



**CERTIFIED BUSINESS BROKER (CBB)
STUDY GUIDE**

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This study guide has been created for individuals who are studying for the Certified Business Broker (CBB) Certification Program. Please use this guide to assist in preparation for your examination.

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I. BUSINESS TRAINING:

BusinessTraining.com is the leading online program for specialized niche business certification programs. The team behind BusinessTraining.com is comprised of industry experts in niches including online marketing, project management, public relations, consulting, and many more.

This experience, combined with our advisory board's expertise in online education and training, is what makes it possible to provide the training and certification programs found on our website.

BusinessTraining.com is part of the G.T.C. Institute, a global training and certification organization that has provided practical industry-specific certification to over 1,000 clients from the United States, Europe, and more than 30 other countries around the world.

We provide high value training programs that provide function knowledge on very specific business topics such as public relations, online marketing, project management, international business, and consulting.

BusinessTraining.com's Mission: To provide professionals with high impact business training and certifications in niche subject areas that are functional and immediately beneficial.

BusinessTraining.com helps you to:

- Quickly gain specialized knowledge in highly valuable business niches.
- Enhance your credibility, resume, and overall value in the marketplace.
- Complete our training programs in 5 months from anywhere in the world.

Our programs accept participants year-round and are flexible to work with your current work schedule and academic constraints. You can complete one of our programs in 2 months or 2 years; the choice is yours.

II. CBB DETAILS AND TIMELINE:

PROGRAM DETAILS:

The **Certified Business Brokerage (CBB)** certification program is unique in that it is modeled after many online courses offered at Ivy League institutions today, offering more value for a more cost-effective program. The CBB Program is a self-study program that includes educational multimedia resources in video form, a study guide, required readings, and a flexible online examination process, accessible around the world.

The Certified Business Broker (CBB) designation program is a 100% online training and certification program that provides training and testing in the areas of business valuation, listing agreements, understanding buyers, handling objections, and creating an authority position for yourself.

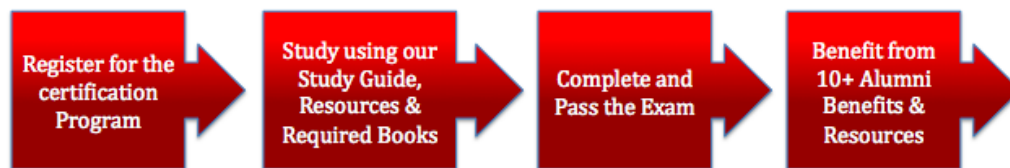
The online exam is structured so that in order to complete the exam within the 2-hour time frame one must read through all of the assigned materials and conceptually understand the majority of the material to score well enough to pass the exam.

Our goal is to offer the most challenging program in the industry while also providing all of the learning tools possible to ensure participants get the most out of the experience. By testing the knowledge depth and comprehension from the materials digested, the CBB certification prepares individuals for successful, real-world application.

The Certified Business Brokerage (CBB) program is sponsored by the GTC Institute and offered by BusinessTraining.com. This certification program is designed to show and certify that you have gained an in-depth understanding and high-level, specialized knowledge.

In addition to the benefits of gained knowledge, growing industry recognition, more knowledgeable career choices, and networking, our organization is also developing additional resources for CBB Participants. This includes video and MP3 recordings on Q&A or strategies and tactics, webinars, access to interviews with internet marketing professionals who have more than 10 years of experience in the industry, among many more benefits.

4 STEP CERTIFICATION PROCESS



TIMELINE & EXAMINATION DATES:

Programs are offered through open enrollment, making our programs 100% flexible with your current work or academic schedule. After joining you may select an examination date that works well for you from the following dates we offer annually: January 10th, April 10th, July 10th, and October 10th.

BusinessTraining.com exams are administered 100% online. When you have completed the strategic project (outlined later in this study guide), please follow the project submission instructions. Once you have submitted your completed project, you are welcome to schedule your exam date.

Please note that your exam date request must be received at least 3 weeks before the exam date. For example, if you would like to sit for the January 10th exam, we would need to receive your request no later than December 20th.

To register for an examination date:

- 1.) Email your completed CBB project (*explained in detail in this study guide*).
- 2.) Include your desired exam date in the email with your completed project.

LEARNING OBJECTIVES OF THE CBB:

- How to quickly estimate the value of a business
- How to apply more extensive analysis to reach a valuation range that will stand up to scrutiny from sellers, buyers, bankers and CPA's
- How to handle common objections from sellers and buyers
- How to prepare a listing agreement for selling a business
- How to prepare a confidential profile of business for sale
- How to differentiate yourself from real estate agents
- How to explain the true, quantifiable differences between big and small business
- How to understand how buyers and sellers think. What their motivations and fears are, and how to help them as a professional intermediary

- How to communicate with others using industry specific terminology, not just jargon but with knowledge
- How to position yourself as a knowledgeable and capable business broker with employers, and clients.
- How to respond to common questions and objections of buyers and sellers
- How to create an authority position for your firm in the industry which will bring continuous new clients and co brokering opportunities

BENEFITS OF THE CBB:

- Gain valuable insight into business broker business models, best practices, and processes that you can implement now without the need of a costly seminar or conference
- Add the Certified Business Broker (CBB) Designation to your resume, business cards, website, marketing materials and overall credentials assuring business owners and customers that you have invested in obtaining industry best practices to deliver the smoothest transaction possible for them. The business brokerage industry is highly fragmented, and if all else is equal sellers and buyers prefer to do business with someone who is certified as having mastered a certain level of business brokerage knowledge.
- You will learn how to quickly estimate the value of a business, and how to apply more extensive analysis to reach a valuation range that will stand up to scrutiny from sellers, buyers, bankers and CPA's. This alone will set you apart as more knowledgeable than most of the business brokers out there.
- You will learn how to prepare a confidential profile of business for sale that lists key information that buyers look for.
- The key factors to differentiate you from real estate agents that try to sell businesses. There are many real estate agents out there, but few are qualified to successfully sell a business.
- Learn how to understand how buyers and sellers think. What their motivations and fears are, and how to help them as a professional intermediary.
- Learn how to respond to common questions and objections of buyers and sellers. How to create an authority position for your firm in the industry which will bring continuous new clients and co brokering opportunities.
- Speak the business brokerage language - Earning the Certified Business Broker (CBB) Designation assures that you can attend conferences, interviews and other networking events while being able to contribute to conversations and understand discussions about current events or trends within the industry. How to communicate with others using industry specific terminology, not just jargon but with knowledge.
- Exclusive Access to tools and multimedia training resources found online within the Certified Business Broker (CBB) Program.

III. REQUIRED READING

1. Buying a Business To Secure Your Financial Freedom: Finding and Evaluating the Business That's Right For You by Ed Pendarvis ISBN#978-0071450867
2. Unlocking the Value of Your Business: How to Increase It, Measure It, and Negotiate an Actual Sale Price - Easy Step-by-Step Terms by Tom Horn ISBN#978-0875210162
3. Business Valuation Bluebook: How Successful Entrepreneurs Price, Buy, Sell and Trade Businesses by Chad Simmons ISBN# 978-1889150550

IV. CBB EXAM PREPARATION

EXAM COMPOSITION:

There are a total of 100 points available to earn for the exam, 80 of which can be earned from the multiple choice or true/ false questions that are worth 2 points each, and 20 of which can be earned from 2 short answer questions that are worth 10 points each. Please see below for the composition and distribution of the points in-depth.

<u>Topics and Weights</u>	
Business Valuation	30 Multiple Choice Questions
Communication & Marketing	27 Multiple Choice Questions
Working With Buyers	23 Multiple Choice Questions
Content Will Vary	2 Essays

You will have 2 hours to complete the exam. Those who have not made the effort to read the materials will have a hard time completing the exam within the allotted time, but for participants who have read the required readings 2 hours will be sufficient.

TERMS AND CONCEPTS TO KNOW:

Below, please find the terms and concepts that you should be able to define after having read the required readings.

Please define the terms from the required readings rather than a dictionary. You will be tested on the definitions that authors have provided.

- Business Valuation
- Capitalization Rate
- Adjusted Income Statement
- Adjusted Balance Sheet
- Economic Value of Assets
- Book Value
- Tangible vs. Intangible Assets
- Goodwill
- Small Business Method
- Multiplier
- Discounted Cash Flow
- Excess Earnings
- Depreciation
- Rule of Thumb Methods
- Range of Value
- Basics of Negotiation
- Understanding Sellers
- Understanding Buyers
- Letter of Intent
- Contract
- Form of Payment
- Earnouts
- Partial Interest
- Valuation vs. Appraisal
- Liquidation Value
- Comps don't Always Compare
- Due Diligence
- Non-Disclosure Agreement
- Contingency
- Profit & Loss Statement
- Revenue
- Cost of Goods
- Operating Expenses
- Net Profit vs. Cash Flow
- Amortization
- Perks
- Plows
- Risk/Price Multiple
- Free Cash Flow
- Leveraged Cash Flow
- Seller Financing

- Buyer Strategies
- Seller Strategies
- FSBO Strategies and Shortfalls
- Value of Small Business
- Big Business vs. Small Business
- Business vs. Job
- Finding the Right Business
- Real purpose of a Business
- Business Brokerage vs. RE Brokerage
- Rules of Agency
- True Owner Net
- Cash in Cash Flow
- Buyer Motivations
- 90 Percent Rules
- Business not Financials
- Seller Motivations
- M&A Deals
- Recasting the Financials
- Buyer Protection
- Financing a Business
- Offset

SAMPLE QUESTIONS:

Please choose the answer that best answers the question or completes the phrase. Try answering the questions before looking at the answers, which are on the last page.

1) What is the *primary* asset being transferred when a business is sold?

- A. Its large customer base
- B. Its inventory, equipment, and vehicles
- C. Its cash flow
- D. Its growth and growth potential

2) When valuing a business there is only one exact value that is correct.

- A. True
- B. False

3) Which type of business most often has two sets of books?

- A. Big Business
- B. Small Business
- C. Illegal Business
- D. Tax exempt Business

4) Although fairly expensive, Radio and Television advertising is vital to a successful Business Brokerage office.

- A. True
- B. False

5. Which of the following statements are true?

- A. Many good businesses are for sale that have a net loss on the tax returns.
- B. Most buyers don't know what business they want to buy.
- C. Most sellers think their business is worth more than it really is.
- D. And C are true.
- E. All the above are true.

6. Technology has largely eliminated cold calling as a good way to get listings.

- A. True
- B. False

7. How long does it typically take to sell a business?

- A. Less than 90 days
- B. Three to Six months
- C. Six to Twelve months
- D. Over a year.

8. When determining a pricing multiple what is the primary factor used?

- A. How many years the company has been in business.
- B. The net income of the company over several years.
- C. The P/E ratio of similar companies.
- D. Risk of all kinds.

9. Getting financing to buy a business is harder than getting most other types of loans.

- A. True
- B. False

Example Essay Question: Describe two of the technical skills and interpersonal skills needed by a Business Broker and explain why they are important.

V. CERTIFIED BUSINESS BROKER (CBB) STRATEGIC PROJECT

The Certified Business Broker (CBB) Program requires participants to complete a Strategic Business Brokerage Plan in order to graduate from the program. This plan is worth 100 points and accounts for 50% of the total grade within the program. Non-submission of this strategic plan will result in automatic failure within the program.

Once you have completed this project, please send it and your request to take your desired exam date at least 3 weeks before the scheduled exam date. **To schedule yourself for an exam date**, this project must be received, completed, at least 3 weeks before the exam date. For example, to take the October 10th exam date, this project must be received (as well as a request to take the exam) no later than September 19th.

Strategic Project

Our strategic project involves a case study of a small business that is typical of the type that you may be called upon to value and list for sale. Please study the information presented and:

1. Determine an appropriate listing price, with notes indicating how it was set and why it is appropriate.
2. Answer Dan's Question of: Did he pay too much for the Business?
3. Write a confidential profile of the company for marketing purposes. Make assumptions for any details not presented.

Case Study: Buffalo Wing Company, LLC

Dan Manning, the owner of Buffalo Wing Company approaches you to help him sell his sports bar. He has owned the business for just over one year, and it is more work than he imagined it would be when he bought it.

History

Founded in 1985 by Joe Proman, a former college and pro quarterback, the business was originally called "Buffalo Joe's Wings and Things". located in the small college town where Joe first came to be known as a star, the restaurant has remained a popular place for young and old to watch sports on large screen TV's, play games, and eat and drink. Joe sold the business to Dan at the end of last year (2009). The transaction details follow:

- Purchase Price \$250,000 with half down and the balance financed by Joe for 5 years at 8% compound interest.
- The property is leased for \$2,500 per month in a gross lease.
- The business had sales of \$500,000 and Joe's salary was \$75,000.
- Historically 60% of the revenues occurred in the second half of the year. Insurance is paid in January for the entire year.
- The furniture, fixtures and equipment were valued at \$100,000.
- The Goodwill value was \$150,000.

Present

Dan renamed the company after he bought it and gave it a more upscale look. He spent \$50,000 on the new decor including new signage and TV's.

Sales and cash flow are not what he wanted in spite of the changes, and Dan is spending 60 to 70 hours a week in the restaurant. He is tired, wants to sell and thinks the business should bring the \$300,000 that he has in it. He also asks you if he paid too much for the business.

Financials**Income Statement
Latest available as of 6/30/10**

	2010	2009	2008	2007
Sales Food	\$125,000	\$300,000	\$325,000	\$325,000
Sales Beverage	\$95,000	\$200,000	\$225,000	\$235,000
Total Sales	\$220,000	\$500,000	\$550,000	\$560,000
Cost of Food	\$37,500	\$75,000	\$65,000	\$65,000
Cost of Beverage	\$17,100	\$34,000	\$33,750	\$35,250
Cost of Goods Sold	\$54,600	\$109,000	\$98,750	\$100,250
Gross Margin	\$165,400	\$391,000	\$451,250	\$459,750
Insurance	\$7,000	\$7,000	\$7,000	\$6,160
Advertising	\$17,600	\$25,000	\$27,500	\$28,000
Repairs	\$2,000	\$1,200	\$2,000	\$11,200
Pest Control	\$240	\$480	\$480	\$480
Trash	\$300	\$600	\$600	\$600
Rent	\$15,000	\$30,000	\$18,000	\$18,000
Payroll	\$83,000	\$215,000	\$241,000	\$262,000
Depreciation	\$7,500	\$200	\$2,000	\$4,000
Amortization	\$5,000	\$0	\$0	\$0
Interest Expense	\$15,207	\$900	\$1,200	\$1,200
Utilities	\$10,000	\$19,000	\$18,500	\$16,800
Total Expenses	\$162,847	\$299,380	\$318,280	\$348,440
Net Income	\$2,553	\$91,620	\$132,970	\$111,310

Balance Sheet
Dated 6/30/10

		Balance Sheet		
		<i>Assets</i>		
<i>Current Assets</i>				
Cash in Bank		\$25,000		
Inventory		\$9,500		
Total Current Assets				\$34,500
<i>Property and Equipment</i>				
Furniture, Fixtures, & Equipment		\$150,000		
Accumulated Depreciation		-\$7,500		
Total Property and Equipment				\$142,500
<i>Other Assets</i>				
Goodwill		\$150,000		
Accumulated Amortization		-\$5,000		
Deposits		\$6,500		
Total other Assets				\$151,500
	Total Assets			\$328,500
<i>Liabilities</i>				
<i>Current Liabilities</i>				
Current Portion Long Term Debt		\$1,770		
Payroll Withholding		\$2,117		
Sales Tax		\$3,666		
Total Current liabilities				\$7,553
<i>Long Term Liabilities</i>				
Note Payable-Proman		\$114,621		
Note Payable-Member Manning		\$203,773		

<i>Total Long Term Liabilities</i>				\$318,394
	<i>Total Liabilities</i>			\$325,947
<i>Equity</i>				
Retained Earnings Prior Year		\$0		
Retained Earnings Current Year		\$2,553		
Total Equity				\$2,553
Total Liabilities and Equity				\$328,500

VI. BOOK SUMMARIES

1) Unlocking the Value of Your Business: How to Increase It, Measure It, and Negotiate an Actual Sale Price-Easy Step-by-Step Terms By Tom Horn

Unlocking the Value of Your Business is a thorough guide to the various approaches to Business valuation and more. The author does a good job of covering the major types of valuation commonly used by small privately held businesses. He is careful to note that obtaining an absolute value is almost impossible. Depending on the method used and the underlying assumptions, it is possible to reach different conclusions. Because of this, it is often a range of value that is reached and checked for reasonableness. The book's strengths are a balanced review of valuation methods and an easy step-by-step method to use the different types presented. This overview of valuation, as well as a comprehensive glossary with terms highlighted throughout, gives a firm foundation to the reader. This is true whether or not they have any previous financial or accounting training.

The book comprises 25 short chapters. Chapter 1 provides an excellent summary that readers can use as a quick guide to chapters that focus on issues of specific interest to them.

Chapters 2 through 4 highlight preliminary issues regarding valuation, including learning about the business, adjusting financial statements, understanding various valuation approaches, and assessing business risk. All of these are very important, but Chapter 3 on adjusting the financial statements is a key concept that must be understood to be a successful business broker.

Chapter 5 deals with estimation of the capitalization rate, which he uses as the primary method to determine value by adjusting for risk. To his credit, Horn does a good job of putting this concept into an easy to grasp format. My only concern is, Cap Rates are used extensively by accountants, and for Real Estate. For the business intermediary, a multiple is more commonly utilized. This is not a big problem, as long as the student understands and can translate and compare the two. For example, a 50% cap rate is the same as a multiple of 2 both are applied to recast cash flow to determine value.

Chapters 6 through 15 discuss the advantages and disadvantages of various valuation approaches, including the book value (net worth), capitalization of-income-stream, and discounted cash-flow methods. The reader will finish knowing all the major methods used and the potential problems associated with each. One key concept for our students covered in these chapters, is understanding what Goodwill is, where it comes from, and how it is incorporated into value.

Chapters 16 and 17 examine valuation factors that are unique to specific business types, including a wide range of retail, manufacturing, and service businesses. The concept of "Rules of Thumb" for specific business is introduced here. While the author doesn't lend a lot of creditability to this approach, it is vital that any business broker know it. That is because buyers, sellers, and even accountants will often be familiar with the Rules for specific types of businesses and expect the broker to know it also. Tom West's Business Reference guide contains all of these updated annually. That is why it should be a reference book added after certification process. Horn does cover enough of various "Rules of Thumb" for the student to understand the concept.

Chapter 18 reviews a unique aspect of valuation: determining value based on how much the buyer will be able to borrow on the acquired business's assets. The theory in the chapter is sound. It is important for the reader to know that the current economic climate makes it difficult to borrow right now period. It is usually the larger established business with substantial assets that can do so, not the little mom and pop.

The final chapters connect the analytical side to the practical side in describing how to actually sell or buy the business. Horn includes a thorough list of negotiating tips, tax issues, and ownership concerns. This section has much to offer new business brokers. It allows them to understand how buyers and

sellers look to put the deal together, and how the intermediary's role fits into the process. This must be done by inference, for there is little direct discussion of the role of a business broker in the whole book. This is in my opinion, the only notable limitation of the book. But, many accountants and other advisors feel that a broker is not necessary or helpful in the business transfer process. Part of the reason is the wide range of competence of the brokers they have dealt with. Maybe the certification process will increase the overall professionalism of the group.

2) Buying a Business to Secure Your Financial Freedom: Finding and Evaluating the Business That's Right for you By Ed Pendarvis

Buying a Business is completely different than the other two books reviewed. First and foremost, determining the economic value is only a small part of the book. The author is a business broker, and the book is geared toward making a buyer comfortable with the idea of buying a business. This insight into working with buyers is crucial to being successful as a business broker. Pendarvis has personally sold 1,000's of businesses, grown and sold the largest franchise company for business brokerage, and taught many of the courses of the IBBA. This book helps the reader to understand that, while the numbers are important and will likely be scrutinized closely, the transfer of small privately held businesses is only successful by dealing with the human driven needs and fears of the parties involved. Buying and selling a business at this level, is done largely for human reasons. The Buyer is looking to replace an income from another job. The Seller is looking to retire, or pursue other opportunities or pastimes of interest to them.

The book devotes a significant amount of time to the things that they don't teach in business school. The way small businesses operate is very different from large businesses. This is particularly true in the financials and taxable net income of the small business. Most small businesses are run to provide for the owners. They have no reason to impress anyone with the top or bottom line numbers. Thus, when these businesses are ready to be sold, the skill of the business broker in showing the true value of the business will far outweigh any fee or commission paid. This book is the only one of the three we are using to help our students to understand that being a business broker is more than an academic exercise in valuation.

Ed's book has 17 chapters, and the material is very easy to understand. Some readers may even find it so simple it seems corny. Regardless, this book with the possible exception of Chapter 4, needs to be read in full by our students. Chapter 4 deals with Ed's personal history. Every chapter has key concepts that will be used in creating the exam. This book is the only reference we are using that is specific to the psychology of understanding both the buyer and seller that is essential to success as a business broker.

Chapter 1 details the value of small business. This is its ability to provide a living and lifestyle for the owner. The key concept is for a business sale to be successful, or even to happen at all, it must be beneficial to both the buyer and seller.

Chapter 2 has thoughts on going into business for yourself. The key concept is that the best way to become a millionaire is to own your own business. It also details the success rates of startups verses buying an existing business.

Chapter 3 is a history of work and employment since the 1900's. The key concept is that in today's economy, the most security is derived from owning your own business.

Chapter 4 is Mr. Pendarvis's history. The end of the chapter details the difficulty of getting a high paying job in the current market.

Chapter 5 starts the discussion of finding the right business for you the buyer. The key concept is to find a business you like. This seems like a very fundamental concept, but my experience has shown me just how important it is. I have had buyers that have come out of a big business background, with plenty of money and super business skills that have told me they will look at any business making \$100K and up. The reality is they are probably not going to buy a business that does not meet their idea of who they are. For example, they don't want to buy a quick change oil business even if it makes twice that much.

Chapter 6 is on the real purpose and value of a business. It explains the differences between big and small businesses. Key concept is that there are many more small businesses than large ones. The SBA defines very small businesses as those having gross sales of less than \$20 million or less than 100 employees. Guess what? 95% of all businesses have less than \$1 Million in sales and less than 20 employees. This is the realm that main street business brokerage operates in.

Chapter 7 is an excellent discussion of why business brokerage is not real estate brokerage. The key differences are: Confidentiality, Financing, Relationships, Valuation, Agency, Negotiations, and Location.

Chapter 8 answers the question of "How much can I make?" After defining for our purposes, large businesses (over \$1 million in sales) and small businesses (under \$1 million), Ed introduces the concept of "True Owner's Net" which is the same as seller's discretionary cash flow for privately held businesses.

Chapter 9 covers the cash in cash flow. The key concept is that small business accounting and taxes are treated differently then applying GAAP principles to public companies.

Chapter 10 is a discussion of buyers. The key concept is the best buyer is the one who always wanted to own his own business. They are motivated to buy and will not waste the brokers time like the buyer that has a great job, and a lot of money. There are exceptions of course, but the best way for a new broker to make money in their own business is to recognize this fact. Until they have significant experience, they are unlikely to do the big deal anyway. By way of information, I have personally sold businesses from \$10,000 to over \$15 million of enterprise value. You can spend a lot of time with the big pockets buyers who never buy anything.

Chapter 11 goes into detail about the discretionary part of cash flow in small businesses. Key concept is look at (and show) the business, not the financials. A buyer won't buy a business they don't like regardless of what the financials show, but will often buy a business they like in spite of what the financials show. The psychology involved is the difference in making a lot of money or starving in this business.

Chapter 12 lists several success stories of small businesses that became big businesses. The key concept is that a owner with a passion for the business can overcome a lot of obstacles to become a success.

Chapter 13 discusses sellers. The key concept is that sellers normally sell for human reasons. There is also mention of franchises and M&A deals, but there is no in depth discussion of the later.

Chapter 14 covers valuation methodology. A very good discussion is presented as to why it is impossible to arrive at an exact number. A business is worth what a buyer will pay for it, and this number is different for different types of buyers. This chapter is a much simplified approach to recasting, multiples, and rules of thumb. It is interesting that in 15 years, I have found this type of approach to be as accurate as paying over \$10,000 for a valuation in the small business arena.

Chapters 15 – 17 covers putting the deal together so it will work for everyone involved. The key concept is seller financing. How it is done, how it protects the buyer, and why it is necessary. In the current lending climate, most small businesses would not be salable without it.

In summary, there is a tremendous amount of practical knowledge in the book. It will help the new broker to begin to make money immediately, if well understood. The plus is Ed is a firm believer in using business brokers to put together the deal. The only negative is that he really promotes using a Sunbelt broker to help do this. That is not all bad, because Sunbelt still offers the best training in the industry for main street businesses. But compared to the cost of buying one of their franchises, the online course will be a real value.

3) Business Valuation Bluebook: How Successful Entrepreneurs Price, Buy, Sell, and Trade Businesses by Chad Simmons

Business Valuation Bluebook is a comprehensive look at value for the smaller privately held company. The author has a somewhat unique background, which gives him credibility. He sold franchise businesses that are small rural real estate companies. His success led to him being named as President of the company (United Country). The company has sold many small businesses as well as real estate. That experience led to his writing this book. He then developed continuing education courses for real estate in valuation, and online courses dealing with business valuation. This background leads to a very practical approach that is accurate, without being overly technical.

The book has 19 easy to read chapters. The first 11 chapters form the basis for determining valuation and will be very important for our students. The last 8 chapters explore topics that also have application, but are unlikely to be core concepts.

Chapter 1 explains briefly why knowing the valuation is important to business owners, as well as potential buyers and sellers. It explains the variation resulting from different types of valuation, and helps the reader to understand which approach will be most useful. The concept of a range of value is introduced.

Chapter 2 deals with due diligence including which information must be gathered and why. This makes sense for an owner selling or a buyer buying a business, but will confuse the new business broker without some explanation. Many of the items are only fully developed later in the transaction process. The broker will be very frustrated if they are expecting this level of detail up front.

Chapters 3-6 develop the analysis and recasting of the financial statements of the subject business. Chapters 4 and 5 contain very important fundamentals for business brokerage. They take a very practical approach to cash flow and explain how this differs from net profit. Many well-educated professionals don't understand the difference and how it affects value.

Chapter 7 explores financing, including understanding how banks look at a deal. The concepts of cap rates, rate of return, and loan to value ratios are examined.

Chapter 8 takes a somewhat unique approach to establishing a multiple to use with the subject business. Using a normal range of multiples, it assigns a value to several factors that represent risk to come up with a blended multiple.

Chapters 9- 11 go through different valuation methods, all utilizing the cash flow of the business that he calls ERCON (Earnings Reconstruction) from Chapter 5. This is the same number that is called various other things by different authors and groups. It is essentially what the IBBA calls Sellers Discretionary Cash Flow. Chapter 9 details the Capitalization Method. Chapter 10 uses the Excess Earnings Method. Chapter 11 is the Leveraged Cash Flow Method.

Chapter 12 details financing of the transaction, with a comparison of bank financing and seller financing. He correctly points that cash is king along with the pitfalls and difficulties of trying to use too much leverage.

Chapter 13 is geared to helping the buyer utilize valuation strategies to get a better deal.

Chapters 14-17 include negotiating value from the sellers point of view, planning ahead to maximize sale price, for sale by owner strategies, and eleven tactics to boost business value.

Chapter 18 looks at the situation where sometimes a business will be worth more in a liquidation of its parts, than a going concern as a whole.

Chapter 19 covers tax issues briefly. The emphasis is on tax deferred exchanges, which are used more in real estate than in business sales.

In summary, the author does a very good job of introducing small business valuation. While it seems most of the book is focused on the seller of a business, these are the very skills that a business broker needs to help their client (who is usually the seller). One nice touch is presenting a fictional company (Bell-Quest, LTD) throughout all the examples. This uniformity makes the reader comfortable with the company and helps to understand the different methods used. The key concepts in the book are sound and will provide plenty of material to design the questions effectively. There is some repetition of the material covered in Horn's book, but that is fine. Both books use a different style and go into greater depth on valuation than Pendarvis's book. Because understanding valuation is the most important concept we are trying to impart, this book adds to that mission.

VII. FAQ (Frequently Asked Questions):

Have more questions or need more information? Please see our constantly updated FAQ (Frequently Asked Questions) section on the BusinessTraining.com website here at <http://BusinessTraining.com/FAQ.html>.

You can also get in touch with the BusinessTraining.com team over email at Team@BusinessTraining.com, by phone at 503.664.0678, and through our ClickAndChat tool, accessible from our homepage: <http://BusinessTraining.com>.

Thanks for joining BusinessTraining.com! Please let us know if you have any questions.

-The BusinessTraining.com Team & G.T.C. Institute

VIII. SAMPLE QUESTION ANSWERS:

- 1. The answer is C.** Cash Flow is what drives the value of the business. A business can have any of the other factors in abundance, and have little value. Simmons Page 19 and throughout the whole course.
- 2. The answer is B.** This is one fundamental that is covered throughout the material. Horn Page 3.
- 3. The answer is A.** Publicly traded companies have their annual report to shareholders that highlight the good points and minimize the bad in small notes. The tax returns they file are different. The other types listed either don't have books or have only one set usually, regardless of what is really happening from a financial standpoint. Pendarvis Page 76-77.
- 4. The correct answer is B.** Almost any method is more effective and cost efficient. Getting Listings Slide 3.
- 5. The correct answer is E.** Pendarvis Chapter 10-13 as well as most of the videos.
- 6. The correct answer is B.** Getting listings Slide 5
- 7. The answer is D.** Horn Page 190
- 8. The correct answer is D.** Simmons Chapter 9.
- 9. The correct answer is A.** Pendarvis Page 85.

Example Essay Question Answers:

1. A Business Broker must know how to value a company to set an accurate range of the selling price. This is important because it is the basis of listing and selling the business. He or She must also know the about the laws that apply to the profession. These are important to avoid legal problems.
2. A Business Broker must know how to listen. This is important to understanding what a buyer or seller is really saying. He or She must also know how to network with other people to get listings as well as other important benefits.
3. Other possible answers technical: Recast financial information, prepare confidential business profiles, produce reports in various formats, get replacement cost information, read and understand legal contracts.
4. Other possible answers interpersonal: Work with buyers, sellers, accountants, attorneys, other business brokers, bankers etc. Keep all parties calm and moving toward closing (Negotiating and Managing skills).