Michael Senoff's HardToFindSeminars.com

Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

Now, my challenge is to build the world's largest free resource for online, downloadable audio business interviews.

I knew that I needed a site that contained strategies, solutions, and inside information to help you operate more efficiently

I've learned a lot in the last five years, and today I'm going to show you the skills that you need to survive.

It is my mission, to assist those that are very busy with their careers

And to really make my site different from every other audio content site on the web, I have decided to give you access to this information in a downloadable format.

Now, let's get going.

Michael Senoff

Michael Senoff

Founder & CEO: www.hardtofindseminars.com

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How To Use Your HMA Practice Like A Bank… And Buy Companies Without Using Cash

Even though Chris was having no problems finding clients and making thousands of dollars per HMA step, it wasn't nearly the kind of money he wanted from his consulting practice. So he decided to get a little creative. Now when Chris finds a company that can significantly and quickly benefit from the HMA system, he's no longer looking to get fees from them. He's looking to acquire the company itself.

It all started when Chris noticed a trend in the business community. He started seeing more and more "baby boomer" owners looking to hand off their businesses and retire without losing their shirts. Chris also noticed these business owners were very realistic about their options in today's economy and were more than open to less-than-traditional buyout offers.

That's where the HMA system comes in. Chris uses only the revenue generated by his HMA steps to buy out companies. He simply makes a deal with the business owners that any money generated in excess of their current operating margins goes toward the acquisition of their company. And in this audio, you'll hear all the details of these unusual buy-outs, and how you can easily start making them too.

You'll Also Hear…

- Exactly how Chris buys out a company from start to finish including where he finds the businesses and how he closes his deals
- What criteria Chris looks for in potential companies and how he analyzes and tests them before he jumps in
- Why you'll want to assemble a team for your buyouts and how to do it effectively and efficiently
- What risks you can expect and ways to mitigate them
- How to tell business owners that you'd like to acquire their companies using untraditional methods and how to negotiate those deals
- All about the "out" clauses involved in a sale – and how to make sure you're never working for nothing
- Who pays to put the money into the company to get the HMA steps going and what happens if there are silent shareholders or the business has a lien

Chris's method essentially joins the HMA system with the Art Hamel one, creating a powerful combination that allows you to have access to hundreds of thousands of dollars in company profits without needing to put any cash down to do it.

The potential here is limitless. And now is the perfect time to get started – with more and more businesses experiencing cash flow problems while their "baby boomer" owners are looking to get out. So even if you're not sure buying out businesses is for you, you may want to give this hour-long audio a listen.

Chris: I started to put my note out that I was looking for companies to acquire to a buy-out program. My buy-out program was basically going to be buying them out using the HMA system as the revenue tool to get it. In some instances it made sense to just cash down, I had access to resources that allowed me to do that and just buy a company. But in a lot of instances we've been able to buy into businesses and take over a big portion of the business in a relatively short period of time in exchange for the results. So instead of being contingency based we did profit base and that revenue as it came back in would go towards equity into the company based on a fixed arrangement that was done previous to the acquisition.

Hi, I'm Michael Senoff, founder and CEO of HardToFindSeminars.com. For the last five years I've interviewed the world's best business and marketing minds. Along the way, I've created a successful publishing business all from home from my two car garage. When my first child was born he was very sick and it was then that I knew I had to have a business that I could operate from home. Now my challenge is to build the world's largest free resource for on-line, downloadable, MP3 audio business interviews. I knew I needed a site that contained strategies, solutions and inside angles to help you live better, to save and make more money, to stay healthier and to get more out of life. I've learned a lot in the last five years and today I'm going to show you the skills you need to survive.

Michael: So Chris, you've been buying businesses and you're looking at businesses with underperforming assets and because your HMA consultant and because you're pretty knowledgeable about marketing you are being able to identify these assets, you're being able to hopefully buy the business at the right price, turn around and make some money. Does that about sum it up?

Chris: Yeah, actually and I think you and I got in touch two and a half years ago, something like that? When I took on the program and by nature I've been a reasonably good sales person so it wasn't hard to go out and find people and start getting some consultant gigs.

But I quickly got frustrated personally with the program with the sense that the revenues just weren't big enough. You'd have to take on way too many clients and as soon as I started doing that I realized that I had no leverage. So I would have a whole bunch of clients but no leverage.

Michael: So getting clients using the system worked for you?

Chris: It worked, yeah. I think it's pretty laid out and the reason why I like this program much better than all of the other stuff I'd bought in the past was that there is actually a check list to do and I'm pretty good at following instructions.

So it wasn't difficult; you market yourself, you put your sign out, you talk to people and I created a fairly simple Web site and I put up ads and those kinds of things, and referrals and talked to the Chamber, whatever. The suggestions that are out there and it wasn't too hard to actually find customers. Of course, the market was pretty hot then, not now. I don't know what it would be like to go into consulting services today.

Michael: What was the most clients you had at one?

Chris: I had up to 12.

Michael: What challenges became apparent with 12 clients?

Chris: That I couldn't scale and quite quickly if you are going to get to that level you need to build a business. You have to have other consultants working for you; you have to have very good project management capabilities to be able to manage the different deliverables. I realized quite quickly that I was doing a disservice I think overall to the clients versus actually providing the value.

Michael: Can I ask you what kind of fees you were charging for project work? Did it range?

Chris: The minimum was $3,000 a month that I was charging and typically a project would last a minimum of 90 days. So $7,000 was the highest and that was consistent because I did one off projects for Tanger or whatever. But they weren't long term projects.

Michael: So like if you sold a USP project instead of selling it just to complete the USP for $3,000, you would do it on a time basis? I mean could creating a USP take two months where you could get two payments for a USP?

Chris: I didn't structure the sale of the program more so as the way to actually create some measureable deliverables. What I would do is go into the client and I'd look at the business and I'd say, "Okay, here are the things that you are missing." Then I would basically go through the nine different avenues of things that we could do for customers. Based on those kinds of things we'd create a plan of here is how we're going to do things over a period of time and here are the seeds to do it and then here are the deliverables that we can expect. Here is the kind of impact that we can expect and here are your responsibilities and here are my responsibilities and let's go and do it.

The early customers that I had because I was so determined to make it work; you know you don't realize at first that they could be successful with any program. It's all about the implementation. Customers don't implement; if they could implement they would never need our services because they could do very simple things like sending a weekly email out or developing a USP. It doesn't really require rocket science to do this. There are enough tools out there and heck they could buy the program themselves. The problem is execution.

So quite quickly I realized that as the deliverer I would actually have to carry the weight for some of these companies and do more of the work which I was fine with because it was exciting to be involved with the company and to make an impact and to actually create some results. But over time, if you get more than a couple of customers it begins to become very difficult to do everybody else's job. At least it became difficult for me; maybe some other people are much better project managers than I am. As a result I was not able to maximize the benefits so I had to make a choice; either work with less customers and charge higher fees or find a way to create more scaled programs.

Michael: Okay, out of that experience did an opportunity present itself that kind of gave the idea of what you are doing now? Actually acquiring some of these businesses?

Chris: Well, I had looked at the clients I was working with and I came to the realization that I was getting a fair fee I felt for what I was actually having to do. But the clients we were actually able to implement the system, where we were actually able to execute like to the end customer and not just internal, not just you know feel good USPs internally. We were actually able to push that stuff out to the clients and you can actually make a fairly significant impact reasonably quick. Even a small percentage impact in different lines of business or different product lines begins to accumulate up into like 10% increase for the business, 20% increase for the business or whatever.

Michael: Can you give me an example of one of the clients and just tell the story of how it became apparent to you? Like a specific example with one of your HMA clients?

Chris: Sure. I'm going to talk about a company that I ended up acquiring because it is one of the better examples.

The company was structured very, very weakly in regards to the sales and marketing efforts.

Michael: What kind of client was it?

Chris: This is a technology company so the software services to the market. It had been around for quite a while and had a fairly decent customers base overall. What it was relying on was strictly a single sales person to do so and the database was just portion of Outlook contacts and spreadsheets and those kinds of things. It wasn't very well defined as to what the service it would be providing would look like. It was just, "Here is what we can do and hopefully we can work something out."

A lot of the business was built on relationships and being in the market for a long time. So we started looking at what does this company actually provide. What is the value it provides and what is the measurable impact and let's understand from our customers what it is that they see as a benefit so that we can actually create a selling proposition that made sense? What kind of guarantees could be put in place, what kind of community involvement could be put in place, what kind of different touch points from a marketing system, from advertising could be put in place?

Adding a few more pillars to this sole individual sales person that was just chugging away and making a good living at it but wasn't really helping the business scale. This company for years was doing about $1.5 million, $1.7 million sales and business simply on the return of those relationships.

So we said, okay let's fix the Web site. We fixed the Web site and applied the selling proposition of that Web site and the way to capture leads and we started to trickle in a handful of leads every week. Nothing too spectacular that you'd go, wow, we've changed the world. But we're getting 10 to 15 leads a week which was nice.

Then we started doing some direct mail pieces to very defined customers where we understood what the ideal customer profile was and what they needed to look like. We could now take some of the USP and some of the testimonials that we acquired together and the case studies that we built and we started sending these and we started getting one or two leads from that type of avenue perspective.

Then we put on seminars and webinars and whatnot and we had aligned ourselves to do a joint venture. Loosely worded joint venture; we'd do a referral agreement with some of the companies to get access to their customer base. We did a handful of other leads from that avenue as well.

We started tallying these up and over a period of a couple months every week we'd be getting 25 to 30 leads of which we might be able to convert two or three, but again, these were not big numbers. We're not talking about transforming the world, but if our average transaction, which we also moved up our average transaction to start with. It was only about $5,000 and we moved that up to about $12,500. This started to make a fairly good impact on the business in a 90 day period.

Michael: So they were happy?

Chris: Yes, and the utilization with software the cost of developing software is the sum cost of that individual cost. So any money that comes in above and beyond covering your costs is profit basically, in loose terms. There isn't that much additional costs that necessarily have to max up into that.

That began to gain some momentum there and then we looked at ways to increase our revenue even further by adding a small telemarketing team to follow up on leads and put a bit more sequential work behind the system. We implemented a CRM system, again very simple and we didn't spend millions of bucks. This tracked all the different stages that the leads would go through and make sure that follow up calls were being done and so on.

So it gained just a little bit more sophisticated so that the leads would go up from maybe 30 to 35 or 40 a week. But as a conversion rate we actually started dealing with the conversion ratio and seeing if we could move that up closer to 5% or 10%. That's when it became obvious that there was a big upside potential for this business. We could move it from being, you know, we were getting close to being a just over $2 million business.

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It was like we could possibly move this business into a $2.5 or $3 million territory without significantly more investments if we figured out a way to do a deal with the business owners.

Michael: Now, at that time when you started to see that you were on your retainer type thing?

Chris: That's right.

Michael: Okay, so now take me to the next step. You realized, hey, this HMA system or this marketing stuff really works and can significantly grow the right type of business? When did the light come on in your head? I know you've bought businesses before so you had a little bit of experience with that. I know for example with the carpet cleaning business that we talked about in the last interview and your training business, as well.

Chris: That's right. Well, yeah, I did have a little bit of experience. What I hadn't realized I guess is that I'd been in the companies and I'd fallen into the exact same trap that any business owner falls into where the cobbler's kids don't have shoes and the guy who sharpens knives walks around with a dull knife, that kind of thing, right.

I'd fallen into the trap of owning these companies and being in business and really searching for marketing information and stuff like that to apply. But you get so bogged down on the operational aspects of the company and the business that you can't see through it.

So I started thinking that I have these businesses and I let them go or got rid of some of them and I said, "I'm going to be a consultant." I went out and did some consulting but I ran into a different type of problem where with a business you can actually create some scalability but as a consultant I couldn't create scalability. So I decided to build a consulting business and I've always been adverse to doing businesses based on time and material or labor effort.

So I tried to see if I could put deals together where I could get some outside or whatnot and I found a lot of resistance and a lot of complications in doing those effectively. I started digging really deeply into that market of how people do these deals where they get outside and you know and hard revenue and I think to a large extent from what I read and researched and you definitely have more access to that information than I would on this. But I didn't find that there was really good business model there that people could effectively capitalize or use and most of the stuff that I read when I'd dig further and probe or try and call the company who the deals were made, a lot of it was overhypes, you know. The potential that people were getting out of doing these joint ventures deals.

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Michael: When you say doing outside, do you mean approaching businesses cold looking to just learn about them and see if you could acquire them?

Chris: No, no, no. I'm still talking about the concept of going to a company as a consultant and saying, "Look, if I increase your revenue by—

Michael: Oh, oh a contingency deal?

Chris: Yeah, a contingency deal.

Michael: Okay, did you ever try a contingency with anyone?

Chris: Yes, I tried them and I had mediocre success, let's put it that way. Then I wanted, because my main goal was to find a way to create leverage in what I was doing. I didn't want to trade dollars for hours so I wanted to be able to get a significant upside from the work that I was doing and so I really tried hard for almost a year to really push the contingency side to the point where I'd say, "Look, my typical monthly retainer now is $10,000." I would pitch that knowing that companies would never pay that but I'd say, "Look in exchange for giving you a reduced rate I want an upside on the future of revenues that are generated and potential."

You know I got a few takers but in the end I found that it was very hard to manage, it was very hard to convince the customer to go down that route because there was too many unknowns and very few business owners have perhaps the foresight or the willingness to provide that kind of return to somebody when they feel that they're not doing anything to earn it, even though you may have done all the work up front. People quickly forget all of the work that you do up front.

Michael: So you were using the typical Jay Abraham model. If I could earn you a dollar would you pay me a quarter for every dollar earned?

Chris: That's right.

Michael: And you weren't asking for any skin in the game. You were going to do all the work with their promise of paying you a percentage or contingency?

Chris: That's right.

Michael: So there was nothing invested on their end?

Chris: There was. What I'd do is take the monthly fee that I said I would be charging of $10,000 and you pay me $2,000 or $3,000 but the balance is going to be made up on contingency.

Michael: Oh, okay so they would pay a little something?

Chris: That's right.

Michael: Did you generate some sales or did you have problems getting paid?

Chris: That was part of it. The accounting part was difficult and the attribution of revenue is really hard for a lot of companies and I would have needed to probably be much better at controlling the direct mail and the marketing pieces but it is very hard to determine where revenue is coming from particularly when you are dealing with companies that have good databases, they just may not have maximized those databases.

So you put ads out and you might put direct mail pieces out but it's very easy for the customer never to remember where anything came from. But they are coming back, and yes, they are coming back but the client who is paying me for the services is not going to readily accept necessarily that they are coming from me and it's going to cost them 20% of that.

So I found it much more complicated to do and I still found that even if I did that unless you really, really manage it every day; you're there all the time, you're working all the time and you really couldn't walk away from the opportunity and let it generate cash for you while you went off and did something else, which was kind of my goal. So I figured there had to be a slightly better way.

In that process I started doing some research to understand trends in the market and see what is happening and what's going on and a couple of things started coming together for me in the sense that we've got this Boomer Generation that a good number of them have started businesses and are getting to that point where they want to divest of those companies.

Michael: So you were doing research and so the Baby Boomers, there is a big glut of Boomers who you found through research who are getting at the age where they may want to divest their businesses?

Chris: That's right. There are only a few options that they have to divest their company. I mean they can sell it, pass it on to family, they can wind it down are really the options they have. And if you look at it from a trajectory of how many kids are falling behind them a lot of the kids of the Boomer Generation aren't necessarily interested or willing or even available to take on the business. As the years have progressed, particularly from beginning in 2008 and now into 2009 and I'll talk about the second trend, more and more of these companies are getting ready to sell and it's becoming harder and harder to find buyers for these companies simply because there is a limited amount of people willing to buy in those industries.

Most of these companies are $1 million to $5 million revenue. They aren't huge businesses and those fairly localized are not necessarily appealing to perhaps a bigger industry or bigger market that needs a big presence. They have to buy a whole bunch of them. So they are kind of caught in a vortex of trends and that's been aggravated by the financial market challenge.

So they are looking to retire, looking to get some cash out of their business and a lot of them don't have family that they can give it to because there are so many other companies getting out to market for sale, there is a lot of competition for the market for cash for the sale of their business and now with the tightening financial markets people are less willing to take the risk on these companies.

So all of these things started coming together and became obvious that a lot of people needed to find a way to make an exit out of their company effectively without losing their shirt or without having to wind it down and then try to figure out another way to sustain their retirement. Most of these people have been pretty good about saving and about generating assets and financial planning and so on. They are hoping to get this one last chunk of change, you know, $500,000, $1 million, maybe $2 million out of the company so that it will just supplement their final retirement plan. That has quickly disappeared along with some of the cash that they thought they would get from their houses and stuff like that as well.

So I saw that trend, and I didn't see that just myself. You can read about it on the news and I talked to some fairly intelligent people in the market and began to understand that so I started to put my note out that I was looking for companies to acquire through a buy out program. My buy out program was basically going to be buying them out using the HMA system as the revenue tool to get it.

In some instances and I'll get into a bit more detail in a minute, but in some instances it made sense to just put cash down and I had access to resources that allowed me to that and just buy a company. But in a lot of instances we've been able to buy into businesses and take over a big portion of the business in a relatively short period of time in exchange for the results. So instead of being contingency based we did a profit base and that revenue as it came back in would go towards equity into the company based on a fixed arrangement that was done previous to the acquisition, that kind of thing.

So it provided for people looking to sell their companies an opportunity to sell their business but also maintain control and mitigate their risk in the event that it doesn't go through perfectly and at the same time, if it does work, they have some confidence, which is quite important for a lot of them. But the business continues to grow; it's still their baby, they don't want to see it decimated, they want to see it developed and what not. So it kind of provides a comfort level that is slightly different than somebody who might be just coming in to strip the company for a few particular assets.

Michael: No, that's brilliant. That is excellent. How many have you done thus far?

Chris: We've done three. We're on our third one and we're close to looking at finalizing a fourth one in January that we think we'll finalize. My plan is, now that we're getting a little better at this and I'll kind of talk about the tools that we've been using to get there.

Michael: Let me ask you this; what criteria are you looking for specifically and maybe this might be obvious today to many consultants, but you want a business with hidden marketing assets. But are you going after certain sectors that maybe you're more comfortable with? Are you going after the technology sector or what are you looking for specifically? If so, anyone listening if they were doing some bird dogging for you and they had some ideas, what are you looking for?

Chris: Well, I thought I was going to be much pickier about the companies. I tend to like businesses that are a bit more, for a lack of a better term, more sophisticated in the sense of IT, financial services, those kinds of things.

But I quickly realized there is loss in benefits in pursuing markets that aren't sophisticated so my criterion is a bit more general than I thought it would be. But typically I'm looking for business owners who are in that

Boomer type stage of their lives or that category simply because structuring a deal becomes a lot easier and their interest and desire to sell is much greater than someone just out of the blue.

They should have been in business for a number of years. I'm typically looking at companies that have been in business for 10 years or more simply because that gives them enough base of experience, track record, there is enough data going on in the company that you can actually squeeze some of the benefits of like the HMA stuff out of it instead of it just being a new company.

Typically with very poor systems internally. A lot of these companies were reasonably operationally driven but they haven't leveraged new technology, they haven't leveraged other things so there is an advantage there to maximize and capitalize on that. On the flip side many of them have not been marketing savvy. They have grown out of a specific specialist expertise; somebody was an engineer, somebody was in a certain industry that they were capable of doing stuff with. So they learned how to do their job very well and developed a reputation at it and they didn't need to market all that much and they didn't necessarily become very good at operational effectiveness with it.

Those are kind of the big criteria and then in between I find that to do a deal effectively companies should be about $1.5 million to $5 million. But over $5 million is it more complicated and you're talking about a lot more investment and being able to fix and change some of these things. If they under $1.5 million they typically are not worth the effort at scaling the company, they may not have gotten any scale or some core processes may not still be there, will come to bite you later on. I've got three companies now but we've tried five and two early on didn't work out because we didn't pay attention to some of these details.

So that's kind of the process and I've been mainly focusing on when we take the company on, of course, the leadership aspect of it. I've also assembled a small group of people that one of the strong financial expertise and I'll use a very good lawyer and then we have a very good operator who works with the company to implement these things so that we can actually implement the HMA system and implement some of the CRM and control financial pieces very well without running the same risks that a typical business owner runs. So we try not to be the day to day business owner who is the enabler so that these companies can take on these tools.

So basically we are consultants to ourselves is in the end what I'm trying to be so that we can reap the benefits of the upside but not get bogged down in being a day to day runner of the company or get into the same mistakes that I've made in the past as a business owner.

Michael: Have you studied some of the Art Hamel stuff in there, in the HMA system?

Chris: No, I have not.

Michael: You've got to listen to this stuff. You know in the HMA University I've got a whole product with a guy named Art Hamel who is a business buying expert. This is a whole course and I've got probably 15 hours of audio interviews with this guy. He's bought over 200 businesses, most of them over $1 million and he was the dean of business buying. He put over 500,000 people through his seminars back in the 80s, it was the number one selling product on the Home Shopping Network and he is may be close to 80, but I've been interviewing him since 2004.

In this whole system, all my interviews with him, you are on the right track. What he was doing was buying businesses at first but then he wanted to get into some businesses down in Mexico and when he started he first was doing the traditional bank financing leveraging assets, receivables and all that stuff. But then he started using investors to get into the businesses and he was real active in the real estate exchange groups and he was using real estate to secure the business and get big lines of credit to get into the businesses.

But there are definitely some techniques and some stuff that you'll want to hear in these interviews that will give you more options, too. I'll direct you to it. Its right in that HMA University, you'll see the business buying stuff. But yeah, you definitely want to get into some of that stuff.

This is going great, this is fascinating. Let's say someone hears that you have your feelers out and I fit those criteria and I contact you and say, "I am the owner of XY&Z and you've got some kind of offer about purchasing the business." How does it work? Tell me your system from the time someone contacts whether by email or phone? What are the steps that you do with that person from the time the phone call comes in?

Chris: Well, the first important piece is to be really familiar with the HMA system as a starting point. And of course having some financial acumen to really go and evaluate what the business is. So doing that assessment, doing that initial consultation that a lot of the consultants are doing already, instead of looking at doing it from a perspective to make a marketing audit for the customer. Basically I'm using that to create a buying audit; what is the potential of buying into this company based on the potential return we could get if we implemented some of these things.

So if you walk into a company and they've got a USP and they've got a database and they are marketing to it on a weekly basis, they have community involvement and they are doing direct mail, even if they are doing it poorly, it's a good chance that you're not going to be able to make a significant impact in a short period of time to be able to get them financial leverage to buy into the company, right.

But if they're not doing any of that stuff then you have to start making some assumptions and you start doing research to say if we did this to their base, what would the impact be and how do we test it? Can we go in and do a small test, can we do part of our diligence and a couple of things. Is that diligence process up front which involves this aspect of the marketing side of the business and then the other side is the aspect of the financial and operations side of the business. And of course understanding what kind of resources they actually have. I mean in some cases the owner of the business is the guru, the expert, and there isn't anyone else with that knowledge internally how to do certain things. If you buy this company how is that going to be transferred? Is it possible to transfer that knowledge and who can it be transferred to, can it be documented, can it be put into an information library, whatever? If not, then it's too risky to do.

The checklist keeps improving every time we talk to somebody else. We think oh, we really should have asked this question or this came up that we've never asked before and we should ask it. We've been slowly building a better guideline, but really for me, the basis of it is the company really good at what they do and do they have a good reputation and are they under marketed? If we have those pieces in place then we'll go deeper into the financial aspects and some of the operational aspects because there are lots of people who have those capabilities of helping improve those parts. But there are limited people who have the ability to look at the marketing side effectively and it's amazing how much money and we've looked at one company that hopefully we'll be able to do a deal with this year.

They over the past number of years have spent hundreds of thousands of dollars on marketing consultants who have backgrounds in programs or plans or ad agencies to get very little in return. So we know that these companies are struggling to find that and that's something we can give them fairly effectively, fairly quickly and simply. This is not rocket science and we can apply it in the sense of the company.

So typically the first phase and a slightly long winded answer to your question.

Michael: No, that's good and there are some parallels. Like in the business world when the business world or bank world evaluates a business they're not really taking the marketing into account whatsoever. They're evaluating the business and giving that business a value based on past sales, inventory, accounts receivable, all hard assets. Nothing intangible.

Then you come in and it's just a totally different angle with so much power, much more so than the hard assets, if those hidden assets are there. So that's exciting.

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Chris: Yeah, I agree. When I first looked at the program a few years back my biggest concern was that it seemed too simple. I looked at Jay Abraham's stuff and looked at other people's stuff and spent money on marketing different types of tools. You get this verbose, complex, difficult stuff and go, it must work because it's so frickin' hard to follow it must be amazingly genius.

The reality of the matter is that is the downfall of most of these other programs is that they are so difficult that you don't really understand what it means to implement or you have to wade through way too much rhetoric to get down to the point of what's actually involved.

With the HMA system at first I was skeptical but at the price point I figured it was worth it. What am I going to risk with this? It is paint by numbers; do this, do that and do this and follow the steps and it makes it stupid simple which is in the end the only thing that works in the business, especially in our type of economy.

I think as a result of that you can go into a company, look at stupid simple, basic baseline principals that matter and make a difference and need to be done to be successful and say, "Are they doing this?" Yes or no. If you aren't getting a clear yes or no out of it then you know you need to dig a little further. But very rarely do you go in and are you doing this, do you have a customer database, do you have community involvement, do you have any type of advertising going on, does your advertising follow any of these guidelines. You can check that pretty quickly. You can look at their Web site, their brochures, those things and there is a scale of 30 things and they are only doing two. Well, then we have 28 potential things to improve and what kind of return could that create.

But it does require a bit of experience perhaps but going out and doing some consulting work for sure.

Michael: Sorry to interrupt, but where are going to establish a price to buy the business? At what point and how do you come up with or negotiate that price of what you are willing to pay before you set up your buy out performance plan?

Chris: That industry is actually fairly mature and this to a certain extent also depends on beginning to understand what the business owner wants or is looking for. I think business owners have certain numbers in their minds that they think the business is worth and that is what they are hoping to get or looking for.

But, truth be told, there is usually a reason why; they want to use the money to buy a house in a certain location, they want to do something else or whatever. They are looking for a specific cash flow to get a return in exchange for the business. They are hoping to do a couple of things so they are thinking if they sell their business for $1 million and take $5,000 of that every month as part of their retirement plan. You know there are lots of ways people are looking at their business in terms of their retirement vehicle.

Michael: Important lesson is you have to ask them what they really want.

Chris: Exactly. And that's exactly it and we've found out a business owner's goal and his goal was to move to some part of Latin America and he needed X amount of dollars a month to live and that was his plan. For others it's a certain lump sum to buy a particular thing or to a particular avenue to achieve. For others it's more about making sure the business sustains. They've made some money and they want the business to go and keep involved and they don't want to necessarily retire, but they don't want to run the business day to day anymore. They are exhausted from that and they want some innovation to come in and somebody to put some of that behind it.

We haven't found specific reasons and there are guidelines and very good books out there that explain how to value a business and we've developed, my banker and I have a good relationship with him, to help guide me and provide us access to other resources and people who understand this very well, which is part of the importance of building a team for this.

But what we've learned with a lot of businesses and lot of the ones we're talking to now, they realize that the opportunity of getting a lump sum out of the company is going to be very, very hard in the near term so if we can make it appealing to them to transition the business and they continue to get some cash flow out of the company and at the same time for us still continue to get the benefit of their expertise and wisdom without them necessarily having to carry the burden of the day to day for the next five years, but maybe just a year and then be able to transition from there, it is quite appealing to a few of them, to look at it from that perspective.

Of course there are those that just want cash and there is no way to clearly look at their business and that's okay. There are millions of companies out there that need to be sold in the next couple of years.

Michael: And they are never going to get it with a business brokers. A business broker is always going to have the owner financing for the business.

Chris: That's right.

Michael: Tell me more about how once you meet with this business owner, you kind of take them through an analysis of where they're at and where they're potential is. You are doing due diligence to see if it's a fit. Let's say something looks good, you've done a little testing and you think you can build this thing and make some money out of it. Then what do you say to the business owner and how do you structure your agreement? What have you found is working for you?

Chris: The delicate part, one of the more delicate parts of that process is moving the conversation along and saying we'd like to basically buy your business and we'd like to do this in a way that's perhaps not super traditional in regards to the way it might have been sold or looked at.

That is where a lot of psychology and sales skills and sales training and certainly there has been some fantastic sales training on the site over the past year that I think has been very good where you are basically looking to sell the concept to the business owner. In the sense that we look at the company's current revenues, current way of operating and we say we like your business and we think there's an opportunity for this business to be very successful. We're looking to acquire companies and that's what we do as a business and we feel that there is a significant amount of revenue sitting in the company that is not being maximized or leveraged or utilized or whatever, both from an operational standpoint and marketing standpoint. The agreement we'd like to put in place is that we would like to generate additional revenue based on these targets and margins that your business is currently operating at and money in excess of that is contributed to the acquisition of this business. We feel this business is worth or is valued at these particular numbers and we know that this is what you're looking to get from the business and do with the money from the business so here is a couple of options.

And this is been one of the more important pieces is [inaudible] in this case, is selling a number of options of which we can structure an agreement with. So cash flow for their living expenses, amount of buy out at a certain period of time and date in the future. How the calculations of revenue today goes calculated to the business at that point or within that window the valuation of the company. We might have variables for valuations in the future, you know upsides or whatever for the business owner based on some things we need them to help do, but we don't want to create a scenario where we have an unknown buying price for the company in the future because the revenue also could be shot up and now their profits are twice what they were before or something like that, right?

Michael: Right. Now you want to confirm what the buying price is going to be before you do anything?

Chris: That's right.

Michael: Okay.

Chris: At that point we agree on the value, agree on what the assets are in the business and we draft a letter of intent at point in relation to the acquisition of the company and we put together basically an addendum that describes the working moral and how the contribution applies towards the actual business and what out clauses exist for both parties. So after a couple of months if we realize that it's not a good fit for us or it's not a good fit for them, what are the out clauses. Some of those out clauses include that if revenues do go up and so on, that they'll pay a fee for it and what that fee looks like and if it's not working for us for whatever reason, how we can get out with the least amount of risk, as well.

Michael: Talk to me about your team. You've got an attorney and banker and someone who understands valuations. How did you structure the team and is there something in it for them if one of these deals pays out. How do you work that out?

Chris: That's part of it. The financial expert or financial guru and our legal expert, those are outsiders, lets call it that. They stand to gain from the acquisition of the business to become basically the advisors or the defector service providers for the company. So we have a legal company that we deal with and we researched them and they are by far the most expensive ones in their area of expertise. We found they could save us a huge amount of time and they have access to significant amounts of other resources and even leads for us. So we found that it's worth paying the hourly rate, but on the flip side we're able to mitigate and get them to give us some flexibility in the process by them understanding and knowing that once we've acquired a company that they become the legal firm of choice for our particular firm. We've proven that when we did the first one.

It was a little harder, there was a little more hesitance from them and we challenged them a lot on their fees and make them give us fixed rates and I'd argue with them a ton about what I was getting. But over time they've been much more amenable to helping in the diligence part without charging exorbitant rates and being much more calm about the service they are providing in exchange to know that once the business is going that they do have a number of benefits in dealing with the company and that they are going to be doing the closing of the company sale and those kinds of things which begins to add up for them over a couple of businesses.

Michael: Does it help to have that team in place when you're negotiating and when you're talking with that potential seller?

Chris: Oh for sure. I think over the years I've made the mistake of not having a team, trying too much to be a solo person, solo player. Going back to my early stages of doing the HMA thing or even other businesses, to kind of be a lone ranger doesn't work anymore. It's too hard to have the breadth and depth. It doesn't mean you can't be in control, you can't manage the whole thing from start to end but you need to have an advisor group, you need to have a master mind or something and in the end I've realized that you get what you pay for. If it's free you are usually getting that and if you get top end advice you usually get what you pay for.

I interviewed a lot of people to make sure there was the right chemistry in regards to the legal team because there are lots of options out there and had to be someone who fit my style and someone who complimented various things I'm not as strong in and also had subject matter expertise that was very good. I did invest a good three months before I landed on someone I felt was the type of person I felt I could work with and that I knew would make judgment calls in line with my values and those kinds of things.

Michael: That's great. That's important.

Chris: The financial pieces well an accountant who is also not on staff. It's a company that I use for accounting purposes and I've used them for years but at the same time they have a vested interest that once the business gets going that the accounting work gets past to them and they understand the kinds of things that are important to me and understand my tolerance for risk and those kinds of things.

At the same time these people are not the ones that are making the decisions. I don't let the decision become a legal decision or financial dollars and cents decision. In those cases you have to make the decision yourself and we have a relationship where they understand that. I'm not going to let them get in the way of an opportunity just because of a clause here or a number here. In the end I make those decisions. These are people who I believe are very good in their field and very strong at being willing to say they disagree with a point or I think your estimates are out of whack.

I'll come back with marketing numbers sometimes and they'll go hang on a second. If you are going to get this kind of return you are going to have to invest this kind of money and where are you getting that money from? Are you putting the money in to make it happen? So very, very good people to deal with and again it's important to have that defined group of people. Way too often I've tried to do without.

Then the third person an operations person that I hired. This is someone I've seen in the market before and I bit the bullet to hire someone of this caliber who really, really knows how to run a business and knows how to implement stuff. They aren't necessarily marketers and they aren't accountants, they're not necessarily deep subject matter experts, but they are very good managers. This person is a very good manager. When we acquire, he basically is the eyes and ears and can prop up the information and understands what needs to get done to get implemented and work with the team there to implement the different aspects of the business very effectively because that's what is going to make a difference.

I can then take my expertise, which is the sales and marketing piece, and focus that company on the sales marketing instead of trying to figure out how to run everything and learn every aspect of the business. Then over a short period of time and our goal is always 90 days, over a period of 90 days to be able to make a significant enough impact where we can then start taking more day to day control of that company and applying more resources and more people and switching out things that need switched over that period of time. He does the learning and knowledge transfer of the business and understanding it. I spend my time doing the revenue side and implementing the different marketing tools and sales tools so that we get accelerated and we don't just sit there waiting for things to happen.

Michael: Is your manager on site? Like the three you have going now are they local or are they spread out?

Chris: Spread out. He actually moves for three months.

Michael: You and the manager will move for three months?

Chris: That's right, yes. You have to be there.

Michael: Oh, that's exciting.

Chris: We found in one of the companies that we acquired someone else who has similar skills to his that can become another person who can do this particular role and my job is to find someone to do the consulting/marketing side and go and actually implement and get these things off the ground.

Once the business is running, a lot of these companies have good people, have the right tools and they just need some propulsion up front just to get them going. Once they are going they can maintain them, they've done a good job of doing it for 10 years and mistakes I've made in the past of buying companies is that I think I know how to do things better than the person who was there before and the truth is you don't. They've done it successfully for a long time and the key is can you give them a bit of momentum and bit of uplift so that their plateau isn't 10,000 feet, it's 100,000 feet. So instead of $1 million your plateau is $2 million or $3 million.

If we can get those things rolling they can maintain it very well but it is a different type of person and a different type of expertise perhaps and this is where the value comes from the marketing tools is to bring it up a few levels so that then they can maintain it at a new level and of course at a higher profitability for everybody.

Michael: I want you to talk about the big picture in this of what you are doing and why you are doing it? I hope I'm on the right track; I'm thinking when you compare this to working with 12 clients at a time and growing their businesses, getting paid on retainer or project work compared to now you are working with three businesses using the HMA system to grow them. Tell me about the potential and what is the ultimate goal? Is it to sell out for big money?

Chris: Well, not really, not yet. I think we have a ways to go to get there. As much as I'd like to say that's the end goal, right now it's really about maximizing profit in the businesses. The market will change over time and I think if we're smart over a period of time we might have a dozen, 50, I don't know, companies where the scale between we might be able to share some resources, we might be able to get some best practices and buying power, whatever. It might be a potential from that perspective.

But truly from the strictly self perspective, if I'm a marketing consultant I can go and get a fee for $3,000 from this company and maybe a contingency of another $2,000 let's say, so $5,000. So maybe I'm getting $60,000 from a particular company. The same business today is producing maybe $200,000 or $300,000 in profits and through the changes and marketing updates we do a good job they could produce $400,000 or $500,000 in profit and I know have access not to $60,000, but I have access to $500,000 in profits. And even if I took the upside of that, another $200,000 in profit that I can reinvest in the company, I can pull out and use for myself, whatever.

So if I have a handful of companies with that it makes a significant difference to the kind of things that you can do and you can use that money to buy other companies, leverage it in different ways from that standpoint. The biggest value that the HMA provides is that it provides access to cash. In the end, you help and come in the door and as long as the company isn't screwing it up by being really poor at delivering you are going to increase your cash flow and relatively quickly. Right now, cash is king and that's where the big benefit is.

If I'm going to be a consultant and I think I'm fairly competitive as a sales person but I know my access to potential clients is going to be a lot harder than it would have been before. People are retrenching; cutting budgets for training and marketing and cutting their budgets in all the wrong places because that's what companies do when the economy gets rough.

If I'm the guy on the other side and I get to make these choices I get to invest my energy and time in the marketing and training and reap the benefits that come with that without having to wait for the market to get exciting again.

Michael: Lets say you have one of your companies and you've got an agreement and it's in place are you going to try and grow revenues without spending more money on advertising, but in some cases have you had to put a lot of money into the company and if you did, how do you structure that? Who puts the money in during this trial phase, you or the owner or both?

Chris: That is a very good question. There is a requirement to invest more. A lot of cases you can't just go in and implement something. If the Web site has to get done, someone has to do it and they may not resources to do it. So this is where it becomes really important to want to be creative and to be very intelligent.

One of the things we look at is what resources are really not performing well and some of these businesses have been hanging on to resources or people that just haven't been producing and there is a low willingness to get rid of them because its complacency or whatever. Now, it's getting a little different where companies are making these choices because they know they have to make them and they can't wait around.

When the going was good they'd say well, I like John or Joe or whatever and they've been good people for a long time so we'll keep them around. So sometimes we're able to free up cash by just doing that thing where you've got three employees and paying them $50,000 each and they aren't doing anything for you. I don't know, you challenge the business owner a bit and you usually get an answer that they've been thinking of getting rid of them for a while, but haven't got around to it.

But in other cases there has been a need to put in a few thousand dollars, $10,000, $15,000, $20,000 sometimes to get some marketing done and it is attributed to part of the investment into the business and in the event the company doesn't fly or whatnot, the deal doesn't go through, there are some attribution at recovering those expenses back.

But on the flip side one of the really important things has been to just be brave at asking for deals. Like you can get a Web site done for $500 now, where as before it was $5,000. You can get a CRM system, and a lot of people are paying for really expensive ones, but you can get some really good CRM for $5, $15 a month, $2.00 a month per employee, some of those things. So being very cost conscious and I realized even around the marketing is critical, critical, critical so that you become smarter at doing those things and leveraging. That comes with a bit of experience and it comes with being willing to ask a lot of times.

We have to invest but sometimes we invest because we don't know how to find a better way to do it and I think that was a key trait that we needed to learn this year.

Michael: But all of these things, these situations that could come out, your attorney has covered all that in your contract or in your agreement? Everything has been taken into consideration?

Chris: That's exactly right and that is one of the real values of dealing with our attorney is that he's walked us through these scenarios. Lots of things we haven't thought about in the past, things like if the company has lien on it, what if they have another silent shareholder, how are you going to deal with them if they don't want to sell. What happens if you need to put money in to make this business work, what happens if the business owner decides he doesn't want to approve decisions that are being made?

So you know, we go through a whole bunch of these things and the real key is that we structure the agreement in a way that has some protections in it but it is fairly light in the sense that we can get started and go fairly quickly and go to market and get things done and begin to test each other out and know within that short period of time whether we're going to have a good working relationship or not.

In some cases there are good intentions but there isn't an ability to work together. In other cases you realize that there is a much greater opportunity to move this faster than you thought when you got started. Our agreement allows us to fairly quickly once we have the letter of understanding in place and the intent in place and some guidelines to begin to go get some things done like any consultant would do. And from there begin to course correct between the two organizations, basically.

Michael: Couple things. One is I've been marketing Art Hamel's system for a long time, since 2004 and HMA system and I've always said that the two together, the two individually are both very powerful concepts; buying a business using investors money and then the HMA marketing consulting system are very powerful individually. Together they are super powerful and that's exactly what you are doing even though you haven't really looked at the Art Hamel, you are basically doing that exact thing.

The HMA system becomes a bank; it allows you to get into ownership of business by bartering consulting.

Chris: Yeah, I'm going to study this Art Hamel stuff like a maniac for the next couple of days, I can guarantee you that. But really cash flow is the number one issue for a lot of these companies. In fact one of the companies that we are looking at right now the issue is cash flow, that is kind of goes a little outside the mold of the business owner really doesn't need to retire tomorrow kind of thing and he can hang on for 10 more years and be fine, although he had thought about it. But truly, he's running into a cash flow problem and this struck me on the call you did last week where someone was asking if they should talk to companies who are thinking of winding down their operations. The only reason companies wind down their operations is because they are running out of cash. They just don't have enough cash to make payroll, whatever kind of things.

So sometimes it becomes a very good opportunity to pick up the customer list, pick up assets, to pick up the business even if you have enough window to make some improvements in regards to cash flow for the company and cash flow comes only doing a deal where people pay you and you could pick up the phone and try and sell a couple of customers but there isn't enough scale in that. With a marketing system behind and if we can implement things in a short period of time you can get cash in the door. Really that is what is killing companies today is that they don't have cash and without the cash to meet their demands they have to close their doors. Our marketing system improves cash flow.

Michael: Did you ever hear the interview; I interviewed a guy out of the UK who is an expert at working with businesses and getting the business up to a point pricing it for the highest dollar amount sale? He was working with a couple of partners and they were buying nursing homes, small nursing home units all through the UK and they bought about ten of them. They ended up selling it for millions and millions of dollars but that would be another interview. There is a lot of great information like that; he's positioned himself as the expert for positioning your business for the highest selling price.

Chris: By nature, I would not like him.

Michael: You wouldn't like him?

Chris: I want the cheapest companies. Just joking with you. I'd love to hear that recording, as well.

Michael: Good.

Chris: So that's the big picture and if people are coming across businesses where they are looking to get out of the company and there is a cash flow issue then I'd get them to think twice about taking another look at that company and get in touch with you to access me to look at some of these companies and see if there is a potential there. In the end I'd rather own part of a business and be able to direct its future than simply get a fee from it, from my perspective, you know. There are risks involved with it and I mean if a company's profits go down and having troubles with it you're on the line for it and there are risks that I think on the flip side the upside and the reward for the amount of work that you do is much more evident and really I think there is a massive asset with the program to be able to extract those values from those companies for personal benefit instead of just a fee.

Michael: Great, I love what you're doing. That's excellent. I appreciate you letting me interview you on that. On your three companies have you moved out on locations or all three at three months at a time? If you have 15 or 20 of these are you going to be able to scale it where you don't have to move out?

Chris: I think that's my next phase is to develop people who can do that. I'll go out for a while. I think to be successful in business you have to be hands on today, you can't ignore it and just go and buy something and hope that it moves. My goal is to develop more operational and more marketing people to be specific to go and do this particular activity with businesses that we're looking to acquire. In the end I think those first few months are the critical months. Over time it may make sense for me to get a consulting team and advisory services. But the companies need a push. My big investment now is to develop an internal team to do this particular work with these businesses. One to go in and cut costs and one to go in and improve sales.

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