



**STEPS TO
SUCCESS**

SUCCESS WHITEPAPERS FOR ASPIRING BUSINESS BROKERS

JUNE 2021

Comparing Business and Real Estate Brokerage

Neal Isaacs, CBI, CM&AP



NEAL ISAACS CBI, CM&AP

Neal is a former business owner turned Business Broker who now helps fellow entrepreneurs in the NC Triangle have a successful exit from their business.

It was during the sale of his own business that Neal discovered his passion for business brokerage and founded VR Business Brokers of the Triangle. Now he helps others pursue that passion by serving on the IBBA's Steps to Success Committee.

Providing both business and real estate brokerage services, Neal shares his insights on the important similarities and differences between the professions.



INTRODUCTION

Business brokerage is an exciting and rewarding profession. For people who are unfamiliar with business brokerage, a common analogy is that it is the equivalent of a real estate broker for businesses. This analogy has merit, as business brokerage is centered around the representation of a principal or company in a purchase or sale of an asset, but there are many differences between the professions.

After reading this whitepaper, you should be able to answer questions including:

- How is business brokerage similar to real estate brokerage?
- How is business brokerage different from real estate brokerage?
- How is business brokerage regulated?
- Are Business Broker commissions different than real estate brokerage commissions?
- What knowledge and skills does a Business Broker need to have that is similar or different than a real estate broker?

WHAT'S FOR SALE?

The first question that any advisor should ask when approaching an opportunity is,

“WHAT KIND OF ADVISOR IS NEEDED FOR THE OPPORTUNITY?”

	COMMERCIAL REAL ESTATE AGENT	RESIDENTIAL REAL ESTATE AGENT	BUSINESS BROKER
Commercial Property Buy/Sell/Lease	◆		
Residential Property Buy/Sell/Lease		◆	
Business Sale with Leased Property			◆
Business Sale with Owned Property			◆

It's important to find out if a business owner who also owns the real estate they do business in wishes to sell the business and real estate together, or if they only want to sell the business. The client's goals will dictate which professional they need. Alternatively, they could hire an individual or firm with the capacity and expertise for both.



A LOOK AT THE SIMILARITIES

Business brokerage is similar to real estate sales in that Business Brokers most often **represent principals** in a transaction. This is an important role, and brokers need to adhere to ethical standards in order to act as a fiduciary to their client.

Main street business brokerage tends to be focused on a **local** market more similar to real estate sales. According to the 2020 Q3 MarketPulse Survey, for businesses that are valued at less than \$500K, more than 70% of buyers live within 20 miles of their business acquisition. For this reason, business brokers tend to “know their market” and specialize in a geographical location just like real estate brokers do.

Business Brokers need to have a **high attention to detail**. They must take the time to learn all of the facts and figures of the business such as the earnings, employee count, equipment necessary to generate revenue... just like a real estate agent knows their listing’s square footage, school district, zoning and similar characteristics.

Much like real estate brokers, Business Brokers must have excellent **customer service skills**. Being congenial in conversations, responding to phone calls and emails, and listening for customer wants and needs are critical to success in business brokerage. This is because just like real estate brokerage, business brokerage is a **relationship business**. Providing great customer service is just a part of building trust, and trust is imperative to earn clients and to guide owners through the emotional journey that is selling their businesses. Furthermore, as all real estate agents know, providing great service and relationship building leads to referrals and more business. There are many options for marketing to business owners to find opportunities, but just like real estate brokerage, warm introductions from referrals are always the best leads.

And business brokerage is all about the leads, because just like real estate brokerage, business brokerage is a sales profession. While large brokerage firms may have on staff financial analysts and marketing professionals, it’s the individual brokers who are out finding the deals and creating the opportunities for sales.



According to the
2020 Q3
MarketPulse
Survey, for
businesses that
are valued at
less than \$500k,
more than 70%
of buyers live
within 20 miles
of their business
acquisition.

Real estate brokers are used to **putting deals together**. They match buyers and sellers, they refer to mortgage lenders, and then they help the principals get the deal done with a title company and/or attorney. Business brokerage works in a similar manner, and for this reason it's important to have a deep bench of deal partners. Just as real estate agents have their go to inspectors, contractors, bankers, title companies and attorneys, so too do Business Brokers. Business Brokers leverage their connections with fellow advisors to share opportunities and pay it forward, so that they can best serve their clients, and so that they are top of mind when new opportunities come back around.

Last but not least in the similarities of business brokerage and real estate brokerage is the service of **helping owners with determining the value of their assets**. Real estate brokers can put together a Comparative Market Analysis (CMA) but not a formal Appraisal. Similarly, a Business Broker can develop a Broker's Opinion of Value (BOV), but usually not a certified appraisal, unless they possess the appropriate credentials. Brokers of any kind must be transparent and careful not to make representations of a licensed appraiser or credentialed valuation expert when representing the values of properties or businesses.

A LOOK AT THE DIFFERENCES

If you've read this far you may be thinking that business brokerage is pretty much the same as real estate brokerage, but there are some significant differences. Before we look into the differences, let's take a moment to consider the history of both industries.

Obviously people have been buying and selling real estate and businesses for ages, but did you know that buyer broker representation is a relatively new concept? According to [Wikipedia](#), the buyer-broker relationship only became commonplace in the 1990s. Prior to that, seller agency was the only option in real estate brokerage. Today, equal buyer/seller brokerage is practically the norm in real estate brokerage, but this is one of the first differences for business brokerage.

In many if not most markets, business brokers primarily are seller's agents. Buyer broker representation is less common in Main Street business sales, except within firms. It is more common for intermediaries to represent buyers in the Middle Market and larger deals (\$5M+ deals). Although co-brokering can be beneficial for brokers on both sides, it currently is most common in dense markets with strong broker associations that help coordinate and facilitate it.



The second important difference is the fact that business transactions are **private transactions**. They have to be since owners are protective of their company data. Public knowledge of the sale of a business can immediately hurt the brand, sales, and scare the employees of a business, so unlike real estate deals, most **business deals are done confidentially**. When executed properly, the customers, vendors, and the employees find out about the sale after the date of closing. This is very different from real estate deals, and it affects the marketing, the conversations, the documents needed, and the data available.

Private transactions mean that there no recorded deeds of a sale that can be researched on government websites for businesses, that Non-disclosure Agreements (“NDAs”) must be signed before disclosures of primary facts including even the name and address of a business, and it means that pertinent facts such as days on market or previous sale prices are not published.

Imagine selling 123 Main Street when it’s a secret that your listing is located at 123 Main Street!

Another interesting difference is that unlike real estate deals, there’s a huge **interest in the owner** of the asset in a business sale. This is virtually the opposite of a real estate deal where you’re basically trying to keep the buyer and seller away from each other, and you may stage the property so the buyer can imagine their own use of the space instead of the way the current resident uses the property. Buyers want to learn about and often speak with the current owner of the business because chances are it’s successful because of their actions.

After a business is proven to be financially sound, business deals are all about the qualitative, historical aspects of the business. Buyers are highly interested in how the owners got the business to its current state, if it’s sustainable, if it’s owner dependent, and if they can step in to make the same money the original owners make. They want to understand the **relationships** between the owner and the staff, the vendors, the customers... These factors can be deal breakers if the buyer doesn’t feel they can fit into those relationships.



...there’s a huge
interest in the
owner of the
asset in a
business sale.
This is virtually
the opposite of a
real estate deal...

The buyer seller meeting is one of the most critical aspects of a business deal, and there's a lot of coaching and preparations that go into these meetings so that they go well. This is not a factor in real estate.

One exciting difference in business brokerage from real estate brokerage is that the **commissions are commonly larger**. Main Street business commissions range from 8-12% of a purchase price. Keep in mind that as noted above, buyers may not have representation. Even though a broker is hired by the seller, he or she may be facilitating both sides to move forward, in service to the seller, in order to get the deal done.



Another aspect of business brokerage may be that the schedule worked can be more convenient. While commercial may differ from residential real estate sales, many residential agents work every weekend to do open houses and after hour appointments to meet with people after their day jobs. Since Business Brokers work exclusively with business owners, **business meetings are more commonly held during business hours**. While confidential meetings are often pushed to after regular business hours or weekends, it's generally easier to run a business brokerage practice during "banker's hours" than it would be to run a residential real estate practice.

Much like the deep dive into relationships that Business Brokers do with owners for their staff and customers, so too must the Business Broker know and understand the **financial aspects of their clients' businesses**. This may not be a realm that real estate brokers commonly go with their clients, but a comprehensive understanding of Income Statements, Balance Sheets and Statements of Cash Flow is critical to understanding how a business works and articulating its value to prospective buyers. Furthermore, often owners don't have a firm grasp on their financials, so the ability to communicate with their accounting professionals becomes imperative as well.

While business deals are similar in that brokers put buyers, sellers, and money together into deals, the types of attorneys and bankers are different. Real estate attorneys are used in high volume practices, whereas transaction attorneys typically have a different focus and a slower pace in a business deal. They will be looking for different elements to protect their clients such as employment agreements, non-solicitation agreements, transition agreements, and typically they will get more involved in the nuances of the transaction. While some states have formalized purchase agreements with consensus from the Bar and the local real estate commissions, most states do not. Transaction attorneys often write **unique agreements** for each deal instead of using templates.

A COMPREHENSIVE UNDERSTANDING OF
INCOME STATEMENTS, BALANCE SHEETS
AND STATEMENTS OF CASH FLOW IS
CRITICAL TO UNDERSTANDING HOW A
BUSINESS WORKS AND ARTICULATING ITS
VALUE TO PROSPECTIVE BUYERS.

When it comes to bankers, instead of government insured, conventional and jumbo mortgages, business deals are **financed differently**. Common financing vehicles for business deals include SBA loans, Seller financing, unsecured lines, HELOCs, retirement funds, or some combination thereof. Much like pre-qualifying a buyer for a home, a business buyer can be pre-qualified, but the business also needs to be pre-qualified before it's taken to market. A Business Broker must know all of the options available to finance a deal, and what lenders will be looking for in a buyer in terms of financial capacity and related experience.

As noted in the IBBA's [Guide to the Business Brokerage Profession](#), **licensure requirements** for Business Brokers are dependent on the state of practice, but most states do not require a business brokerage specific license. Seventeen states do require a real estate license, and it is common practice, because most business sales involve a lease transfer or sale of real property with the business. Like real estate brokers, Business Brokers can have liability in breaching laws of agency, regardless of local licensing.

There are far **fewer Business Brokers than real estate brokers**. For example, in North Carolina, the regional association for Business Brokers has approximately 0.1% of the number of broker members that the North Carolina Real Estate Commission has of licensed real estate agents.

Lastly, while real estate agents may be used to turning inventory in a few months **business deals generally take longer than real estate deals**. This is due to the more complex nature of business deals and the financing components. While some can go quickly, according to the IBBA's 2020 Q3 MarketPulse survey, it commonly takes eight months for a deal under \$500K to go from listing to closing, with two of those months being after they've gone under contract.

WHAT ARE THE NEXT STEPS FOR A REAL ESTATE BROKER INTERESTED IN BUSINESS BROKERAGE?

While business brokerage clearly has some similar skill sets and deal characteristics to real estate brokerage, there are also some significant factors that make it different. If you're a real estate broker considering making the leap into business brokerage, you may be a great fit if you enjoy the client service, sales, and relationship aspects of real estate brokerage and are comfortable with the financial analysis, longer deal cycle, confidential elements, and unique characteristics of business brokerage.

Appropriate next steps could include further exploring the [IBBA's Steps to Success](#) program, talking with active Business Brokers, and interviewing brokerage firms to learn more about your options to enter the business brokerage profession.



A final similarity of business brokerage and real estate brokerage is that it takes a significant effort to learn all of its complexities, and it takes done deals to get the experience you can't learn in the classroom. If you apply the same patience and lifelong learning mindset that it takes to succeed in real estate, you will have success in business brokerage.



**THERE IS NO
ELEVATOR
TO SUCCESS.**

**YOU HAVE TO
TAKE THE
STAIRS.**



**STEPS TO
SUCCESS**

ABOUT THE IBBA

Formed in 1984 and with more than 1,500 members, the [International Business Brokers Association](https://www.ibba.org/) (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 \(CBI\)](https://www.ibba.org/cbi/) designation to qualifying Business Brokers.

To learn more visit www.ibba.org.

