene, Oregon to visit our Chairman Emeritus Wally Stabbert and his lovely wife Eleanor. The purpose of the trip was many fold—to present Wally with his Master Certified Business Counselor award; give Wally his check paying off the debt for expense money he had advanced to the organization many years ago; and to spend time with a couple who dedicated over a quarter of a century to lead and build the Institute of Certified Business Counselors. On our arrival, we found Wally weak (he had been hospitalized for a week before Thanksgiving and 10 days after) but in great spirits. On the 2 hour drive down to Eugene, Shannon and I discussed the ICBC history and all the great times we had with Wally. We thought that when we arrived we would do the same with Wally and it might get a little sentimental, we were wrong. We spent the afternoon with Wally and all he could talk about was the future of ICBC and how proud he was of the dedication and all the hard work the board of directors and the members had done to reorganize the organization and position it for future growth. We did have a great time laughing at a few old stories

and memories, but Wally's focus was the future and his desire to be able to travel and possibly attending another ICBC annual conference. Before we left, we had a surprise telephone call from Bob Cimasi, CBC, who was calling to congratulate Wally on his MCBC and his getting out of the hospital. Much laughter from Bob's stories made our leaving Wally in good spirits easier. On the drive home we discussed how lucky we were to have such a great friend like Wally.

PS Wally would really appreciate hearing from his friends; his home telephone number is 541.349.0753.

