



**STEPS TO  
SUCCESS**

# **YOUR GUIDE TO THE BUSINESS BROKERAGE PROFESSION**

Advancing entrepreneurship by facilitating the successful sale of businesses, locally and world-wide.

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## INTRODUCTION

Congratulations! You have decided to consider entering into one of the most important and varied career fields available today - Business Brokerage. In simplest terms, Business Brokers act as an intermediary between buyers and sellers of businesses. But being a Business Broker (or Intermediary as the term is interchangeable) is anything but simple – or easy. It is a multi-faceted discipline that calls upon many skills and characteristics to be successful. However, for the right person, it can be a highly rewarding and lucrative venture.

This short guide is intended to answer the most common questions people have about entering the Business Brokerage field in the United States. It should not be the end of your quest for knowledge, but rather the beginning of a thorough process to determine if Business Brokerage is right for you. Our goal is to provide some insights and perspectives to help you make the most informed decision possible.

If you'd like to learn more after reading this Guide, the Getting Started section has additional recommendations and resources.

# THE MARKET FOR BUSINESS BROKERAGE SERVICES

One of the exciting aspects of Business Brokerage is that it can be approached in so many different ways. You can use your financial skills to analyze cash flows, broker large transactions with strategic buyers or exercise your entrepreneurial background to work with Main Street business owners. This section explores the industry's demographics and demand.

## INDUSTRY SEGMENTS

The business intermediary industry tends to self-partition itself into categories based upon the value of the business transaction:

- 1. Main Street:** Businesses valued at less than \$2 million, which may include owner-operated businesses and franchises, and often sell to an individual operator replacing an owner or can be an add-on to growing businesses. This accounts for approximately 90% of all businesses in the United States.
- 2. Lower Middle Market:** Businesses valued between \$2 million and \$25 million, often appealing to individuals escaping the corporate grind, or to strategic or private equity buyers.
- 3. Middle Market:** Businesses valued between \$25 million and \$50 million, which are often targets of similarly sized or larger companies or private equity groups.
- 4. Upper Middle Market:** Transactions for businesses over \$50 million which often involve corporate M&A firms and investment bankers.

You should know these partitions are not universal and there is often debate about the dollar amounts used to define where a segment stops/starts. Further, some sources will use revenue, instead of value, to define these segments.

## THE MARKET FOR BUSINESS BROKERAGE SERVICES

It's even arguable that neither revenue nor value are the best criteria for classification. For the purposes of better understanding the business intermediary profession, consider the following:

**(1) Geography:** For a Main Street transaction, all the parties (brokers, seller, buyer, other advisors) tend to be local, or involve a buyer relocating to the area. In fact, a Q1 2020 Market Pulse survey revealed that for transactions less than \$500k, 70% of the buyers resided within 20 miles of the seller. For larger transactions there is a greater likelihood that the broker, seller and buyer are not located in the same geography, and there is a greater likelihood that these buyers may not relocate to the area or may move the business operations.

**(2) Deal Structure:** Main Street transactions are typically asset sales, meaning they only include the tangible and/or intangible assets of the business, and the Goodwill value of potential future cash flow. Conversely, larger transactions are more likely to be stock sales, where the buyer purchases the selling shareholders' stock directly, thereby obtaining ownership in the seller's legal entity. It is important to note that according to current federal law you must have a securities license to broker a stock sale or any transaction that involves securities.

**(3) Buyer Profile:** Most people looking to acquire a Main Street business are first-time buyers, many of whom will be hands-on in running their newly acquired business. These first-time buyers often require a significant amount of time and hand holding and are easily influenced by outside advisors, including friends and family members. In contrast, Middle Market transactions consist of: (a) businesses looking for growth/synergistic business acquisitions; or (b) Private Equity Groups (PEGs), who rely on input from financial and legal advisors and investment bankers.

However you choose to think of these segments, those working on Main Street transactions are most commonly referred to as "business brokers" or "business intermediaries." Those in the Lower Middle Market often refer to themselves as "business intermediaries" or "M&A advisors." And "M&A advisors," or even "investment bankers," is typically used in the middle to upper markets. In most cases, a business intermediary works on a blend of different size transactions in any given year depending upon their interests, tenure and niche focus areas.

The IBBA focuses on educating and promoting Main Street Business Brokers and preparing those Brokers who want to progress into the Lower Middle Market. Our related association, the M&A Source, focuses on Lower Middle Market education and advancement.

# THE MARKET FOR BUSINESS BROKERAGE SERVICES

## TYPES OF SERVICES

The majority of business intermediaries focus on representing business owners to facilitate the sale of their business to a buyer. This is referred to as “sell-side” or “seller representation.”

Some intermediaries, particularly those who engage in Lower to Upper Middle Market activity, will also represent buyers. In this scenario, you are hired to find a business for your buyer-client to buy or invest in. This is referred to as “buy-side” or “buyer representation.”

Business Brokers may also add numerous other synergistic services to their business model, such as:

- Exit Planning
- Valuation
- Real Estate Brokerage
- Coaching/Consulting
- Franchise Sales

## INDUSTRY SIZE & COMPOSITION

It is difficult to define and quantify with certainty the number of Business Brokers practicing in the U.S. because some individuals may only be doing it part time, or as an add on to another primary business (a real estate agent, or an attorney or CPA who also purports to help clients facilitate their sale of the businesses, for example).

According to IBIS World there are 3,593 business brokerage firms in the U.S. and 11,411 Business Broker individuals. Business Brokers may work as an agent for an existing multi-broker office or may choose to start their own business brokerage practice, whether on their own or as part of a franchise system.

A Business Broker owning his/her own practice is most likely to be a sole proprietor and/or may hire additional Business Brokers functioning as agents, which are typically independent contractors. Business Brokers entering this profession may benefit by joining a firm, even though they will have to give a percentage of commissions to the firm, because the learning curve and access to leads may put them far ahead of starting up independently. Starting from scratch, without the benefit of mentoring from an experienced broker, is listed as a reason many new brokers struggle to establish their practice.

# THE MARKET FOR BUSINESS BROKERAGE SERVICES

## DEMAND AND COMPETITION

According to IBIS World, business brokerage industry revenue is forecasted to increase to \$1.4 billion in 2022. The demand for business brokerage services is primarily derived from the number of people looking to sell businesses. Specifically, as a greater number of aging business owners approach retirement, there is an anticipated demand influx on the horizon. According to the U.S. Census Bureau, Baby Boomers own 2.34 million small businesses in the United States.

IBBA's Q3, 2020 Market Pulse quarterly survey also reports Retirement as the number one reason business owners are considering an exit across all sectors.

## TOP 2 REASONS SELLERS WENT TO MARKET (BY PURCHASE PRICE)

<\$500K	RETIREMENT <b>38%</b>	NEW OPPORTUNITY <b>17%</b>
\$500K-\$1MM	RETIREMENT <b>67%</b>	BURNOUT <b>12%</b>
\$1MM-\$2MM	RETIREMENT <b>69%</b>	BURNOUT <b>10%</b>
\$2MM-\$5MM	RETIREMENT <b>65%</b>	NEW OPPORTUNITY <b>9%</b>
\$5MM-\$50MM	RETIREMENT <b>60%</b>	NEW OPPORTUNITY <b>15%</b>

Other factors that impact the appetite for selling/buying businesses, and thus the demand for business brokerage services, include:

- Current tax regulations
- Small Business Administration (SBA) financing programs
- Stock market performance
- Workforce availability (of employees)
- Job availability (i.e., alternatives for buyers)
- Overall economic performance

As a Business Broker you will face competition from other Business Brokers, but the greatest sources of competition actually come from: a) business owners who believe they can sell the business themselves; and b) online marketplaces that attempt to circumvent the need for a Business Broker with For Sale By Owner (FSBO) listings.

Overall, the industry is fragmented with no one, dominant competitive firm.

# KEY SKILLS AND CHARACTERISTICS

Business Brokers, like all business owners, wear many hats. In addition to performing the general functions of a business owner (if applicable), successful Business Brokers will possess a broad range of skills and characteristics. Perhaps the most important of these is the ability to anticipate and solve problems. This needs to be coupled with knowledge in a variety of disciplines.

A Business Broker needs to have more than cursory understanding of accounting, finance, law, sales and marketing, psychology, technology and negotiations. While few individuals are equally competent in each of these areas, a successful Business Intermediary will need to be knowledgeable about the issues relevant to the sale and have someone on their team who can be the expert. This is another reason for starting within a successful office, or having a mentor identified, rather than trying to go it alone.

## **SALES & MARKETING**

Sales skills are important in business brokerage. However, it is a consultative sale rather than a high-pressure sale. The process can take months or even years, with many chances for someone without a serious commitment to back out.

One of the unique aspects of business brokerage is that it is a two-sided sale. You must first work with a seller to list their business, then sell a second time to identify and close with a buyer. One of the most challenging aspects in business sales is to educate and get a seller to agree to an asking price that the market will bear. For many business owners, they often want to monetize the blood, sweat and tears of a lifetime investment into the asking price. A Business Broker's job is to educate a Seller on market realities, to be sure a business is priced right and to help an owner accomplish their goal of an exit for the best possible return on their investment.



## KEY SKILLS AND CHARACTERISTICS

Obtaining seller listing engagements requires strong sales and marketing acumen to build your brand awareness and obtain new clients. You should anticipate regularly engaging in the following activities:

- Face to Face Appointments
- Direct Mail
- Outbound Phone Calling
- Email Campaigning
- Online Social Campaigning
- Networking
- Public Speaking/Presentations
- Educational Workshops and Webinars

As part of your service as a Business Broker, you are also responsible for marketing your client's business for sale. This will include activities such as:

- Preparing marketing collateral materials
- Posting/managing/updating online listings/advertisements
- Screening buyer inquiries
- Managing buyer-seller meetings
- Preparing and negotiating offers and/or purchase agreements

### **ABILITY TO BUILD RAPPORT**

People do business with people they like and trust. This is very true in business brokerage, where someone is entrusting you with what may be the largest financial transaction of their life – and they will be depending upon you to keep it confidential. Before agreeing to work with you, a seller will inevitably have one or more face-to-face (or video) appointments whereby they are assessing not only your practical competency, but also your character. Those who have strong self-presentation and communication skills, while also conveying sincerity and integrity, will do well in this regard. It is said that “deals proceed at the speed of trust.”

## KEY SKILLS AND CHARACTERISTICS

### **ACCOUNTABILITY & DISCIPLINE**

As a Business Broker, no one is looking over your shoulder telling you what to do and setting your schedule each day. You must be a self-starter. Input effects output, and you must exercise an extreme amount of discipline to ensure you are engaged in productive activity each day. This includes balancing your attentions on continued sales/marketing to obtain new listing engagements, while also attending to the needs and follow up items related to your existing clients. As such, you are in constant multi-task mode which requires a high degree of organization, attention to detail and personal accountability to ensure action items are done and deadlines are met. Business Brokers will commonly use Customer Relationship Management (CRM) and other types of software platforms to help them manage their time and activities. The most successful Business Brokers are those who recognize the importance of urgency/immediacy in client contact/follow up.

### **FINANCIAL ACUMEN**

Business Brokers must be comfortable with reading and analyzing financial statements and have a basic understanding of tax returns. One of your primary functions will be to calculate a Broker's Opinion of Value and recommend an asking price for the business, which will, in part, be calculated by referencing historical financial performance information and performing a process called recasting. You will also engage with the business owner's other professional advisors, such as CPAs and wealth managers, who will assume you have this knowledge. While you do not have to be a CPA to be successful in this business, you do need to understand the terminology and be able to hold your own in discussions with all parties. You will need a working knowledge of tax returns, income statements and balance sheets.

## KEY SKILLS AND CHARACTERISTICS

### NEGOTIATING PROWESS

Negotiating occurs throughout the process, beginning with getting a listing engagement. Once you've obtained the listing engagement, marketed the business and found a suitable buyer, the real work begins. Undoubtedly, there will be negotiations between the seller and buyer on numerous aspects of the transaction, including sales price, deal structuring, financing and other terms. The seller's and buyer's advisors are also typically part of the conversation, making for many 'cooks in the kitchen.' Your role here is to be an excellent listener, a creative strategist, a cool head and the voice of reason. Remember, these transactions also involve many emotions on both sides. The process is long and there are many opportunities for a deal to fall apart. You need to be the buffer and listen to the parties as their emotions ebb and flow.

### FORTITUDE AND ENDURANCE

You will hear 'no' a lot. There will be setbacks. Some deals will take months to close. You'll put hundreds of hours in on a deal only to have it fall apart for reasons beyond your control. The successful Business Broker has an ample supply of grit and perseverance that fuels them to win each day, regardless of the circumstances. For many, it is this pursuit, the sense of challenge and the 'high' of closing the deal, that makes the profession continuously interesting and rewarding. But for some personalities, it's just not a good fit.

# INCOME POTENTIAL

Business Brokers earn the majority of their revenue from commissions on the successful sale of their seller-client's business. Business Broker commissions can range from 8-15% of the final sales price for a Main Street business and may be subject to an agreed minimum. It is also not uncommon for a Business Broker to charge an upfront fee for creating a Broker Opinion of Value report, with the fee being applied against the Broker's closing commission. For larger transactions, it is common for the commission percentage to be smaller, with many professionals using a modification of a Lehman formula.

A business broker's ability to manage multiple projects, solve problems and keep new listings coming in while selling their current listings, plus a little luck and a lot of determination, shapes their income potential. Anticipating problems and walking away from low probability projects also plays into financial success.

There is a common tendency in the early stages for Business Brokers to accept any seller listing that comes their way. While that tendency is natural, it is highly advisable that Brokers avoid taking listings that truly have a low probability of actually selling. Tenured Brokers will tell you that these types of listings can significantly drain your energy, time and other resources. Some telltale signs of a poor listing engagement include:

- Poorly kept financial records (unreported income, missing details, etc.)
- Reliance on the owner's non-transferable knowledge and relationships
- Heavy customer concentration, e.g., dependence on one/few major customers
- Physical location and/or lease issues
- Low growth/challenged industry concerns
- Declining revenues or lack of profit
- Unrealistic Seller expectations on price and terms

## INCOME POTENTIAL

Business brokerage is more like winning a baseball game hitting singles and doubles, rather than a walk-off home run like in the M&A universe. Sales are more frequent and the commissions are less than M&A. According to Bizbuysell.com, average Main Street Broker transactions are in the range of \$250K to \$300K. Completing 5 to 10 transactions annually may result in income of \$100K to \$200K. Some highly successful Main Street and Lower Middle Market brokers earn up to \$500K annually by completing more and larger transactions.

Business Broker income generally has neither a floor nor a cap. With unlimited income potential, comes unlimited risk. Most Business Brokers are also classified as independent contractors, and may not include benefits such as healthcare insurance, paid sick or vacation time. But, if you have a sales entrepreneur temperament, and can manage your own benefits, Business Brokers can create a practice characterized by freedom, flexibility, intellectual challenges and uncapped income potential.

**BUSINESS BROKERS CAN CREATE A PRACTICE  
CHARACTERIZED BY FREEDOM, FLEXIBILITY, INTELLECTUAL  
CHALLENGES AND UNCAPPED INCOME POTENTIAL.**

# A DAY IN THE LIFE OF A BUSINESS BROKER



## A DAY IN THE LIFE OF A BUSINESS BROKER

The chart above helps you visualize the many activities a Business Broker engages in related to every transaction. So, at any given moment you are performing several of these tasks for every prospect and/or client you're working with. No day, and no deal, will ever be the same. Business Brokerage is never boring and the learning curve never ends, which contributes to every day being interesting. Note that this diagram does not include your sales and marketing activities that precede getting an initial meeting with a seller - so factor those in too.

While the Business Broker's day is a myriad of various activities, it does come with a high degree of flexibility because you set your own schedule to match your desired work/life balance.

**BUSINESS BROKERAGE IS NEVER BORING AND THE  
LEARNING CURVE NEVER ENDS, WHICH CONTRIBUTES  
TO EVERY DAY BEING INTERESTING.**

# RISK FACTORS

As with any business venture, there is some risk associated with becoming a Business Broker. Your specific types of risk will vary depending if you are working as an agent for a business brokerage firm, or if you are starting your own business brokerage practice. Here are a few risk exposures to consider:

**(1) AVAILABILITY OF FUNDS.** You should have enough working capital to sustain your standard of living for a period of time while building a new practice. It can take months to get your first listing, and months more before that listing closes and you receive a commission. You should be able to live at least a year without earning any money and possibly up to three years with inconsistent income before your pipeline is full and your sales are more consistent.

**(2) PROFESSIONAL LIABILITY.** A Business Broker could be sued by a seller or buyer for alleged breach of duty while handling a transaction. While generally infrequent, the dollar amounts involved can be substantial. The best ways to mitigate this risk are thorough initial and continuing professional education; proactive and accurate communication with transaction parties; and legally sound forms. You may also want to consider purchasing Errors & Omissions aka Professional Liability insurance coverage. And if you intend to join a firm be sure to ask about the company's history of legal claims.

**(3) UNCERTAINTY.** There are many factors which are outside of your control in business brokerage. You cannot control that the business you are selling continues operating in the manner you need it to be saleable at the price you are representing. You cannot control the impact of an unforeseen pandemic or worldwide recession. You cannot guarantee that the landlord will be cooperative in transferring a business lease. You cannot guarantee that SBA funds will be available to finance the purchase of the business you represent. The list is endless. However, interviews with your prospective seller to identify any challenges or potential threats to the sale will help increase your odds of success.



# LICENSURE

With the exception of Nevada and Illinois, states do not require a Business Broker license or permit. About 17 states do however require anyone engaged in facilitating the transfer of a business involving a lease or real property to have a real estate license, as a lease or real property are commonly included with the sale of a business. State laws are subject to change, so you should check with your governing agency to determine what rules apply in your state.

As noted earlier, most Main Street transactions are asset sales and therefore do not require a securities license. However, if you do intend to broker stock sales or transactions that involve securities you will need to be licensed. (It should also be noted that an asset sale that includes a Seller held note or earn-out component may be considered to be a Securities Transaction by the SEC and Brokers should be knowledgeable of these facts.)

Sometimes, an asset sale can turn into a stock sale or contain other types of securities and this can be a gray area with the Securities and Exchange Commission (SEC). Currently, the SEC has issued a 'no action' letter to articulate certain criteria under which it would not pursue action against a broker in these circumstances. For more than a decade, the industry has campaigned to have these principles codified, most recently as [HR 609 The Small Business Mergers, Acquisitions, Sales and Brokerage Simplification Act of 2019.](#)

**ABOUT 17 STATES REQUIRE A REAL ESTATE LICENSE IF YOU ARE FACILITATING THE TRANSFER OF A BUSINESS.**

# SUMMARY

Business Brokerage is an exciting and rewarding business venture for the right individual. You can enter it with a wide and varying range of previous experiences and areas of expertise and enjoy the freedom and flexibility that comes with business ownership. Further, it is a critical profession that supports the very fabric of our economy. Helping to facilitate the successful transference of businesses to new ownership ensures that goods, services and employment opportunities continue to be available to the market. However, it is not the right choice for everyone and our goal with this Guide is to help YOU make the best choice possible.

**OUR GOAL WITH THIS GUIDE IS TO HELP YOU  
MAKE THE BEST CHOICE POSSIBLE.**

# GETTING STARTED

**Feeling even more excited about a venture into Business Brokerage?** Great! We'd advise you to continue learning more about the profession before making your final decision. Here are some suggestions and resources to help you along your path.

- **Interview existing Business Brokers** for their insights and suggestions. You can search for IBBA member Brokers on our website, [www.ibba.org](http://www.ibba.org)
- Join one of our **Steps to Success Webinars** which frequently feature tenured Business Brokers sharing their advice on various topics.
- To gain a deeper understanding of the exact skills and knowledge you may need, consider taking our online **Business Broker Basics Program**. Developed by successful industry professionals, this program is specifically designed to provide a general overview of the various subjects and disciplines Brokers must be versed in.
- Have a specific question? Email it to [success@ibba.org](mailto:success@ibba.org) and one of our Steps to Success Committee volunteers will follow up with you directly.

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## ABOUT THE IBBA

Formed in 1984 and with more than 1,500 members, the International Business Brokers Association (IBBA) is the largest international not for profit association for Business Brokers. The association provides business brokers with education, free benefits, conferences, professional designations, support programs and networking opportunities, and awards the **Certified Business Intermediary (CBI)** designation to qualifying Business Brokers.

To learn more visit [www.ibba.org](http://www.ibba.org).

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