



Get a Retainer

When I entered business brokerage in 1985, I joined a franchised main street business brokerage office. During the almost 10 years I spent with that office I saw 150 agents, and this is a conservative estimate, come and go. I also outlasted two owners. In 1994 I started my own firm to focus solely on transactions in the lower-end of the middle market (companies with a valuation between \$1 million and \$30 million). My firm's first policy was that we would not represent an owner who did not pay a retainer (which is credited at closing).

Any broker can list a business for 2 or 3 times what it is worth without a retainer. The primary reason the 150+ agents left is because they could not sell what they listed. The philosophy of listing of the business at any price and them beating up the owner when you received an offer resulted in less than 20% of the businesses listed were sold.

Will a business owner pay a broker a retainer to sell their business if the business is listed at 2 or 3 times its value? No, owners know you have almost a zero probability of selling it at that price and the retainer is money down the drain. This is the primary reason business owners resist writing a retainer check. I suggest that by collecting retainers you should sell 80% of the businesses you are retained to sell. I could also argue that we should get retainers because we are professionals and professionals collect retainers. I could also say retainers give you the money to market listings so you are not out of pocket the costs of advertising, production of marketing materials, etc.

In conclusion, you will be more profitable because you are selling a higher percentage of your listings and not out of pocket on the ones you didn't sell. Collecting retainers is a good business decision.

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