

What are Business Brokers and What Do They Do?

Business brokers are intermediaries who facilitate the sale of small to medium size privately held businesses by working with both buyers and sellers. There are important differences, but in some respects business brokers operate similarly to real estate agents; however their practice is limited to business entities.



Licensing

Currently there are [17 states](#) requiring business brokers to be licensed by their state's real estate commission. All states require a real estate license if the business broker is handling real estate along with the sale of the business entity. However, the majority of small to medium size businesses are in leased locations with no real property as part of the sale.

Representation

Business brokers can represent either the buyer or seller in a sale. Historically, the broker has traditionally represented the seller, but buyer representation is becoming more common. The representation of one party in a transaction usually creates a [fiduciary duty](#) between the broker and the party represented. Some states allow dual agency representation of both buyer and seller if all parties agree to the arrangement.

In some states, brokers can choose to act as transaction brokers, representing neither party as an agent but working to facilitate the transaction. In this situation, there is no fiduciary duty created and the broker deals with both parties on the same level.

Training and Qualifications

A business background from experience and/or education is essential to a successful business brokerage practice.

The ideal candidate has the following skills or characteristics:

- Must enjoy working with a wide range of people
- Good organizational and time management skills
- Sales experience
- Creative thinking
- Knowledge of financial statements and interpretations
- A degree in business or related discipline is helpful
- A desire to learn continually
- Strong work ethic
- Highest levels of integrity and character
- Desire to help people and solve problems
- Prior business ownership experience is a plus
- Comfortable and confident working in a commission only environment with high income potential

Training specific to business brokerage can be obtained from several professional associations or other organizations.

Credentials

Both national associations of business brokers in the U.S. offer credentials to brokers who have completed a level of education and experience in the profession.

The [American Business Broker Association](#) awards the Accredited Business Intermediary (ABI) credential. [The International Business Brokers Association](#) offers the Certified Business Intermediary (CBI) designation.

In addition, several state associations, such as Texas and California, offer their own credentials to qualified members.

Duties

Business brokers perform many duties including:

- Pricing the business with a professional valuation.
- Drafting an offering summary, sometimes called a confidential business review. (This piece becomes one of the most important marketing tools for the offering, and is provided to prospects only after they have signed a confidentiality agreement and been qualified by the broker.)
- Marketing the business to the widest possible audience while maintaining strict confidentiality. (This is one of the important distinguishing differences between business brokers and real estate agents. Real estate agents put a sign in front of their properties and typically without the need for confidentiality, advertise widely the specific location. Business brokers are trained to maintain strict confidentiality.)
- Introducing prospective buyers to the business after insuring confidentiality agreements have been executed.
- Facilitating meetings between the seller and potential buyers.
- Writing offers to purchase the business.
- Handling negotiations between the parties after an offer has been made.
- Facilitating the due diligence investigation. (Offers to purchase are almost always made contingent upon a further due diligence investigation.)
- Assisting the buyer in obtaining business acquisition financing.
- Scheduling and facilitating the closing of the transaction.

Compensation

Business brokers have traditionally been compensated by the seller with a commission only fee arrangement which is detailed in a listing agreement and paid at closing.

However, in recent years some brokers have moved to a partial up front fee which may be credited to commission at closing. This helps the broker defray the initial expenses involved in marketing the business, and according to some brokers, also serves to identify serious sellers as opposed to those who just want “to test the waters,” which many brokers regard as a waste of their time.

The customary commission rate ranges from 8 to 12 percent, with 10 percent being the most prevalent. In a recent survey of the profession, 59 percent of brokers reported using a 10 percent commission rate. Generally, the smaller the business, the higher the percentage rate of commission.

Top 3 Issues Involved in a Business Transfer

Many business brokers agree that the top three issues involved in the transfer of business ownership are:

1. **Confidentiality.** Confidentiality is critical to the successful transfer of a business. If it becomes known that a business is for sale, several things start happening and none of them are beneficial for either the seller or buyer of the business. Business brokers are keenly aware of this and are experts at maintaining confidentiality.
2. **Valuation.** The issue of valuation is of critical concern to both buyers and sellers of businesses. Business brokers are professionals in determining the most probable selling price of a business.
3. **Financing.** Business acquisition loans have been difficult to obtain in the recent economy. Business brokers stay informed as to the type and source of loans that are available and assist buyers in arranging financing.

Asset Sale versus Corporate Stock Sale

Most transfers of privately held businesses handled by business brokers are asset sales rather than corporate stock sales. The selling entity (whether sole proprietorship, partnership, corporation or LLC) sells selected assets to the acquiring entity. The selected assets are usually all assets of the business, including trade name, with the exception of cash in the bank and the accounts receivable which are usually retained by the seller.

Number of Business Brokers

Because there is no national registration or licensing of business brokers, there is not an accurate count of the total number of brokers. Estimates run from a low of 2,500 brokers to a high of 4,000 individuals in the U.S. in the profession.