

# Hidden Business Assets

**How To Buy A Business In A Shorter  
Period of Time Than You Have Ever  
Done Before!**



**By Michael Senoff**

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A handwritten signature in blue ink that reads "Michael Senoff." The signature is written in a cursive, flowing style.

Michael Senoff

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## 110 Minutes of Detailed Answers To Questions From Existing Art Hamel Students

More and more people are buying Art Hamel’s course on business buying. As a result, more specific questions are being asked that have not been covered in some of the other of my interviews with Art. Here’s a new recording to cover more questions that have been asked by Art’s students and detailed answers from Art himself.

As you listen, you will hear detailed answers to questions such as:

What is the percentage of return for the investors, Art’s fee, and what percentage of the business will the buyer own? Hear Art answer this question giving detailed examples and the math behind the examples based on his personal experience of more than fifty years of business buying.

What kind of involvement in running the business is the buyer going to have if Art becomes involved? Basically, it depends on the buyer’s management experience. Art gives great examples in answering this question as well as what his involvement would be when a deal is made with his assistance and services.

What kind of businesses should potential buyers look for? Should it always be a manufacturing company? Listen as Art explains why manufacturing businesses are his favorite because the risks are less than buying a service business. Find out why service businesses can not only be riskier, but more reasons that they may not be your best choice.

What does Art think about buying an offshore manufacturing company – specifically one based in China? Art explains that it can still be a good deal, but how more negotiation may be necessary in China or in the Middle East.

Would Art be interested in financing a movie project? Well, with all of his business buying and financing experience, you can probably guess that Art has, indeed, been involved with the financing of movie projects during his career. Listen as Art talks

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about the deals that he has been involved with in the past and what his personal opinion is currently about getting involved with more of these.

In a buyer’s first meeting with the seller, what should the buyer ask for? The details that Art gives while answering this question are a “must listen” for potential business buyers and you’re going to want to take notes. Art stresses that in a first meeting with the seller, the buyer’s main goal should be to establish rapport and a relationship with the seller. He goes on to suggest a few important questions that should be asked by the buyer in that first meeting and the most important information that the buyer should request from the seller.

When talking to a seller, is Art available to explain his credibility and services to obtain financing? This is the part that I like best: Art suggests that the buyer send the seller to my web site, [www.hardtofindseminars.com](http://www.hardtofindseminars.com) to read or listen to the volumes of information available about Art Hamel. My web site really will establish Art’s credibility and will tell the seller exactly what to expect if Art becomes involved with the deal.

I encourage you to add this two part recordings to your collection of business buying resources. Again, Art leaves no stone unturned as he answers his students’ questions in plain English with easy to understand examples based on his years of experience, real-life examples, and a wealth of business buying knowledge. Now You Can "Test Drive" Art Hamel's Legendary Business-Buying System For 30 Days...For Free!

Michael: Hi, this is Michael Senoff with [hardtofindseminars.com](http://www.hardtofindseminars.com). A lot of people have Art Hamel’s course right now and I continue to get other questions asking about the support that Art gives for his course. Well, here are some of the questions and what I do is when I get a question, I generally just pick up the phone and call Art. I ask the question on your behalf and I get his answer. I record the call and I provide the answer directly to you. Some of these questions have been piling up and I’ve asked Art all these questions that have been coming by way of email from the Art Hamel students and that’s why I’ve added this new recording to cover more questions and answers from existing Art Hamel business buying course owners. So, hopefully these questions will cover some of the things that you’re thinking as you go through the course. I hope you enjoy.

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**Question:** Here’s a guy. His name is Anthony. Michael, I know I have emailed you earlier with a couple of questions for Art. If you haven’t spoke to Art yet today, if I can replace those questions if I may. The main question I have for Art is how is the deal structured? What is the return for investors, Art’s fee, and what percentage will the buyer own? Also, the exit strategy for the investor, how is it after a set number of years one is able to buy these investors out? Thank you and I appreciate all your help.

**Art:** When you’re going after to buy a business -- let’s take a middle of the road manufacturing -- and let’s say your return is 25%. When people go out to buy businesses in the United States or all over the world investors are looking for return of anywhere from 25 to 33% depending on the risks. In other words, manufacturing company might give you a 25% return where something riskier like a service business might give you 33% return. Now, let’s say you’re buying one and there’s a 25% return. I then take you to the investors. We have investors with cash, we have investors with real estate, and of all the years we’ve been doing it, the most we have ever given away is the equivalent of 12%. Now, if have attended any classes in math, you realize when buy a business and it’s going to give you 25% return, on the other hand you’re paying your investors 12, that means you’re going to end up keeping 50 some percent of the business even though you’ve put up very little or no money. Now, it varies. Taking California today if I were working with people in Southern California and using their improved real estate that was free and clear, their cap rate runs 2 ½ to 4%. So, you might be able to, if you were working with people from Southern California or people that were used to getting less return, you might end up keeping 70% of it or 75. Now, keep in mind, what we’re doing is we don’t have a standard. In other words, we try to give them either 20% or more than they’re getting right now and there’s three things we’re pushing with people when they invest. Number one, we’re going to give you more return right now, we’re going to give more growth in the business that we’re buying, and the third thing is comparable risk. In other words, the business that we’re buying is as safe as the investment you have right now or even safer. Those are the three things that we keep pushing and it works very well. My fee normally runs 10%. Now, say you wanted to raise \$10 million, my fee would be \$1 million, let’s use as an example. Let’s look at it. Say you pay me \$1 million. Before you start to worry about that, keep in mind it’s going to take you \$10 million to buy the company, which we’ll deliver. I will deliver the million dollars that you’re going to have to pay me. On top of that, you’re going to attorney’s fees and CPA fees. So, what happens is we would end up saying to you, okay, we’re going to deliver \$11.5 million from the investors. So, when you get to your close, you have enough money to cover everything. In fact, you could probably throw in \$300,000 or \$400,000 for working capital, so we make it \$12 million. So, that’s basically what we’re doing.

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Now, if you want to analyze where I’m coming from versus you, if you go in and buy a company at the same price of \$10 million and let’s say it’s doing \$2.5 million a year profit. You’re going to end up getting half that, so you’re going to get \$1.25 million to \$1.5 million depending on how much stock you end up keeping. You’re going to own half or more than half of a company worth \$10 million. So, at the close of this, you picked up \$5 million and true net worth that you can go to the bank with and you pick up an income of \$1.5 million a year, which you didn’t have before. Michael, I’ve told you many times, I’m looking for something else to work on. I was looking forward to working with other people. So, it’s not a money thing because it would be easy for me to put that business deal together for myself than trying to put it together for someone else.

Michael: And he also wants to know what kind of involvement -- let’s say that he doesn’t have a ton of managerial experience and then this thing goes down. What kind of involvement is he going to have on a day-to-day operation?

Art: Mean running it?

Michael: Yes.

Art: Here’s what going to happen. The investors are going to dictate a lot of that. If he has good management experience and he’s going to be able to run this, and again, it doesn’t mean you’re going to be running this thing on a day-to-day basis. He can be an absentee owner. We leave the management in. You don’t want to get stuck in this thing of being there every day. That’s crazy. And the investors don’t care about that. But what they do with me is, number one, if the person coming in is not putting up enough, they insist that I put up part or all of what I get. This has been my experience for 25/30 years. The second thing that happens, if you don’t have a lot of experience, not only will I still own part of the company through the stock, the other thing is I have to either be the consultant or the chairman of the board or the CEO. In other words, I’m going to have to run that company until you the buyer end up getting to the point where you can run it yourself. And also, I would do that anyway because if I am part of the stock, I don’t want to end up losing the whole thing because you can’t manage a company. I try to make the managing of the manager a big thing. It isn’t. The problem is where my head is. In other words, if you’re not coming forward with anything, again, could I put the deal together if you had not one cent -- yes. Could I put it together if you had no experience -- yes? Could I put it together if you had no management experience -- yes? But if you’re bringing -- and again, I’m not talking about bringing a lot of money to the table, it’s tokenism because what happens is if you’re an investor, somebody coming in to buy a company

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invests nothing or next to nothing, guess what’s going to happen when the company has trouble. The buyer’s going to leave. He’s going to walk out. And that’s what everybody worries about and I don’t care what country you’re in, that is a legitimate thing. And one of the things he asked about, about going out. The average investor will stay for five years. So, when we set the pro forma up, we set up five years of projections on what the company’s going to do. The person that’s putting say \$1 million in because that’s their minimum that they put in, they put \$1 million in, they’re earning 8% on their investment now and we’re going to give them 10, which is 25% more, which is pretty good. And what they’re going to look at is, okay, I’m going to have 30% of this company, we’re making so much this year, and I’m going to be making so much for the next four years.

Michael: So, with a \$10 million business, you’re going to get, for example, ten investors to bring in \$1 million and they’re going to make a couple points more than they’re already making with real estate.

Art: Or with money.

Michael: Or with their money.

Art: If it’s real estate -- the example I’ve always used over the years is on a 10% cap rate. Most real estate around the country does not earn 10% cap rate now. The cap rate is lower. So, we don’t have to pay as much right now. But even when we get back to the point where we have a lot of 10% cap rates, and we will soon, it always goes back to this, it still makes economic sense. And again, everybody can argue with me about how this works or doesn’t work, but if you go out and check the numbers, this is what you’re going to be able to get it in the market for, this is what the investors ask for, and if you just figure the arithmetic, this is how much you end up with. It seems to be obscene, but it’s what the market is.

Michael: Art, so what happens five years? Let’s say a deal goes down and Anthony buys a business using your investors, five years has past, and then the investors want out. What happens at that point?

Art: At the point in five years, what happens is, you can either sell the company and pay them off and pay yourself off or what you can do is get the thing appraised and give appropriate share of the value of the company. I mean the company is going to be free and clear, so if you had to borrow on it or whatever, you’d have no trouble buying out the investors. Now, what we normally do, is we’re giving their money back. So, the person puts up \$1 million, at the end of five years or during the time they’re getting more return than they ever got before, they’re getting

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more growth, and they’re also getting comparable risk. At the end of five years, we give them \$1 million back; whatever they put in and then we give them percent of the profits of the growth of the business, which is substantial usually in a five year period. Usually over the years what I’ve done is I’ve given the investors half of the upside. I am the only one that’s ever done that. Everybody I’ve worked with is only giving them 25% and sadly they’re very satisfied with 25%.

Michael: Here’s another question. We’ve talked about this on the part where we went over the 25 criteria. He wants to know when he’s looking for businesses should he be looking for manufacturing businesses. Are these the businesses that you most prefer deal with and the reasons why?

Art: First of all most of our investors are owners of manufacturing plants, so it’s easier to sell them. The other thing is it’s also a favorite with me. But the number one reason is the risk factor. You pay a little more for the bucks that you get from a manufacturing company, but what you’re going to find is the risk factor is a lot less, the chance of failing is less, the competition is less. On the other hand, you have service businesses that you can buy for a better price -- the amount of cash flow for every dollar of profit. But they’re going to drive you nuts. And if you ever owned a service business and you owned a manufacturing business, it’s very obvious what the problem is. The more people you have to earn that million dollars a year, the more problems you have. I mean it’s not your equipment that’s going to drive you nuts; it’s those damn people. They used to have that song, take this job and shove it. When I’m out there and I hear that song, I’d say, I wonder if these people realize that we owners have a song like that also.

Michael: I believe it. I just talked to a buddy of mine who bought a franchise down in Sarasota, Florida called Cheeseburger-Cheeseburger. It’s a cheeseburger restaurant. It’s doing great. It’s busier than hell, but he says the biggest damn problem is the employees. He was telling me the story about how his manager called and the guy is like 21 years old and you just can’t find help to manage and waitress on these restaurants. And he had a problem with his girlfriend, he’s a shift manager, and he couldn’t come in and my friend said, look, you either come in or you’re fired. He goes, well, I don’t think I’m going to be coming in.

Art: \_\_\_\_\_ is a big problem you have is there’s no tips involved. And here in Orange Country it’s very expensive to live here. And I have a couple of friends, a few friends, who own restaurants and they all complain about the same thing.

Michael: That’s there’s no tips?

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**Art:** Well, if they have a business that doesn’t require tips or get tips to the people, the employees can’t make enough money to live. The example I used to always use, we owned a lot of fast food operations, hamburger operations, I’d say in order to make \$50,000 a year, I need 50 employees. But the thing is okay I don’t make \$50,000, I got 50 people. This was like a few years ago. If I want to make \$100,000, I have to have 100 employees. And I have to have for every \$50,000 that I make, I have to have a manager. If I want to make \$1 million a year, I have 20 managers reporting to me. With a manufacturing plant, I only have one person. The manager of a small fast food operation might be paying \$50,000/\$60,000 a year. The managers of the operations we have in manufacturing make \$150,000 to \$200,000 a year. Do you know how often people call you and they make \$200,000 a year. They think you’re a dork anyway. You’re the buyer, you’re also known as a dork or whatever other names they call you. I never did find out what they called me, but I’m sure it wasn’t very complimentary.

**Michael:** As far as manufacturing, with today and everything being outsourced to China, like all the mold and tool die business, has that changed your opinion on manufacturing? Is that a concern and why not?

**Art:** No. First of all you’re going to run into a lot of larger companies that are already outsourcing. And in the old days, we were in outsourcing before there was a word called outsourcing because we were in Mexico for all those years. And that’s what we were basically doing. We weren’t the U.S. company outsourcing; we were the outsourcing source in Mexico taking over all these jobs and stuff like that. It comes up all the time, but what you’re going to find is most of the companies that are large enough and it makes sense have already gone offshore either to the Far East or to Mexico. And I’m not saying you can’t do it in the future if you run into one and it’s a simple product and it’s something that you might be able to deal with. I mean that’s a hell of a deal like that. We were working on a furniture business in downtown L.A. They have 200,000 square feet. They had 300 employees -- furniture manufacturing. They moved it to China, and last time I was there trying to buy it, they had only 70 employees left and where they had a business before they were making \$400,000, \$500,000 a year, they were making \$2 million some with the savings on the labor. Yes, it’s out there. Something you have to keep in mind. What we did, even though our plant is in the U.S., we always outsource. I always went to Mexico. And what I would do is I’d have 100 employees at \$10 million a year in sales. If we then had a big burst in sales, instead of me adding people or trying to add more manufacturing facility, I would go offshore with it. And then what would happen as soon as the business

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would go back to where it was before, I would pull the jobs back in from Mexico.

Michael: Have you done any stuff in China?

Art: Yes.

Michael: What’s your opinion on outsourcing to China?

Art: Well, first of all if you have proprietary products, they’re going to steal it within one hour and they’ll be manufacturing it themselves. They’re also hard to work with. I mean I never had any trouble working with the Mexicans. Working with the Chinese, especially, they are a bunch of hard asses. Their word is no good because the problem is, again, after you settle down and you have the contracts it’s okay. But up until that time, if you sign a contract on Thursday in blood, on Friday they’ll be back making changes on it, and the same thing on Monday. In fact, when I taught seminars, Asians in my class would consider me racist because of what I was saying. I’d say listen to what I’m telling you. I’m just going to tell you don’t do business here. What you do is learn to negotiate. In other words, you know they’re going to come up with something to get you to change the price. So, what you do that night after you sign the contract, make up four or five things. In other words, if they change the price on it, they have to give you all their children and all grandchildren for the next five years. I said come up with something really obscene, four or five things. And then come up with little nitpicking ones. And when they hit you with the nitpicking things in the beginning, say I’m glad you want to open the door again on this negotiation because as I looked at this last night, I found the following three or four things that we might want to change. And as soon as you come back and start doing that, they back off every time. If you’re in the Middle East, you have the same problem. People like to negotiate. Up until the time we got involved with investors 25 or 30 years ago, I’d go out and buy a business, what we used to call leverage buyout, which mean I would finance the assets. And in a service business, all you have are pencils that you can hock. In a manufacturing company, you have all that beautiful equipment out there, you have all the inventory, you have the accounts receivable, and if the company is doing well, you’re going to be buying a manufacturing company that doesn’t have any debt on it. So, you can put that together. Now, keep in mind, if you work with me and bring the investors in, from the day you take that business over and say it’s a \$10 million business, that \$10 million business is free and clear. You have no debt on it. No debt. Do you know how tough it is to compete with somebody like people I work with that have companies with no debt? You can even cut the price if you have to and nobody else can because they’ve got this damn debt hanging on them.

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Michael: Let’s do just a little talk. On the cassettes it teaches them how to finance assets, but that’s still totally doable on smaller ones right.

Art: No, and larger ones.

Michael: And larger ones.

Art: Now, we were buying larger ones at the time, the same size we’re buying now and finance the assets. Now, when you’re financing assets, that’s why I prefer manufacturing because you have equipment, you have accounts receivable, you have inventory. A lot of times you can go in and say I’ve a \$10 million deal, I’m going to give you \$2.5 million down, and you carry back financing. So, we got the owners at that time to carry back maybe 50% of the operation. It was very simple to go out and borrow or lease back our assets. So, I could use the equipment, I could the accounts receivable. And our goal also was even though we had owner financing, which we would structure to make sure it worked, and even though we had financing on the rest, on the equipment, we still had 50% of the cash flow left. Our rule has also been 50% or you don’t do it.

Michael: All right, let me as you this. We also talked about rarely did you find an owner with a \$10 million business who wants to finance it.

Art: That’s right. So, you’re going to find most of the time what we were doing is you’re financing more of the assets.

Michael: So, more of the assets we’re financing, but was the owner still financing?

Art: Well, we had more of it at that time because we were pushing for it.

Michael: But that can still be pushed for today.

Art: We could push for it today. The problem is I own cash and get a lower price. Back in those days, it did not bother me making payments because I wasn’t used to do anything else. But I’d gotten out and spent 25 years with no payments. You couldn’t get me back again.

Michael: So, anyone going through the course, that’s still a totally legitimate option that they can do on their own. If they can’t work with you for whatever reason or they don’t want to mess with investors, they could still put the deal together by financing assets.

Art: That’s right.

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Michael: And that’s what the course talks about.

Art: That’s right. That’s what we spend most of the time doing and we just lucked into this other. It was not a big master plan, it was just luck.

Michael: All right, very good, Art. This guy also, he wanted to know if you would have any interest in your investors for financing a movie project? He sent me a business plan. I go, I don’t know.

Art: How much does he need?

Michael: He says there’s one for \$2 million or \$3 million and one for \$100 million and he’s got a whole business plan. I said you’d have to talk to him. It sounds like a risky proposition. I don’t think he’s going to be interested.

Art: We’ve never talked about that because I haven’t had enough time to talk with all the business I’ve been involved in, but we first got involved in franchising back in the 60s. It came through a group that was in the movie business. They were called Ross and Bartlett. They made a lot of motorcycle movies. They took Annette Funicello and Frankie Avalon, was it beach movies?

Michael: Yes.

Art: Well, from there they went motorcycles and after the original beach. Dave Bartlett was with Universal. He was their director. And the other guy was a superior court judge, and they have a company making westerns basically, and I worked with them on getting financing on a couple of them. But the thing I was really doing, two of us had national franchises, the head of that company and myself. That’s a story in its self.

Michael: How risky is financing movies?

Art: Very risky because it depends on the person putting the deal together. I mean I hate to tell you how many people I have seen the business plan and then met them and knew they were slime. Everybody has these dreams. I could probably look at it, but I really don’t feel like wasting my time. Have we done these in the past -- yes? Do I really want to do them again -- no?

Michael: I watched the video your wife sent me. That was great, with Joe \_\_\_\_\_ and Robert Allen. That ran on TV, right?

Art: Oh are you kidding? It ran all the time. Robert Allen was putting his program on, he was using that to sell his...

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Michael: He seemed like the main guy.

Art: Well, it was his program and if you read Robert Allen’s first book, *Nothing Down*, in there he talks about buying businesses and he recommends me. And every time Simon Schuster reads out of that book, they call me to get my new latest phone number.

Michael: No kidding. You’re in his *Nothing Down* book?

Art: Oh, yeah. Al Lowry’s book on business. Well, the reason that Lowry put me in there, the guy he wrote the book with, Kohlman, on business, came to me first and he wanted me to put my name on it and work with him on it. And the people that worked with me thought he was such a scumbag business broker, I had to tell him I couldn’t do it.

Michael: Hi Michael, just to ask, are there any updates to the audios that Art has done recently? Also could you ask him on the first meeting with the seller, what should I be looking for to get from the seller on this first meeting? Example, what questions should I ask, etc.?

Art: Well, the thing to keep in mind, what you’re trying to do is get to know the other party and that’s why your first meeting you should not try to cut it short unless you find out it’s not what you want to buy. Years ago, we used to sit down, first meeting, maybe for an hour. Today we go two, three, four hours if it looks good on the larger businesses. The thing to keep in mind is if you do nothing more at your first meeting than establish rapport and a relationship with the seller, you’re going to be very well off because if you try to get financing or you want him to do certain things, they’re not going to do it unless they know you. So, try to get to know them. So, what’s going to happen is you’re probably going to spend about 12 to 15 minutes discussing things that are important, I mean numbers and the business and stuff like that, and the rest of the time you’re going to be talking about family, sports, whatever you want to talk about to get to know the other party. And you’re going to find that as it goes on, it’s going to become better and better. Now, when you go in there, you’re trying to find out first of all do they still want to sell. You’re going to say it’s ridiculous. The guy said he wanted to sell. Well, that might have been two days ago, so do you want to sell. They’ll say yes. Why are you selling because you’re trying to find a reason he’s selling? Ill health. In fact, years ago we put together a form with all the basic information on it for businesses and up in the corner we had reason for selling and so many people wrote in ill health, I redid the form, being a smart ass, excuse me, saying that, but what I did is that I put down reason for selling, ill health, check if other.

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Michael: So, generally when someone says ill health, that’s not the real reason.

Art: That’s right and what you have to do is find out what it is because if it’s another reason, and it will be, it could be something that’s going to screw you up when you buy that company. So, you’re trying to find that out because you may not want to buy it. Now, as we get into this, what we’re going to is try to find out what the price is. Now, there’s a lot of cutesy brokers around the country that’ll talk to their clients about the fact that if they don’t give the buyer a price, the buyer will pay even more money. Well, you can talk to anybody in this country, since I spend a lot of time buying businesses, and you’ll find that when a broker tells me there’s no price on it, the seller says he doesn’t know, I won’t even go across the street to talk to him. The hell with it because it’s a game they’re playing. If they want to play games, they can play with somebody else. And the other thing is, I have found that if I’m willing to pay a certain price of X number of dollars and the other party wants a lot more than that -- in all the years I’ve been doing this, I’ve been doing this 50 some years -- I have never, never, ever gotten the seller to back off enough to get close enough to put a deal together. Don’t waste your time. So, what you try to do is find out what the price is. Now, you can still ask him about financing. Again, if you’re working with me, we can go in and pay all cash with the investors we have. That’s no problem for me or for them if they’re working with me. Now, what you should do is still ask him about financing because it maybe a good start. It’ll also enable you to understand one thing and that is one of the reasons we stay away from owner financing is all the conditions that the businesses is making over \$1 million a year, the chance of you getting that seller to finance anything is little, low, remote, none even if you put up your kids, your house and everything else because everyone of them have heard horror stories about having to take the business back and they don’t want to do it. So, they would rather not sell it at this time than give up financing. But I still balance it off. Also it’s a good experience when you’re first starting because you’ll say, okay, the broker got the seller to say he’ll finance. So, that’s what he says when you first talk to him. And then you say, okay, will you take the business as collateral on this load you’re going to give me? And he’ll say, no, I want a bank guarantee or I want real estate. And what you’re going to find is, and again, you might as well experiment on the first one, what you’re going to find is even though they say they’ll finance, the average person selling a business any price on this planet does not want to carry back financing not matter what you put up as collateral. And so, what happens is, if you have a situation like you’re working with me and you’re able to pay all cash on these things, it cuts out all your competition because very few of your competitors that are going in to buy that company are going to be able to buy it because they don’t have all cash, they don’t have it available. So,

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you cut out a lot of people that way. Again, you’re trying to find out how long the owner will stay, things like that. But the key thing you’re really need to know is will you sell, what’s the price on it, are there terms, will you stay a while? And that’s what you’re trying to find out. Then when you get to the end of the meeting, what’s going to happen is, you’re going to say to the owner, okay, you provided me with one year’s financials, P&L balance sheet. What I’d like to do is have P&L balance sheets for the last three years and this year to date. And that’s really all you need because don’t start putting together a lot of information because you may find after you leave there and go back to your office and go through this that it’s crap and you don’t want to go ahead on it. So, don’t waste your time building up a lot of paper. Do it on a gradual basis.

Michael: So, only if it looks like it could be promising as him for the last three years of financials?

Art: Right. But keep in mind one thing when you go in there. You are the person with the cash. You’re the person in the control. This person wants to sell this business to your. So, the basic thing just to keep in mind, don’t sweat the small stuff. If you end up leaving the meeting and you’ve only gotten part of the information and you two are getting along famously, you’ve just solved all your problems. Again, on the first one, you may even blow the first one by doing this, but keep in mind, go in there and try to get know them. They’re not going to try to rush you off and say God, you’ve been here half an hour, I want you out now. They’re never going to say that. What’s going to happen is you’re going to be sitting there and all of a sudden it’s going to be three hours later.

Michael: Well, this leads into a question from Anthony. He says, hi Michael. I have some questions about Art Hamel’s business buying course. If I approach sellers that I have a team of investors, I could see that they wouldn’t question my ability to purchase their business. But my question is gathering my team of investors seems to be difficult, at least initially, with no experience owning a business. Have the credibility of an experienced business owner like Art Hamel and his investment pool would be very advantageous when approaching sellers. Are his services still available and is he available for consultation on the phone where I can talk to him about purchasing a business? I’d like to talk to him about what are the criteria that Art or his investors look for in a business to invest in and various other questions. These guys want to know how can they use your credibility while they’re out talking to these businesses if they want to pursue and work with you to help to get the financing?

Art: Well, the problem is no matter what they do with me, I don’t come in until after I have seen a completed business plan and a contract. And so, I can’t

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talk to them because what it’ll happen is they say would you talk to my seller, would you talk to the broker. If I try to do that, the problem they would ask me for guarantees and I would have to tell them that I haven’t received enough information, I don’t have a contract that I can look, and I don’t see a business plan and without that, I can’t make a commitment. So, what’s going to happen is if they do try to get them to get a hold of me, I’m going to end up irritating the person they’re working with what I have to say.

Michael: But what can they say when they’re in the meeting and the guy doesn’t have business experience and he wants to use you and your credibility to get them to open up or whatever, what are they allowed to say basically?

Art: Why don’t you do just a simple thing? Why don’t you just refer them to your website and right below that is the FCC website. Tell them to go on Google and then right below it there’s a biography that I put together for the Society of Exchange Counselors. And so, right on that site, on Google, right below it they can click in and get three-page background on me. It’ll prove to them that I’m real \_\_\_\_\_ go out in the real world because I’m still very well known because I’ve been around so damn long. Here’s what happens. They work with me. They’ve given me the business plan that I’ve worked on with them. I get the contract I worked on with them. And then what’ll happen is I will come and visit their facility. They should understand this. I’ll come in. I’ll go back to St. Louis. Meet with them at their facility and meet them probably for the first time. Sometimes I know the people ahead of time, sometimes I don’t, the buyers. So, I get back there. Get to know them. I’ll spend two or three days getting to know them because I have to be able to go the investors and say look, I met with the buyer, I’ve been working with the buyer for the last couple of months, he’s really a good person, he or she is really a good person, and I think it ought to go ahead. And so, I also have to check their business because the last thing you want to do is go to an investor that’s putting up \$1 million or \$2 million and they ask have you seen the business -- no. Have you met the buyer -- no? So, what does the investor say -- no? So, what happens is I have to go back. I have to do this. At that time I will then talk to the seller, I will talk to the broker, explain to him what I do. I also tell them that this Friday of this week and by Friday of next week you the buyer will be getting an email from me or a fax, whichever one the person wants, on Thursday afternoon or Friday morning, which will describe all my activity during the week that I met client A Monday morning and client A is interested in putting in \$2 million, etc., etc., the person’s name, their phone number, their address, their attorney, their CPA. So, if the person I’m working with, the buyer, wants to check this out or call them or talk to them or whatever, he can do that. All I ask him to do is not let the seller do that because he’ll screw up my investors. They’re not going to be able to

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steal the investors. There’s no way that’s going to happen, but we don’t want them getting a lot of phone calls. Now, what happens is every Friday I’ll be calling you. I’ll be reviewing what happened during the week. You’ll already have the sheet to put in your notebook because I don’t want you sitting there trying to take notes while you’re talking to me. So, it’ll be down on a week-by-week basis. You’ll then see what the status is. You’ll see by the end of the first week, we are working with enough people with enough money to put your deal together and it’s going to make you feel a lot better. Now, what happened is, about a year ago we had a person we were working with in Florida and he was having trouble from the seller and the broker and all this other, and I said, did you get your sheet on Friday. And he said yes. I said when are you going to see him? He said tomorrow, this was Tuesday. So, he was going to see him Wednesday. I said look, make a couple of copies of it and when you meet with give them each a copy of this. He said they shouldn’t have this information. I said why not? I said we’re not playing games with this. There’s nothing secret about this. There’s not a chance in hell that they can go around me to the investors because I worked with these guys for 25 or 30 years. There’s no problem. So, I’m saying you have to get it to that point. I understand what they’re going through. There’s a lot of pressure from these people especially when you have a broker involved trying to qualify you. So, what you’re going to find is no matter what you do you have problems. And keep in mind, when I go out and buy a business, unless I’ve known the broker or the seller from other deals, I go through the same crap everybody does.

Michael: Here’s a question from Chris. He just recently ordered the course. Very excited. He goes, Michael, I’m up to page 6 so far. I was wondering if Art covers any ground with regards to negotiating and the actual art or science of deal making. If not, do you have any good or recommend sources of materials that cover this area?

Art: Let me just say something. Even when we were teaching the course, we glossed over this because the art of the deal, you know, we’re not in here negotiating the take over of General Motors or something like that. You’re buying a small business. You’re going in. You’re in the driver’s seat because you’re the buyer. You’re the one coming in with the cash. And there’s no great technique because all you’re trying to do is, first of all, you know from pre-analysis that that business that you’re looking at, market-wise, is worth a certain amount and they’re in the ballpark. So, when you go in there, you’re just gathering information and you’re seeing what your gut level is. I have been doing this for 50 some years. Do you know how often I’ve negotiated a deal? I’d never negotiate. And what happens is when I get down to the end, especially in the last ten years, many of the sellers of the business will stay around -- we paid them all

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cash -- they will stay around and continue to manage the company. Why will they do this? We become friends. I have not given them a hard time. I have not hardball negotiated. I mean what you do is don't try to go after businesses where they're in trouble and you're trying to steal something. Don't try to go in there and cut a better deal. In other words, I'm willing to go in there and pay market for it. And if they're willing to sell for market, then we have a deal. There is no tough, rough negotiation that goes on and I have never done that. And all I'm saying is that you can listen to this horseshit from Donald Trump and all I can tell you is my hair looks a hell of a lot better than Donald Trump.

Michael: That's funny. Except that bald spot in the back where people keep batting you.

Art: Yeah they do. Every time somebody's asked me what type of business I bought, I would tell them and since I've always bought boring businesses, they bat me on the head and because of that, my hair is gone.

Michael: Here's a question from Travis who ordered your course. He says, from the ending of that recording -- this was the recording he listened to on the 25 point checklist -- it sounded like Art and yourself were going to continue on to discuss some sort of document which might help people reinforce their relationship with Art and his group of investors or the process involved once a purchase agreement has been established.

Art: Okay, but you see when they get to the point and they say okay I want to talk to you on the phone, we talk to them on the phone and then if they decide they want to spend the time bringing the investors in and doing all of that, the documents that I fax or email to them cover all this. They tell them exactly what the order is going be and how we do things. Until we get to the point where we're about to do something, it's meaningless to send people information on what we might do if they would do something. Before they sign the agreement on paying a fee, you'll have all the information in writing and it's something they can share with the seller and with the broker.

Michael: Perhaps I was naïve in my original listening of all the recordings and details on your site. Admittedly from those things I had great excitement about the possibility of teaming up with Art to put together not just one but a few business purchases. It's easy to imagine that Art's time is continually wasted by people bringing him business plans that do not suit his requirements. Even in some recordings he mentions people trying to bring deals together that just don't match his strict criteria. As Art says, look at 100 businesses then you won't be so scared to throw them away if they aren't idea. It was always my intention to follow Art's directions to

the letter. That this would be the only way to ensure that I don’t spend time and money on opportunities he is not interested in. For a guy like me who has recently gone the route of trying to start things from scratch, it was a huge eye opener to listen to Art’s recordings. My talents are in the area of maximizing business processes, not in starting something from scratch. Why I never considered buying an existing business is embarrassing. This would have saved me from my last costly startup venture where after 18 months my partner never came through on the side of the deal. The experience has provided valuable lessons and made Art’s recordings ring even truer for me. So, my question is, I live in a province of Canada where there’s not much manufacturing. To locate ideal manufacturing prospects with over \$3 million profit, I will likely have to travel to other provinces as part of my due diligence. I realize this represents very minor investment in return to the scope of the businesses Art suggest I pursue, although I’m willing to invest the \$30,000 to \$50,000 I expect will be needed to get through screening a lot of businesses. Doing the due diligence and then funding Art’s due diligence trips, at that point I expect my well will be completely dry and I would have to have closed on a deal. From yesterday’s recording, I get the impression that there is not enough value in getting into these deals for Art to be interested unless I have a significant investment and adequate management experience. This was quite different than my impressions from the previous recordings. I fear that I will not be able to provide any significant investment in the actual purchase of the business. Can Art please give me clearer indications of what kinds of candidates and business plans are likely to keep his interest? Does he have any minimum type of investment or management experience that he expects to see from those bringing him business plans? Perhaps I should only be considering options other than Art and his group of investors.

Art: Welcome to the club. I mean I started out starting businesses, too, until it dawned on me that buying existing ones made more sense. I think everybody’s going through the same thing because it seems if I don’t have much money, I’d better start a business as opposed to buying an existing one. The opposite is true. Now, everybody always asks me about the fact how much money they need on the thing. Well, if has \$30,000/\$40,000/\$50,000, whatever he’s talking about and he’s going to be putting that in or he’s going to use that up by the time he gets there, that doesn’t really happen because what happens is he maybe spending a couple thousand dollars on me at \$150 an hour until he gets to the point where he does something, but he gets that back. In other words, it’s like money in the bank. As soon as he puts a deal together, at the close of escrow, he gets all that money back. Also, when I go out to get funds, I go out to the investors. I’ll bring in enough money to cover the cost of the purchase of the business, enough money for working capital, whatever the

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buyer decides he needs for working capital, enough to cover my fee, and any other expenses that I have or anybody else has. So, everything is basically covered. In other words, whatever the amount is that he needs, if he’s buying a \$10 million business and he needs a total of 12 or 13, that’s what he’s going to end up getting at the close of escrow. Now, the other amount that he’s putting up is basically the tokenism because what every investor worries about -- I don’t care with me or anybody else on this plant -- is if you haven’t invested anything and you buy a larger company, if something goes wrong you’re going to walk away. And so, the amount you’re putting up has to be enough to satisfy the investors so that they know you’re not going to walk away, or if you have a house, you’re going to put a second on it. I don’t mean it’s going to be payments, but there’s going to be something that you forfeit if you just walk away from the project. And that’s the thing people are looking for.

Michael: So, maybe if you own a home, you could plan on putting a second on the home possibly?

Art: That’s right. Again, a second doesn’t have payments on it. It’s just a security thing. Or if you have a valuable stamp collection, whatever it happens to be.

Michael: You have to have some skin in the game.

Art: Yeah, some skin in the game. That’s what it is. It has nothing to do -- you can work with me and my investors or anybody else on this plant and you’re going to run into the same thing all the time. If you haven’t invested anything, you’re not going to put it together because people that put up \$1 million and the people that we have do put up a minimum of \$1 million are not stupid. Most of the people that I work with, the investors I work with, own manufacturing companies. All of them own businesses. And so, you’re going to find -- they’re not bankers, they’re not worried about ratios. They want to know that, number one; you’re not going to walk away. The other thing they’re worried about, experience. They’re looking for somebody that has experience in managing. Now, the guy you just talked about that started businesses does have management experience and does have experience starting businesses. That’s a plus. What I worry about is we have people out there that have absolutely no management experience, have no business experience, and zero dollars. And with those three things, as I said before, could I still put them together, yes, because I could go out, and again, what they do is, okay, this person is not putting up much money or not putting anything up, so what we’re going to say to you Hamel, you’re collecting a fee of a certain amount of money, you’re going to have to leave it in the deal or part of it in the deal. But a lot of times they’ll say to me, I have to leave all of it in the deal. So, I put the

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deal together for nothing. So, when you get down to the end, I don’t get paid. I have all these expenses and when I get down to the end, I end up getting options on stock because if you owed me \$500,000 on a deal or \$250,000, whatever it is, if you paid me the money, I was taxable, I had the money that you gave me to pay the taxes on it. If I then just take ownership in your company, an ownership position, that’s taxable. In other words, if I’m getting \$250,000 or \$500,000, I have to pay tax on that even though I’ve received no money. The other thing that happens is if you have limited business experience or management experience, they insist that I stay in the deal personally as a consultant or something like chairman of the board, whatever. So, what happens is I can put it together if you have absolutely nothing. The problem is I end up getting nothing. So, it’s a battle between me getting something out of doing this because I’m not going to go out and do this and put these deals together just to end up with maybe a future on a company. I’m at 72 now. I mean...

Michael: You’re not going to bring in some Grandma who’s never run a business, doesn’t know anything about it, and has put nothing in the deal. What’s the point?

Art: People are so stupid to think you can do that. It just doesn’t happen. But nobody’s also saying we’re unfair here because all I’m saying is on one side if they had absolutely nothing to bring to the table, I absolutely can put the deal together. So, somewhere between absolutely with them having nothing and them having everything, that’s where I am. In other words, nobody’s going to cut them off because they only have a little bit of money or they only have a little bit of experience; whatever it happens to be, those people don’t get cut off. Those are the people I end up working with. We’re not looking for perfection here. And the other thing on the business plans. There’s two things that we have that we need or I need before we can go forward. In other words, they have to go out and buy this business and put the contract together. So, there has to be a legitimate offer to purchase, contract signed by both parties that I have to have a copy of and see as you’re going along. The second thing is the business plan, which describes the business you’re buying. I can’t go to the investors verbally and ask them to do something. So, the business plans, as far as -- you go right to the book. You go right to the library section on business plans or you order a computer program on business plans.

Michael: We put together a resource with thousands of business plans that they can model on all different topics.

Art: Well, it’s not a big deal. But the things is, keep in mind, if you’re going out to borrow \$10 million, make that business plan look like \$10 million. When you’re going out to buy a business, you’re going to find almost

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every attorney will allow you to pay them at the close of escrow. So, it’s not something you have to take out of your cash hoard, on the attorney. The CPA will do the same thing. He will wait until the close of that escrow. So, that’s not something that you have to take out of your money.

Michael: If you were approaching a CPA, what would you say to that attorney or CPA in your own words to get him to ride along with the deal? How would you approach him if you called him up on the phone and said something?

Art: I never call him up on the phone. I talk to him in person. Don’t call him up on the phone because they’re going to turn you down. What you do is you’re going to talk to him about what you’re doing. You describe the business that you end up buying. And you don’t go in there ahead of time. You don’t go in there and say I’m going to get you an attorney before you even find one. Once you’ve worked with me and you’ve gotten it to the point we are about to do something, what you do is you go in to the attorney because you’re going to be going in with a letter of intent, in the beginning, which is one page deal that any idiot can draw up. You don’t have to have an attorney. And then over the next week, two weeks, month the attorneys are going to be getting together to put together a contract. I then see the contract as you go along and then when it’s done, I get a copy of that. At the same time, you have to put together a business plan. In other words, you have to put together a book basically or package that describes the business you’re buying.

Michael: Well, can they put the business plan as they’re working with you or do you want...?

Art: Yes, they can do it any time they want. If they don’t know how to do it and they get intimidated, there are people out there that’ll put together a business plan and charge them at the close of escrow. The contract has been the least problem. I mean I haven’t had anybody having problems with attorneys or CPAs. What I’ve had people problems with is people going out to get people to write their business plan. And I don’t know why. The person writing the business plan, they have a Masters Degree or he maybe an English major, he or she might be an English major as opposed to these other people who have Doctorates and everything else. I mean I don’t know why anybody would be intimidated by somebody writing business plans. Business plan people are just very nice people that put information together.

Michael: If you were to tell Travis the specific order of things to do in relation to business plan, letter of intent, offer, contract -- can you give me the chronological order of how things should happen?

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Art: What you do is you sit down with the owner, and don’t do this verbally from a distance or on the telephone -- you sit down a few times and you negotiate the transaction and then by the second or third or fourth, whatever, meeting that you have, you make a letter of intent offer. And the letter of intent offer is nothing more than a summary of what you and the seller have agreed to. You’ve agreed to a price, you’ve agreed to terms, you’ve agreed to the owner staying; things like that. And it’s not in detail. It’s not a binding contract. What you’re trying to do is you’re trying to get them to agree to certain things.

Michael: Then you have them sign it or you both sign it.

Art: You both sign it. It’s not binding, but then you’re going to say, my God, they’re not going to stick with it because it’s not a binding contract. All the years I’ve been doing this, I haven’t had anybody walk away from one of these.

Michael: They’re very powerful because it’s basically their word.

Art: That’s right. And so, what happens is -- and these people, you’re going to find the chance of you running into a person that has a business making \$1 million a year that doesn’t have good word or isn’t a good person...

Michael: They’re good people.

Art: I have not run into one. I have run into one that I haven’t gotten along with. They’re all nice people. They’re easy to get along with. And keep in mind, the people I’m working with are myself when I come in. We have the most power of any person they meet because we have all cash and when you can pay all cash, you’re the one that talks. So, the key thing is don’t make a big thing out of it. I have just made a big thing out of it on the different conversations because you can’t believe the problem we’ve had on business plans.

Michael: So, you go in a few times, you get the letter of intent, then what?

Art: You’re going through a due diligence period.

Michael: Do you tie it up before you do due diligence or is that in the letter of intent?

Art: That’s in the letter of intent. You’re tying it up and taking it off the market.

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Michael: How long do you ask for?

Art: Sixty days due diligence.

Michael: Sixty days. So, in that letter of intent, he’s going to take it off the market, you’re going to have 60 days to do your due diligence.

Art: That’s right. And at the end, you go to contract. Now, there’s situations when you’re working with me. If you’re working with me and you don’t have a lot going for yourself, you’re going to have to go to contract sooner because I’m not going to sit around and work with and then have the deal fall apart. There’s nothing wrong with even going to contract in the beginning, but it’s letter of intent that’s easier to get signed. If you then go to contract, even if you have it at the end of the first week, you still have 60 days to the point where you have to put any money up. And somebody’s going to tell you, well we have a contract now, I need the money now -- no. We don’t put money up with letters of intent.

Michael: Or contracts.

Art: Well, even contracts once you’ve gone through due diligence. But why should I put money up before I check things out.

Michael: But if you want to put up an early contract, is there money put up?

Art: Not normally. They may ask for something toward the end, but usually what they do is they just forget about it. Depends on the broker more than the seller. Again, don’t let this stuff get you, and the only reason I brought it up is when I first starting working with these people, Michael, a couple of years ago, I had a certain thing in my mind, they’re going to have problems with the following things and that’s not what happened. We ended up having problems with dumb things. In other words, I was out spending my life out buying companies and I never had trouble with a business plan, putting information together. Now, years ago, a lot of times I’d go in on a deal 20/30 years ago, we’d have a complete package before we even started negotiating. Today they don’t do that. If a seller is selling it to you directly, they don’t ever have anything put together. If they have an attorney or CPA that’s going to get a listing on it, they do put a package together. The average business broker, if he gives you one sheet of paper, you’re going to be lucky. Now, occasionally, you’re going to run into a broker out there or somebody in merger and acquisitions that has put a big package together and what you ought to do is put that at the top of your pile and you’re going to say, well, there may be things wrong with it. Well, there may be, but one of the biggest things you have just gotten by is having all the basic information because when you go in, the less

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information you have by the time you go to a letter of intent, the more chance it’s going to fall apart because the information you’ve gotten before you go to due diligence will be things that are going to screw up the deal because they held something back or they lied or whatever. So, just be careful.

Michael: So, he’s not going to need to spend \$30,000 to \$50,000 to get to the point of tying up a business?

Art: I haven’t had anybody put that much in.

Michael: But let’s he has that money left over to put up. That’s his skin in the game. Are you saying that could be enough under certain circumstances?

Art: It depends on what he’s trying to do, how risky it appears to be, how much experience he has. It’s the package he brings to the table. The less he brings to the table the more reassurance they’re going to want. It’s just a logical thing. In other words, if he were doing this, I mean if he has that much money, I’m sure he’s smart enough to know if I want to go out and invest in something, these are the things I want. That’s all I’m asking for. The people I work with are more reasonable than anybody you’ll ever work with. They’re very nice people. They’re not hard asses. They don’t nitpick because I don’t work with people that nitpick, I don’t work with people I don’t like. In other words, if I don’t like them, I don’t work with them.

Michael: Here’s an email from a guy. He writes to me, Michael, I just met with the president/CEO of the largest manufacturer of target practice equipment in the U.S. Company revenues are \$23 million. Company has enormous potential with pre-agreed leased programs with the U.S. military if capital can be raised by the business. Could take company revenues well in excess of \$100 million annually. I met with the CFO, getting financial today. I along with one of the cofounders will be putting together a business plan. He said both company business plans should be ready by the beginning of the year. I’ll have two potential buy out candidates. I’m very serious about this and sincerely hope Art can help us with the financing.

Art: Tell him there’s no trouble with the financing. It’s not financing. We’re bringing investors in. Investors mean you pay them a return. You don’t have payments every month and you end up owning the business free and clear even if you put another \$20 million or \$30 million into the company. We don’t have loans sitting there. In other words, you’re just paying returns to investors. Expanding rapidly, we don’t have to pay them return for maybe two, three years.

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Michael: I was listening to the course on financing again. And this stuff you’re telling me now is the same stuff you were talking about back then even.

Art: It not only has worked for years, it will continue to work for years. I always tell people, if you go the moon or Mars or to some other planet, if there are people there, they’ll be doing it the same way. I mean the thing I found even before you started getting all these people from all over the world, not one person in any other country that I’ve talked to through you or before you has ever told me about anything different in their country than it is here. Everything’s the same.

Michael: Well, on the part on financing, you were really excited about that when you were making the audiotapes and this was back, I think in ’85 and you said I can’t wait to see 15 years from now how the real estate community responds to this.

Art: Well, that has really taken off. Everybody’s copying the real estate part of it. I told you the only difference between what I do and everybody else does is everybody goes out and tries to go public with companies using real estate for collateral. The only difference, I told you, is I’m the only one out there that I’ve seen that goes out and gets lines of credit as opposed to refinancing the real estate. That’s just where I’m coming from. I feel very comfortable going to banks and getting credit lines. Another thing with this guy, tell him congratulations and the only thing that matters on this -- if what has to be put into this company, X number of million dollars makes sense financially, it will go together. So, that’s the key thing. If we can’t make it work on our side, then I doubt if he’s going to make it work unless he changes something. But if everything looks good going in and it’s a great opportunity, those are the ones we do. We have never turned down one that was just a little distance away. Every one that we have turned down to date over all the years have been out in left field. I mean not that they were bad, it’s just the arithmetic didn’t make sense. And if it doesn’t make sense to me, I can’t go to an investor and say would you put up \$1 million or \$2 million or \$5 million on this, they’re going to say are you crazy. If they show me the good contracts that make sense, that they show business plans that make sense -- and again, they’ll know themselves. If they have any common sense at all, when they’ve \_\_\_\_\_ the business plan \_\_\_\_\_ themselves, they’re going to say this really makes sense. I’m really doing the right thing. And then the amount of money doesn’t make any difference. We’ve always been over subscribed. I mean we’ve raised \$50 million on deals where we only needed \$5 million.

Michael: Hello, Michael. Once again I’d like to thank both Art and yourself on putting together all this valuable information. I am diligently plowing

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through all the course materials and also have begun to research my target prospects. A while back you had said to keep the questions coming for Art. So, if he doesn’t mind, I sure would like to get his input. I’ve broken my questions down by categories and although I have listed them all here, please feel free to break this up and tackle them as time permits as you and Art see fit. I don’t want to take Art or your time for granted or abuse this great privilege.

**Art:** Do you know sounds great about this person that’s writing or calling you? He represents 99.9% of the people I’ve worked with.

**Michael:** As I’ve mentioned previously, I fully expect that my list of prospects will come mainly from other provinces (he’s in Canada) since there’s little manufacturing here. As suggested, I will start my search for suitable business projects by looking through the manufacturers directories to avoid the brokers. I’m trying to be ruthless as possible and targeting the best candidates to contact. Using the directory, it is simple to weed out all of those that have too many employees or have not been in business for 15 plus years or don’t have enough sales to even be close to the \$3 million profit per year. To narrow things down a little bit further, (1) are there certain industries or types of manufacturing which you would generally prefer to look at or avoid all together. And he gives examples, manufacturing that mainly sells to government, manufacturers that serve the automotive industry, tier 1, tier 2, tier 3 manufacturers, manufacturers that produce high ticket items versus low ticket items, example ambulance vehicle manufacturing versus pressure washer manufacturers.

**Art:** Let me take the first part first. Number one, I like working with people who break things down the way he breaks them down. He has a very organized mind. He’ll do very well in business. I just want to tell you that. Let’s take one that stuck out, which is the automobile industry, whether it’s tier 1, tier 2, tier 3. The thing you’re always going to run into is you’re going to run into an industry or a business where you have peaks and valleys. And when you are tier 1, 2 or 3, I don’t care what’s happened because let’s take the biggest supplier that General Motors has. It’s in bankruptcy right now. It’s a spin of GM. What these auto companies do is they give you a thin a margin as possible and as soon as you get used to it, maybe make a slim profit one year, they’re back the next year trying to cut your price down. So, it is very tough to make a good profit in a business like that. And the other thing is you bring investors in, the problem is you’re going to have years where you don’t make enough money to get beyond the investors. In other words, there’ll be enough cash flow maybe there to pay a return to the investors and you and your family are going to be out on welfare or something. You have to stay away from the ones that have peaks and valleys. You have to stay away from ones within an

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industry that are continually working on you. Just like if you were buying a company that was selling to Wal Mart. I mean you have to be crazy. Now, would you volume be good -- yes? Would they drive you nuts with their price cuts and the way they work -- yes they would? And if you haven't worked with Wal Mart, you haven't lived. Number one, if you are person that is organized as this person is or appears to be, what you should be doing is going after manufacturing companies where you are in control of your own destiny. In other words, you have proprietary products that your company is selling. That you're not a subcontractor for somebody else because most companies out there, smaller companies, are subcontractors, which means that people you're selling to do a good job during the year, you're going to have a good year. If they don't, it falls off. I mean it's not only the economy, but it's depending on how good a job they're doing. If you're going to go after a business say that's making over \$1 million, my suggestion is, if you can find one that has proprietary products so that you can drive the sales organization or I can help you do it. What's going to happen is you're not going to have the peaks and valleys, you're not going to have the problems, you're not going to have to spend all your time in there nervously trying to get this thing to make money. So, that's the basic thing you ought to go after instead of trying to come up with too many rules. In other words, go out and start with X number of dollars. You want to make \$1 million, \$2 million, say \$3 million a year, fine. Pick ones in that category. With our minimum, it's \$1 million. We suggest at least \$1.5 million so that by the time you get done analyzing the numbers, you're still above \$1 million because we don't go in if it's under \$1 million. So, the main thing is to start with the number, the arithmetic be \$3 million net as he was talking about. And what will happen is instead of only having two companies that sell to General Motors that make \$2 million a year, you'll have thousands of companies in Canada, in the U.S. that make \$2 million, \$3 million a year. So, make it as broad as possible, get in there, and get your feet wet. Once you get in there and start to see what these businesses are like, even though you make up a list of ten things you think you're going to like, I'll make you a prediction, you'll end up buying a business that's different than anything you ever thought you'd do. Because you're going to get in there and say boy this really feels comfortable. I never thought of owning a toilet seat business; whatever it happened to be, some ridiculous thing. I was actually thinking of Port-a-potty. Somebody the other day asked me to help him buy a port-a-potty company.

Michael: A couple more things and you may have answered some of it, but if you want to add anything. Do you look for manufacturer servicing more profit niches and, therefore, commanding a higher profit margin over lower profit margin companies? For example, all other factors being equal is a

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company making \$3 million or \$30 million in sales more valuable than a business making \$2 million on \$15 million in sales?

**Art:** Well, the numbers you’re talking about there are not bad because normally in manufacturing you usually are always going to find at least 10%. Once you get below that, you’re basically in an area where you have a grocery store that has a 1 or 2% bottom line. Most of the ones I worked on have 20-30%. Let me give you an example. I’ve owned three printed circuit board companies. First one I bought in the Dallas area many years ago. I had a net profit on the business of about 50%. A few years later I bought another one and that deal was doing 30%. The last one I bought a few years ago was only doing 10. It’s basically become a commodity because once it gets down to 10, and a lot of this starts being done offshore, it makes it very difficult to go after those businesses. But again, what you do is you got out and get your feet wet. Go out and visit a few businesses and after a very few, it’ll start to come to you as to what’s really out there. It’s not as complicated as it looks. It really isn’t. Once you get out there, you’re going to find basically almost every business is the same underneath and so you look at a few things that are different and then by the time you’re getting your second or third business, you’re really going to find they’re really boring. There’s not a lot of excitement in these businesses because almost everything is the same. All you have to do is avoid the things that I keep telling you to avoid.

**Michael:** He asked; if I’m hoping to work with Art’s investors, should I even consider a business with less than \$3 million in profit?

**Art:** No, the figure we’ve worked over a million. I have never gone back to the investors for the last 25 or 30 years with any business making under \$1 million. And I have to keep that standard because, number one, if I start to deviate after all these years, it’s going to make them nervous, I’m sure. They’ve never said anything, but I’ve kept that standard. Again, it’s been more me than them. They’ve never said anything about, but I can promise you working with me if the number ends up falling below \$1 million, I will...

**Michael:** Do you have any thoughts on whether manufacturing companies with multiple facilities are good or bad? For example, some manufacturers have locations in two different cities or provinces.

**Art:** It just makes it more difficult to manage it, but let’s take Mexico. I was down in Mexico. I did not speak Spanish. By the time we finished after 15 years, we had 17 companies in almost every city, different cities in Mexico. I was not managing them hands on. So, what happens is if you have a business in eastern Canada and another manufacturing plant in

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western Canada and you’re going to work hands on, you’re going to have a hard time getting back and forth every day. If you follow the rule, which is let somebody else continue to manage it -- and again, it’s very simple to be an absentee owner because there’s going to be somebody there even if the owner is staying or the management that’s getting paid a lot of money and what they’re going to do is manage this. And once you start to pay them the money you’re going to pay them to run that, you’re going to find that they don’t call you, they don’t bug you. You don’t have to be in on a day-to-day basis. And so with that in mind, I just want you to realize that running two is not going to be any more difficult than running one. I have been running multiple businesses since I started 50 some years ago. I’ve never had one company at any one time and I haven’t had problems. I don’t consider myself that good a manager. I really don’t. Go out, stick your toe in the water. If you’re working with me on it, I can lead you through it and even help you with it, too. You’ll laugh by the time we finish and you said it’s another thing I worried about that isn’t going to happen. All the years I taught seminars, I told everyone at the beginning of the seminar one thing. Take out a yellow sheet of paper, put down the 50 things that are going to keep you from being successful in business, take that piece of paper and put it in a desk drawer or safety deposit box. When you’ve closed on your first business, take the yellow sheet out and darn you won’t believe it, none of the 50 has happened. So, all the reasons that all these people do not succeed in business is based on ideas they have that are absolutely lies; they’re not true.

**Michael:** Here’s a section, meeting the seller. When an owner receives my letter and decides he wants to talk to me about selling his business, what kind of information should I ask for? Does this depend on whether they are local or not? Since I’m not using a broker, if I find a manufacturer that is located outside my province, should I be looking for a certain amount of information before planning the four-hour flight and face-to-face visit? Is it reasonable to expect certain details before committing to meet the owner?

**Art:** The key things you’re looking for with an owner, number one, what is the price on it; number two, what is the net profit. And so, what you’re asking for, before you fly across the country, you’re asking for three years financials, and then say 2005 to date, you also want balance sheets from different years so you can see what the assets look like, will the owner finance if he thinks you’re interested, how long will the owner stay after the fact. These are things you can discuss before you go there. Now, you don’t have to ask him for leases and inventory lists and all this other because what’s going to happen is you may get there and find out you don’t have a deal or that you can’t put it together. And so, if you’ve asked for too much information, you’re just wasting your time. Number two,

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you’re wasting the other person’s time, too. So, get as much as you can get at that point. Make sure the thing is going to work before you get there. In other words, if you think the things doing \$2 million a year and it’s worth \$8 million and the guy wants \$15 million, I can tell you based on my experience -- I’ve been doing this a long time -- I never before I go a long distance or drive a long distance to visit the business unless the price and the terms and the stuff the owner’s offering out is in the ballpark because I have found out over the years, no matter how good you are, they don’t change the price and other stuff that often. And the other thing is just take your time. Get as much information as possible. Check out the area. If it’s in Ottawa and you’re not in Ottawa, then you’re checking that area out, what the market is, what the market is for that type product. These are a lot of things you can do. Now, the owners will provide you with some of it when you get there. If you did go through a broker, the thing to keep in mind, years ago brokers used to put together a very extensive package. Today, if you get one sheet of paper from the broker, you’re lucky. So, by the time you go to visit the seller, even though you have no broker involved, there’s a good chance you’ll have more information than you would have had if there’s a broker involved. I don’t know what the hell the brokers get paid for today.

Michael: Let’s go to this section here, negotiations. If an owner is will to stay past a certain length of time, is he usually offered a market value salary or benefits package or perhaps you have to offer more to keep him on if he used to large returns? Is this usually worthwhile to offer?

Art: I don’t know what the percentage has been in the last ten years, but probably over 50% of our business owners have stayed. Now, these owners have all gotten cash, X number of million dollars when they closed out. A lot of them were making \$300,000, \$400,000, \$500,000 that they were paying themselves in salaries plus other money they were taking out of the company. So, they’re making a couple million dollars a year. When you go in there, all you have to do basically is find out what the going rate is for somebody running a plant like you have and 99 times out of 100 you’ll find the owner will be happy with that. I mean he’s going to have \$5 million, \$10 million sitting in the bank and he’s not going to get hung up on this other because what you’re saying is, look, I want you to continue to run it, I’m going to pay a going rate, and you’re going to say to yourself, my God, he’s going to run this company, it’s priced at \$10 million, doing \$2.5 million; I wonder what I’m going to end up paying. Well, do know what my range has been in the last few years?

Michael: What?

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**Art:** We’re paying our managers \$150,000 to \$200,000 a year. The managers of manufacturing companies do very well. And again, the average person that’s going to stay to work with you will think that’s very good. The only thing you have to be careful of is a lot of them will say to you, I’d like to stay on or if they have an incentive program, I’d like to have part of the stock. When they do that, what I do is buy 90% of the stock of the company and let them keep 10. I don’t want to go in there and pay for 100% of the stock and then have them give him 10 back. So, watch out for that trap.

**Michael:** Would Art ever encourage or discourage an owner from staying part time once a business has sold? Perhaps an owner would rather just slow down instead of retire completely.

**Art:** In this last 15 years, of the majority of the owners I’ve work with are staying. The majority of the owners where I’ve helped people through you Michael, they’re staying also. In fact, even volunteering to do that, especially when you cash them out. You’re cashing them out. You’re taking all the risks away from them. They now can run this company, they get paid a good salary, they don’t have the pressures that they had before of owning a company and providing financing and all sorts of things. And on every deal I have had in the last 10, 15, maybe 20 years now I can’t keep track, the former owners have done a much better job than I would have done.

**Michael:** Have you ever had a situation where the owner agreed to stay and maybe they stayed for a couple of years and maybe something happened where they got sick and you had to replace them?

**Art:** No, I have not had that problem yet, but what I would worry about is somebody just skipping out on me. And I wouldn’t worry about that with an owner because I don’t think an owner would do that, but I always worry about that with people I’m putting in, in management how long are they going to stay. And that’s where a lot of times we have forced them to buy into the company. The last one I had was a person that owned a multi-million dollar house in Saratoga and I was trying to get him to a second on his house, not payment or anything, just that he would forfeit a second for \$100,000 if he didn’t stay for two years. He would not do that. And I was going into something where I didn’t have a good enough management team without him. So, we never put the deal together.

**Michael:** So, that’s critical. You’ve got to make sure that management stays and make that they’re willing to put their money where their mouth is where there’s something to lose if they take off.

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Art: Well, that doesn’t happen very often because most of the time there’s already management in place in these larger companies. And mostly companies we’re looking for, I’m looking for some owner that’s never there. He’s out playing golf and he flies in once a month for an hour. That’s what you’re looking for, but on the other hand, most people when they’re trying to use their so called business common sense think, I want a business where the guy has to work 80 hours a week to control this thing. That’s stupid. If you’re doing that, that means that there’s two people that you should be hiring to replace you, maybe three people, and take it easy. The reason most people don’t do it, they want more money out of the company, I would imagine. I never really analyzed it.

Michael: Does Art usually hire the CPA and lawyer in the province or state of the seller or the buyer?

Art: Yes. Number one, you want to make sure that -- say the attorney that’s drawing it up, there are different things that they do in different provinces or different states in the United States. And what you want to do is you want to be able to have your attorney draw up the agreement or analyze the agreement because a lot of times the seller’s attorney will draw up the agreement. I suggest against this because whoever draws up the contract wins. So, the buyer has the attorney draw up the contract, he’s from that province, he’s from that state, he’s using the same approach that everybody else does, they probably even know each other. So, it makes it a lot better. And also, you’re going to need an attorney there. So, why not hire an attorney now. And the other thing is the same thing with a CPA. We want somebody local. We want somebody that’ll stay on. We never use the CPA from the seller, unless you’re definitely crazy or the attorney. You have to have your own representation. And again, the majority of them, hell everyone of them that you’ll run into, I don’t care where you are on the planet, will wait until the close of escrow to collect their fee.

Michael: I did have another question from a gentleman. He called me and I had talked to him. He had questions about the business plan, and I know we’ve talked about it before, but he’s putting together a business plan, but he wanted to ask me, well, does it need to be a certain length, what are some specifics about that business plan that Art feels over the years is something, besides from making sense? Any specifics in this initial business plan? This is the official business plan or can this thing be modified at a later date or what?

Art: It can be modified because that’s what most people do. They put together a business plan then use it as a guide from year to year and they add to it. And they basically use it as a basic document in running their company.

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Michael: Do you see business plans like big thick books or are these things generally pretty brief?

Art: Well, it depends. It depends on how big the company is and how complicated it is. A business plan of a start up business that are making no money are bigger than the ones that are making -- what you have to do is you have to spell out in enough detail information on financials, on the industry, the company, the management to satisfy somebody.

Michael: What kind of information should be in there on the management? Obviously, their name, how long they’ve been there, any history on themselves.

Art: What they’re doing in that company and with an organization chart, but they also want to know what their background is. And the more you spell out, the better. But the key thing is, if the person has common sense and they’re going after to put together a business plan, what they have to say is, if I was going to invest \$1 million in a company that’s \$2 million, what am I looking for. I don’t care if they have a million dollars. I mean just take it from that standpoint. In other words, these people want this much money or they’re not going to do it. Now, if you’re buying a \$10 million business, you’d better make sure your business plan looks like a \$10 million business plan. If you haven’t put these together or don’t know how to do it, I suggest you hire somebody, just like you hired an attorney or CPA, let them do it. Find somebody that does a professional job. And it’s worth it.

Michael: Let me ask you this. In listening to the course, you were talking about real estate guarantees. Explain to me what is a real estate guarantee? Is that when you’re investors who put up the real estate want some kind of guarantee on their return?

Art: Yes.

Michael: Are you doing that or not?

Art: No. Here’s what happened. Years ago we came up with this as part of it, which was real estate guarantees. I’m not saying nobody’s doing it now, but what happened was owners would carry back financing on a business, but they wouldn’t take the business as collateral. At that time, maybe 25/30 years ago, they wanted bank guarantees. That was the time when banks were in trouble. So, we came up and said how would you like to have real estate to guarantee it? So, we ended up with a number of people coming through every month for guarantees. We actually at one time had five groups of graduates from Los Angeles that would run that business

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and the reason they got out was they thought that was stupid. They said why would I provide guarantees to somebody to buy a business for a small fee when I can own the whole company. So, after six months or so, all of them quit doing it because they found with what they had they could buy a company. Let me tell you what happened with me. We were doing this and we had a company doing nothing but this. I had a talk show at that time, television program, half-hour in San Jose. And we were taping three weeks and I had the real estate commissioner on and the corporation commissioner on at the same time. We went out to lunch that day. I was explaining to them what I was doing and they were insinuating that it might be illegal because when you start to use real estate for collateral, it becomes a security. So, I hired two law firms, one from San Jose and one from San Francisco. Gave them X number of dollars. They studied it for a couple of months and they both came back with different answers. So, we got out of that.

Michael: So, you just stopped doing that?

Art: The guarantee program works very well. We had a dentist, I remember, in Los Angeles that if he would enter a deal with you and didn’t sign anything, he’d charge you \$5,000 or \$10,000. You had to guarantee something. His minimum fee was \$30,000. From what I’ve read, back in the 30’s there was a lot of this going on. There were a lot of people and companies that were in the guarantee business and there was a lot of fraud going on. So, I don’t know what happened between the 1930’s and 1990’s.

Michael: One thing in the financing, which I found really interesting was the receivables. When you look at a company and you look at the receivables and you look at the payables. Talk about that -- how you can finance the company by financing the receivables. Is that still done today?

Art: Of course. In fact, if you go out and get involved in the ladies garment or any garment industry, you’re going to find a thing called factoring. They never have any receivables they really own. If they take in \$100,000 in receivables during the money, they go out and borrow against all of them instantly.

Michael: Is factoring done through banks or these separate companies?

Art: Yes. All people have to do is go to the Yellow Pages and there’s companies like Beneficial Finance and BFA. Everybody is financing receivables because of the rate they charge you. And again, if you want to go out -- I don’t know what the minimum is now, but the last time I checked it was a couple hundred thousand dollars or they wouldn’t even work with you. They’re looking for something larger. One thing you ought

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to keep in mind when you’re buying a company, if the company is factoring their receivables, there’s something wrong. On most of the consulting jobs that I have done over the years on large companies, they have already gone to factoring because they were about to go down the tubes. It’s easy to finance receivables. You probably almost do it the same day.

Michael: Well, how do the banks do their due diligence? I mean if a company is about to go down the tubes and their factoring those receivables, the bank can’t figure out that there’s a problem or is the bank still going to be able to...

Art: They’re lending the money on the basis of the strength of the receivables.

Michael: That’s right. I remember you saying that. A great thing to look at as a way to finance the company or partially.

Art: Forgetting about me and forgetting about using investors, it’s a great thing. That’s what’s great about manufacturing. You buy a company for X number of million of dollars and there’s X number of million of dollars in there of free and clear accounts receivable they can borrow against; usually 80%. You also have all that equipment in there that you can either borrow 60-70% or do a sale and lease back and basically borrow 100% of it. You can also take your inventory and usually borrow 50%. If you then, on top of that, can also get the owner to carry back some financing, you have just financed 100% of the value of that company -- no investors, no nothing. You own all of it. That’s what we did up until 25/30 years ago.

Michael: And the other thing you were talking about, which blew me away was if you can start negotiating better terms, stretch it out to 90, 120, six months, you’d be able to use that money to make money. That was awesome.

Art: Well, that’s the biggest thing we used to run into all over the country; people questioning and challenging because we had people, in fact it’s in there, we tell them to go back to somebody selling to you, somebody who is selling steel to you and you’re a steel fabricator and say look, I need to borrow \$1 million, we’re expanding our business. Now, if you’re doing \$10 million a year with them or \$15 million, they’ll do it. If they will not give you the money -- say if you owe them \$1 million every month and they let you pay one month later, how much money have you just picked up. You picked up \$1 million. No matter how you do it, it works. It’s a standard thing that’s done all over the world. In fact, when we first talked about it what 30, 35, 40 years ago, old people looked at me like I was strange. Again, we have been doing this a long time and it’s just that a lot

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of people are not aware of this because if you don't own a company, why would you be aware of it. It's not something you read about in the paper.

Michael: That's the end of this question and answer session with Art Hamel. I hope this has helped and if you have any other questions, please feel free to email them to me and I'll get them answer just as I have done on these. Make sure you listen to all the other recordings with Art Hamel and thanks for listening.

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### *A listing of my other web site and resources.*

**Who Is Michael Senoff?** Michael is a husband and father of two young boys in Southern California. He has been a highly successful marketing consultant for over 6 years. Originally from Atlanta Georgia and now based in San Diego, California. Michael works with small to medium sized companies on four different continents. He is the co-author of the book: "**BEHIND CLOSED DOORS: 21 Insider Consulting Secrets You're NOT Supposed To Know.**" (86 pages of the most revealing, proprietary secrets on the subject of business consulting that exists anywhere and the soon to be released sequel: **Advanced Consulting Techniques**. He is also the publisher of 125 audio cassette programs geared to helping marketing consultants make more money. He is a frequent host on his web site called [www.ExecutiveAudioInstitute.com](http://www.ExecutiveAudioInstitute.com). Michael is an experienced internet marketer and talk show host and a popular professional interviewer. Michael has taught 100% online around the country & around the world to more than 50,000 students. His web sites **Hard To Find Seminars** and **Executive Audio Institute** are listed in the top 1% most visited web sites in the world. Michael has also worked as a coach and advisor to other famous marketing consultants. Michael may be contacted at [Michael@hardtfindseminars.com](mailto:Michael@hardtfindseminars.com) or at (858) 274-7851 For Michael's full biography and story go [here](#)

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during the time. And most of the ads are in an editorial style format. An editorial-style ad can out pull an image-type ad 5-1, just because it’s editorial. People are used to reading editorial content like a newspaper article or a magazine story. So, I’ve deemed it editorial-type advertising because it’s so powerful. It’s an idea generator. If you want to create an advertisement for your business you can go look at the ads and get great headline ideas, get great openings for your first paragraph of your letters and great examples to use for your advertising. It’s the largest digital swipe file of its kind in the world. You can zoom in on the ads super-close and read every word. It’s another great free resource from Michael Senoff.

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**Site:** <http://www.ClaudeHopkinsAdvertising.com>

**Title:** Claude Hopkins Rare Ad Collection See & study 57 actual print ads

**Description:** Claude Hopkins Rare Ad Collection See & study 57 actual print ads. Claude Hopkins is known as the greatest copywriter of all times. He had a career back from the early 1900s all the way to the 1950s. There are several books out on the market by Hopkins. One is called “My Life in Advertising” and the other is called “Scientific Advertising.” These are two of the greatest books on the subject of advertising and marketing ever written. I would recommend them to anyone who wants to get a great fundamental education on marketing and copywriting. Claude Hopkins’ books talk about all his life experiences that he went through and his most successful advertising campaigns. Up until now his ads have never been found. I went out and researched with the help of a research historian and located 60 of his lost original print ads from the early 1900s. These are the same ads he talks about in his two books. These ads were extremely hard to find. It’s the world’s largest collection of Claude Hopkins’ print actual ads. I decided to share this collection with the world, so we built an entire course around this rare Claude Hopkins Ad collection. These ads are for serious copywriting students only. <http://www.ClaudeHopkinsAdvertising.com>

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