

Andrew: All right, guys. This course is about how to acquire an existing profitable company so you can make money from day one. The session is going to be led here today by Ace Chapman, who helps entrepreneurs buy companies. He is also the founder of Partners Equity Fund, which, as the name suggests, is a private equity fund. You can see his website. . . Well, that is not his website. That is my whole screen. You can see his website on [AceChapman.com](http://AceChapman.com).

Ace, thanks for doing this. Welcome to Mixergy.

Ace: I am glad to be with you. Thanks for having me on.

Andrew: Thanks for being the guy who's going to come here even though I'm now using new software to record, which, as you can see, still has a few issues. But, the important part is that we have the key ideas here. They're up on the big board. This is what we'll be talking about to help breakdown the process of buying a new business.

The first thing I want to ask you about, before we even get into those tactics, is this. Right after high school, you went into this place. Do you recognize this building?

Ace: Yeah, that's my. . . The front of it is my home. This is the back of my childhood house.

Andrew: And in that place, you tried to create a profitable business. What was that business, and what happened to it?

Ace: So, this is back in '98. Things are just getting roaring with the internet, and businesses are wanting to start, websites, and so, me and a couple buddies decided that we were going to start a web development firm. We found the guys that we wanted to partner with. It was about four of us. We decided to come up with an agreement that we could all be happy with and we put the agreement together. Then we decided, all right, we need a website. So we started to build out our own website.

Well, it was a long time before we hit the ground and actually started talking to potential customers. Maybe two months passed before we talked to potential customers, but in particular, there was probably a week period where we were building our own site, and so we had a web guy who was putting that together, and he was taking a lot of time to do it. We're like, "Well, we've got to have a great website if we want to go sell them, so take your time."

After a week or so, we hadn't seen or heard anything from the guy, and so, we asked him, "So what have you been working on for this week? Let's see the progress from last

week." He was really excited to show us. He pulled out this gif that was basically for the yellow page, just to tell people that we could put a link to the Yellow Pages, and that kind of thing. But, he had spent that week putting together this gif that was basically the Yellow Pages fingers walking like this.

Andrew: Ooh, that was his whole thing, and he spent that whole time and just created that animated gif?

Ace: Yeah. Yeah, so we spent a whole week. It was little things like that, and basically two months into the summer, we finally hit the ground and started selling these websites. The fortunate thing is it was actually really easy to sell websites back then.

Andrew: Mm-hmm.

Ace: So we actually did really well for that last month of summer, when we sold several. We sold about five websites. I, personally, made about three grand, had three grand leftover at the end of the summer. It actually went well, but what if we had skipped that whole process and started a little bit earlier in the summer and been able to hit the ground running?

Andrew: And that's what we're trying to avoid for people here today, and the reason that people come to you. Instead of setting up and hoping that things will work out and dealing with a lot of these upstart issues, like, "What is the website going to look like?" and "Is the guy going to give me nothing but an animated image on the screen?" Instead of that, you want to help jumpstart people's businesses by saying, "Buy a company that already exists, that is already profitable, and if you do, you can make money from day one and grow without having to deal with the smaller upstart issues that people have," right?

Ace: Absolutely. Absolutely,

Andrew: And you actually did that.

Ace: [??]

Andrew: Sorry to interrupt. This is where you did it. I found an article on the Chattanooga.com. Here, let me see if I can zoom in for people so they can see this.

Ace: Yeah.

Andrew: This is one of your earlier acquisitions. What's the business that you bought

here?

Ace: Yeah. This was a website. When we bought it, it was actually called Making, with a dash, and then cash.com and a very neat little website but the owners of it weren't doing a very good job running the site. So me, as a user, I grew up loving the idea of the stock market and investing and all of that and so, the whole idea of being able to invest in a pretend stock market was still pretty novel in '99.

Andrew: That's what that business did. Allowed people to invest in a pretend stock market so that they can play around and see what it's like before they actually go in there and put their money in, right?

Ace: Yep. So, it's taking play money and investing it in the real market. Money was generated with advertising dollars and that kind of thing.

The business was profitable but for the guy that owned it was a side project. You know, it made an extra 30 grand or so a year for them but it wasn't anything that they really wanted to focus on. They were a pretty big web development firm. So, I decided to approach them and try to see if they might be interested in selling the business and it turned out that they were at least open to the idea.

At the beginning, I definitely left out the fact that I was a 19-year-old who didn't have any money at all and I definitely didn't want to tell them when they told me the price was going to be 70,000, that, you know, I still had that 3 grand from the summer before and that was about it. So, that was the first time that I had to get creative to figure out, okay, here's this business that I want, how can I buy it?

Andrew: Yeah. So how can you buy it? I don't want to get too deep into the process because that's what we'll be spending the rest of our conversation on, but if you can give me an overview; how did you end up buying it and what happened? Then we'll talk about how the audience can do the same thing. How did you end up buying it?

Ace: So, I figured I didn't have a lot to lose, so my first thing was to go back to them and to get them to owner finance a portion of it. I basically said, "Hey, if I can come up with half of it, would you guys finance the other half." They were agreeable to that. Then I ended up having a buddy that wanted to invest some cash, so actually one of my friends who was involved with the web design firm the summer before; he liked the idea as well, so he put in some money and the rest of it was literally that 3 thousand that I had. Then some credit card debt, which I avoided telling my parents about because they would have killed me because they would have known that I was going out and getting these credit cards to buy a business.

Andrew: So you pieced all of that together and you ended up buying this business. Did it actually make money from day one? Was it profitable the way that we imagined it was?

Ace: It was profitable from day one. That was where my transition happened because I remembered that summer before. I remember spending two months just trying to figure out how we were going to do this thing and how we're going to sell and what the prices were and all those little details for just a simple web design firm. So, when I bought this thing and the closing came and, you know, I loved having this experience through my clients for the very first time that I work with now but, you know, the very first day after closing and money is deposited into your account, you realize, "Wow. Like I'm really making money." That was a huge transition and I knew, okay, this was a much better way to get into business.

Andrew: All right, and this is what we will be talking about here today and we'll see that there are some issues with this process, with the idea of buying companies and Ace will walk us through how he overcame them and how you more importantly can avoid them completely.

Let's take a look at the big board here, the very first idea we want to talk about is to come up with a strict set of rules that are going to keep you on track. Ace, when I said that you've made mistakes before and you're going to help people avoid it, this is a mistake that you had, that you made, when you saw an online clothing business for boys. What happened there?

Ace: So, this was something where, you know, you get excited, you get one deal and you're like, I'm bullet proof. I think I had done another deal even before this one but I was just excited about going out, buying these businesses and being able to generate more income. You get this kind of snow ball effect because you're able to use the income from one to buy another. So, I bought this deal and it was something that hadn't been around a long time, but it was such an attractive price. So, you know, I usually like to buy deals that have been in existence for at least two years and this business didn't meet that rule. I ended up buying it any way although it had only been around for six months. Bought it at a really low price. But it didn't matter because after about three months it petered out and died. And so I definitely learned my lesson there. Another real quick deal that I had with another rule of mine, which is just having some systems in place or really not being dependent on any one person, I was buying a mortgage company years later and they had a couple of producers that were really huge. But give them a great yield and . . .

Andrew: You mean a couple of individuals who were huge producers?

Ace: Yeah. Yeah. A couple of individual producers. And so I ended up buying the business. I was a little smarter on this one. I had some items in the contract that basically allowed me to almost have a warranty on the business, and give it back if anything looked weird within 90 days. It turns out that those guys were secretly hanging on with that company until the transition. I got word of it. They were going to try to wait until the end of the 90 days to leave. I got word of it and ended up getting out of that deal. But that was a case where I didn't follow the system.

Andrew: What is the rule that you had that you did violate?

Ace: Yeah. It's having businesses that are run with systems and not run by people.

Andrew: Okay. So the clothing company for kids, the rule that you had set up for yourself was you wanted a company that had been around for at least two years before you bought it. Otherwise you didn't know whether it was likely to continue or not. The other rule was you wanted to buy systems, not people, because systems can stay in place and develop. People can walk out the door. And you violated that rule. The big lesson here that you want us to walk away with is that we should have a list of criteria, a list of rules for ourselves about what businesses we want to buy, and stick with that. Or else we'll end up suffering the way you did. You gave us two of those rules. Could you give us maybe two others?

Ace: So one of the things is really knowing yourself, and getting really clear on what you want out of a business. So I think that can be the very first rule, because most people, they understand the fact that if you walk into a grocery store, and you don't have a list, even though it's just groceries, you're going to walk out of there with either some things that you don't need, or some things that you forgot. So the real key is getting clear on what you want out of a business. But some of the other things that I look for in a business is scalability. I really love when a business has a database of users or clients.

So I'm looking at a business right now. Just to give you an idea. After that deal that I mentioned on Tom, a lot of times I have a tendency to go in the extreme. So the last two businesses that I bought that were off line deals. One of them is 33 years old. The other one is over 20 twenty years old. I'm looking at a business right now that's over 15, and each one has large databases of clients. So the deal that I'm looking at right now has a database of 15,000 clients and customers. So that gives me an instant way to go in and go back and win over those clients again.

Andrew: Okay. I guess if someone-, there isn't a universal list of rules that entrepreneurs should have for themselves before they go and buy because everyone is different. Everyone's looking for a different kind of life. A different kind of business. When someone goes to your site, which I can now bring up properly because I took a screen shot, I should always have a screen shot as backup, there it is. If we go there and we contact you using the number at the top, do you help us come up with our list of criteria that we use as our rules before buying companies? Or is that something we need to walk in the door with?

Ace: No, yeah. So one of the things that I've started to do over the years is we go through a personality test and a skill set test. And that tells us a lot about the individual. Because each person-, I bring different things to the table when I'm buying a business than another person will. So you have to take those things into consideration. And the neat thing is you can literally buy a deal that complements who you are as a person. So when I'm looking at a business, I want operations to be handled because I like to go in, grow the business, I want to be able to focus on marketing. And so a lot of the businesses that I focus on operations is really put together really well. But they may not be doing a lot of marketing. So one of the businesses when I mentioned the 20-year-old business, that business they had a database of 14,000 people. And they had never contacted them at all.

And so that's a great opportunity for me because I know how to go in and revitalize that list and get those people back in the group.

Andrew: And I can see how that would be a criteria for you, a business that has a lot of potential users or a lot of existing customers. But they're not taking full advantage of it by marketing. You can go in there and bring your marketing skills and help grow the business. All right.

I have so many other ideas here on the big board that I want to get to. The second one that we want to talk about here today is to prepare your entity to expedite a fast acquisition. You actually, again, this is a mistake that you made in the past that we are all going to learn from. There was a company that you were interested in buying, and you lost it because you didn't have your entity created. What does that mean to have an entity created? Can you talk more about that?

Ace: So before you close on a deal, one of the things that you will have to do is have a business that you're going to buy the assets of the other business into. So especially in this day and age when we're doing more internet deals. There's a lot more competition. You have to be as prepared as possible. When you get to the closing or you get to contract and you say, "Oh, by the way, I'm going to need 30 days because I'm going to

need to create a LLC and that kind of thing. It just holds up the deal.

Even more than that, it makes you look like an amateur. And so in addition to just having it set up what we want to do is have the entity, not only be ready to go, have a website, even if it's just a website that says you' want to go out and buy businesses. That kind of thing will set you apart from the people that are really kind of amateur business buyers. And a lot of times, even if you're paying cash for a deal.

I love to buy businesses where the owner is willing to finance at least a portion of it. And it makes a difference. Even if they're not going to finance it, they want to feel like they're handing their business over to a professional and not a newbie business owner.

Andrew: But, Ace, if we're about to buy a business, maybe it is already a LLC, why do we have to have our own LLC? Why can't we just say we're going to pay money and buy your company instead of having our company buy your company?

Ace: Deals under \$2 million, it's probably less than 2% of the deals involved buying the other entity. It just doesn't make sense. So you're buying the assets of the entity. So that's the way that those deals work is you've got two LLCs that are going to buy the assets. It's really around tax reasons. If you buy the shares of that entity whether it's a LLC or a corporation or whatever, you're buying those membership interests or the shares is a huge tax ramification for the seller.

So on these smaller deals, most of the time it's going to be buying the assets of that business, not the entity.

Andrew: You know what? I didn't realize that. I don't want to get too deep into the tax implications, but I thought when you sell a company you have capital gains taxes which are lower versus selling assets which could trigger income taxes, no?

Ace: It really depends on your cost basis. So if you have a stock, if you basically have started, if somebody started this business and obviously their cost of that stock would have been zero and yet they're selling it for this really high price, they've got a very specific cost on the assets. So it really just works out, like I said, about over 95% of the time that it makes more sense for that person to sell the assets than the . . .

Andrew: Sell the assets versus the company.

Ace: The other thing that's even bigger than the tax issue for the buyer, it's not worth taking all the liabilities or having to do the research involved with the liabilities, potential lawsuits, and everything that's involved with that entity to pay attorneys to go out and

figure out, "Okay when I buy this entity [??]"

Andrew: There's a huge due diligence. If the small company somehow got itself into some kind of obligation that now you, as a person who buys the whole company, have to take on, and that's a whole lot of hunting even if the person is not trying to cheat you. They might just have forgotten. Small business owners sometimes make commitments that they forget about or they just assume aren't important but they are. I see.

So that's why we want to have our entity set up before we go out there to start making offers. And by doing that we can come across as more professional and we're much more likely to get owner financing which is tremendously helpful.

Ace: Yeah.

Andrew: On to the big board and the next idea is to create deal flow to find businesses. Oh wait, we did talk about that. Oh great. You had a situation about divorce that helped you get deal flow. How did that work?

Ace: That's probably one of our top sources of deals for everybody in our business buy network. We get a lot of deals from divorce attorneys. The bottom line is there are a lot of places to go to look for businesses on the market. Any anytime you are looking at anything on the market you know that that is not going to be the very best deal because the very best deals for anything, whether it's a house, a boat, a car, or whatever are sold before they ever take it to market when a realtor gets the call on a house that's absolutely rock bottom and the seller's really motivated. They're just going to call their friends. They're not going to put that up on the M.L.S.

So it's the same thing when it comes to businesses. So what we try to do is go out and look for the different sources of deals where we can find people that are going to be really motivated to sell their business. And obviously you're going to get a lot better deal when you find a motivated seller. So we've got a lot of these examples, but now we've got a couple of these where people have just really gotten so depressed and I think about one guy in particular. He hadn't been to his business since the divorce started which I think was about a year and a half before we started talking to him.

But the crazy thing about that example was that my client had contacted him several times, set up a time to meet him at the business. We didn't realize that he hadn't been back to the business. And so he just stood him up. So he thought that the guy really didn't want to sell, and after the third time I contacted the divorce attorney. I said, "Hey, your guy obviously isn't interested in selling. He stood up my client who wants to buy it."

And it turned out he was just so emotionally distraught. He and his wife had built this business together. He, like I said, had not been back to the business. He couldn't bring himself to go back to the business. And so it ends up being a very neat case too because obviously we are able to help him. We are able to help him because he needs to sell that business as quickly as possible because although he had some really amazing employees that kept running the business.

They really could have taken advantage of the situation and they didn't. And so that was great to get in on that deal, but it wasn't going to last like that forever. He needed to sell as quickly as possible.

Andrew: I see. And because of the divorce, the couple that just split up, aren't going to share equity in this business and talk about running it every day. They want nothing to do with each other. They have to sell the business, and they want to sell it quickly so they can move on with their lives. And that's why they are more likely to sell.

But there are other ways, and actually before I show the screenshot of the other ways, would you mind just tilting your camera a bit? I want to make sure we get your chin in there all the way. Maybe just a little. There, that's work. Now you're centered nice on the screen.

Here are a few other places that you recommend people go if they want to buy businesses. We're looking up here on the screen at is BizBySell. We're looking at Flippa, and we're looking at BizQuest. You actually go to these sites to look for businesses that you want to buy?

Ace: Yeah, yeah. So I go to a lot of sites. Those are three of them and I want to know everything that's on the market everywhere because you never know where that unique opportunity is going to be. And so I'm on a lot of lists, and I network a lot with other people that buy and sell as well. So I'm getting deals from a lot of different sources, and I can hone in on that deal that meets those rules that we talked about.

So it's a lot. One of the mistakes that a lot of people make when they start to look at deals is not looking at enough deals. The average person, they say, looks at six businesses. The average business buyer looks at six businesses before they close on a deal.

Andrew: What about you? How many do you look at?

Ace: Over a hundred.

Andrew: A hundred to one? Wow!

Ace: Yeah.

Andrew: I see.

Ace: So the buyers that we have on our network. The average is over 100.

Andrew: Wow. All right. On to the big board. The next issue to talk about is to make sure there are no hidden land mines. You taught us one way to avoid that, and that is by doing an asset purchase. That way you're not buying a big company that might have some mysterious liabilities.

Another way that you learned is when you bought your mom one of these.

Ace: Yeah.

Andrew: We're not talking about a Subway sandwich. You bought her a franchise.

Ace: A lot of Subway sandwiches.

Andrew: A lot of Subway sandwiches and what happened there that we should learn from?

Ace: So we did a deal on a Subway. We had a motivated seller. Everything looked great. They were willing to do some seller financing. And we kind of looked at a lot of different things. One of the things that we didn't look at though was what the zoning commission had in for that area.

And so after about a year we got a letter from the city saying that they were claiming eminent domain and taking over our land. And they wouldn't give us an offer for what they felt was fair which at our own cost tried to fight, but there was basically no option. We had to sell that business. And so fortunately they were valuing the land and the building. They were going to tear it down, but they weren't going to value the business.

So we fortunately ended up changing locations and got another franchise in another place that was nearby and actually cost more money for us to do. It turned out, and these are the things that you can't plan for, that the income for that other location was double what it was where we were. But it could have been a lot worse, and we were fortunate that somebody else didn't already have that territory for Subway. We would have just been really out of luck with them, a very big six figure loss on that deal.

Andrew: So how could you have known that the government was going to want to take over your land and pay you just for the land and not for the value of the Subway franchise on top of it? How could you have known it? And more importantly what could the person listening to us now who says I want to buy a business . . . What could they look for that would allow them to look for all of the land mines and be fully prepared?

Ace: One of the things is now we do that. We actually will pay attention to what's going on in the zoning level and not only try to figure out if there are issues that are coming up. But more importantly try to target where certain things are planned and try to buy businesses that may benefit from those plans.

Andrew: How do you know they even exist? I wouldn't have even thought of eminent domain. I wonder what else I'm not thinking about that could be a "gotcha" that is just sitting out there.

Ace: By going to the zoning commission and seeing what plans are, talking to them. They're actually, now that I do that a lot more, they love when citizens come in and want to talk to them. And are . . .

Andrew: Are there a list of things like that because that's just one land mine.

Ace: Oh yeah.

Andrew: And I know there are many others hidden underneath the land. That's why they're called land mines.

Ace: Yeah.

Andrew: Is there a checklist of land mines? I know you and I connected because an entrepreneur whose software I was using said that he was getting into another business. And he was talking to you about buying a company. I know he was going to go into software or something digital, I believe. Is there a checklist for someone like that that allows them to be aware of all the potential land mines, all the things that they should go over before they buy?

Ace: Yeah. And actually I would be willing to share that with you guys. We've got a list of over 90 different things that you want to check. Some of them apply to certain businesses but I'll share because I know a lot of your folks are going to be looking at Internet businesses.

Andrew: Yeah.

Ace: So I can send that over to you. It's a checklist of over 90 different things that you want to look into when it comes to buying a software Internet business.

Andrew: I'm looking at your site which I'm having trouble showing up on the screen, but I can still show sections of it. Here we go. This is it. This is your contact information. It's up right there so if anyone wants to reach you can they just send you an e-mail?

Ace: Yeah. Absolutely. Absolutely. So if anybody wants to get that list, if they want to shoot me an e-mail I'd be more than happy to share it with them.

Andrew: All right. Cool. I just saw that on the site and I'm glad that you're up for sharing it. Back to the big board and the next thing we want to think about is valuing the deal by looking at return on investment. This is something that you did at actually Plato's Closet. What is Plato's Closet? Let me bring it up on the screen, and what is it and what's your connection to it?

Ace: So Plato's Closet is a store for teenagers that resells clothes. So it buys clothes and then sells clothes. And I bought a franchise in Chattanooga and also one in Huntsville. And the neat thing is, I bought that business, ended up growing it and everything went really well. The really cool thing was I was able to work with a motivated seller at one end, and then I was able to sell it, and give the people that I sold it to a really great deal when I sold it to them as well. One of the things that a lot of people don't realize is that when it comes to owner financing I'm not just saying that, "Hey I want to go out and get a deal and do that." I really do believe that it's in the seller's interest to increase their RY on the deal when they sell it by having some interest that's coming into them and align the purse, being able to charge a little bit more. . .

Andrew: Let's get into that. Owner financing is what the basic level of what you talked about at the start of this program. You wanted to buy a company. You didn't have enough money to buy it and so you said to the owner, "Please", not please necessarily, oh pretty sure, " please let me buy this business but also I won't be putting up 100 percent of the money. I'll put up some smaller percentage and then over time I'll pay you the rest." To make that worth their while you have to give them upside right?

Ace: Yeah.

Andrew: So how do you structure the upside for owner financing to make it worth the seller's while?

Ace: So the easiest thing is to offer them some interest on the money that they're loaning.

Andrew: Just a straight up percentage. Not even a share of profit. . .

Ace: That's always number one.

Andrew: That's the easiest.

Ace: That's the easiest. That's number one. So I try to get some kind of deal where I'll let them know the total amount that they're going to make. So when I give an offer to someone, I want to give them an offer based on their total RY. So I'm not just telling them, "Hey, here's the amount of money you're going to get." I'm going to add up the interest that they're going to get. If there's some equity, I'm going to put that in there. What the potential is and all that so they so see, all right, this is how much money I can make if this guy buys my business overall. The second part is equity. And the thing that I would like to try to do, and this is just a negotiation, is I want to ask them what is most important to you when you sell this business. Is it price? Is it the structure of the financing? Is it that you want to hold a little bit of equity back?

What's most important to you? And they're always going to say price. And so what that allows me to do is say, "Okay. I'll give you price but I need to control everything else in the deal." And it's all about the terms. And so when you talk about the oh why when you're buying the deal, what you want to look at is, OK how can I control the terms. And their bottom line is if I'm going to buy a \$2 billion company and they want me to pay \$3 billion for it but I can control the terms and pay half a million down and \$50,000 a month for a thousand years, then that turns out to be a really great deal. So a lot of people before early on when I started working with other folks to help them buy businesses, I was very proud of the fact that we used the top five metrics most used to determine the value of a business. And we just realized that this bar is basic bullcrap. What matters is what's going to be your return on the deal. And in order to figure it out, you've got to look at the terms, and hopefully control the terms of the deal.

Andrew: All right. We'll talk in a moment about how to control them. But what you're saying is that it's not just the single price. It's the way you structure the deal that determines your return on the investment.

Ace: Absolutely. Absolutely.

Andrew: All right. And you showed us different ways to structure it to increase our return on investment. One exaggerated example you gave us is paying \$1 billion over a

thousand years which of course reduces the present value of that money. You were going to say something?

Ace: Yeah. So one of the other things is once you become a seller, you want to make sure that you're paying attention to that as well. And that same Plato's Closet deal is a case where that happened. I go out and I buy a lot of businesses. So about 14 offline businesses, over 20 Internet businesses, and since that's a lot of what I focus on, a lot of times I don't spend as much time growing each business or figuring out ways to grow them. So when I sold that business, I felt like it had a lot of potential. When I owned it, it was doing about \$600,000 a year in gross revenue the earning channel. I sold it back and I felt like it could get a lot bigger. I just didn't have the ability to do it. I felt like it could be easily an \$800,000 a year business.

Well, I ended up talking some equity in that deal, and it turns out that it actually grew to \$1.25 million and those guys recently set me down and like, "Man things are going great." They told me, "Oh yeah. We're about to go into a bigger space. We're going to do even better next year." I'm like, "That's great. So what did you guys want to meet about." And they basically said, "We're tired of sending you money so we want to buy you out." And that was a winner as well.

Andrew: I can see that. All right back to the big board. We're going to look at the pen ultimate point which is to control the conditions by finding a motivated seller. I like to always use examples from the guest's actual business and here's one that you got an opportunity to do. You bought a business that does this. How's it pronounced? Fort Oglethorpe, Georgia.

Ace: Yeah. Fort Oglethore.

Andrew: You bought Maxim Tan?

Ace: Yeah. Yeah.

Andrew: Maximum Tan. Excuse me.

Ace: Maximum Tan.

Andrew: Yeah. So how did you find a motivated seller and get to control more of the deal?

Ace: So on that deal it was really interesting. I've been buying this whole business for long now, so I'll get people who will just contact me. So I had somebody contact me.

They were interested in selling their business. It was one that had been around for 18 years. He wanted me to come and meet with him at his house to give him the offer. And I really prefer to meet on neutral ground. But he was insistent. Come by. Let's have dinner. . . I guess he figured he was going to butter me up. And so we get to the end of dinner, and I lay out what my offer is, and give him all the specifics. . . and then I just be quiet and I can tell that he's just sitting over there steaming. His face is turning red with anger.

And after a while he's just like, "That is absolutely outrageous. How could you offer me such a ridiculous price? You can't expect me to even dignify that with a counter, and. . ." I had a partner there with me who was going to be operating that deal. And so we get in the car and he's like, "Wow, we're definitely not getting that one. We need to go out and find another deal." I was like, "Let's give it a few weeks and see what happens." He's like, "Dude, there's no way that guy is ever coming back. Did you not hear, he was on the verge of cursing us out of his house." And sure enough, a few weeks passed, and he couldn't come back so he sent his wife to come back and let us know that they were willing to accept the offer at that point. We were able to get it for actually less than that original outrageous and ridiculous price.

Andrew: I see. So is the way that you figure out who's motivated is, it seems like by talking to a 100 sellers for every one that you potentially buy, you end up throwing some of them really low offers to see if they respond. And if they respond the way this guy's wife did, then it means that they're more motivated than the others. Right? What else can we take from it?

Ace: So a couple of things. One of them is the more offers you make the more likely you are to-, it's like anything else, the more you throw out there, the more likely you are to get something really good back. And I do want to correct it. We don't talk to a hundred [??]. That would be very difficult.

Andrew: Oh, we...

Ace: ...One of the keys to the whole thing is, almost creating a funnel, so what each of us in the network uses is a funneling process where you've got 100 deals that kind of go into the top of the funnel. Some of them are coming from older market, and some of them are coming from direct solicitation, some of them were referral sources, like divorce attorneys. So you've got all these deals that are coming into this, and at each level, whether it's listing, perspectives, talking to the seller, due diligence, evaluation, all those things, you're, we've got filters at each step. So by the end you may have ten or 15 sellers, but, you're right, the idea is to look at more deals, make more offers, and find the really great deals.

Andrew: I see, all right, and then once you find the one's where the seller is really motivated to sell, then you have more control over the deal, and that's the big take-away from that.

Ace: Absolutely.

Andrew: All right. On to the final point, and that is to follow up, even with sellers who say no. And you had a client, you were helping them buy a granola company, and he was actually turned down when he tried to buy that granola company, and you told him to do what?

Ace: To...so we want to build a sense of reciprocity with our sellers. And one of the ways we do that is, in his case, he really loved this business, and you know, you don't go around and do this for every deal, but when you really like a deal, eventually we know that they've got to sell that business. And so, this guy was older, so what we did in that case was go out and get him a couple of wholesale accounts. It was actually pretty easy, he had some friends that owned some coffee shops, they went and, basically went to his friends and said, "Hey, I need you all to order some of these granolas." And he went back to the guy and said, hey, I got you two wholesale accounts, I don't want anything, I just want you to know that I love your vision, I love what you're doing, I love your business, if there's anything I can ever do, I would love to work with you. Or, you now, whenever you do decide to sell it, I would love to talk to you about buying it.

And sure enough, this guy's wife ended up getting sick, and he got a call, and basically the owner asked my client, are you still interested? He said yes, and he said, well just let me know what I need to do to sell you the business, in order for you to be able to buy it, I can't imagine selling it to anyone else. And he called me, excited, and he said, "Well what should I tell him?" And I said, well let's start off with meeting his price and getting 100% seller financing. And the guy, basically, accepted it. And he got a...one of the rare times, you know, don't get many of those, but one of the rare times that we actually got 100% seller financed deal.

Andrew: And the reason he got, or part of the reason he got 100% seller financing is that the seller felt so comfortable with him after having this buyer, before he was even a buyer, introduce the seller to his friends and help him get his granola into his friends coffee shops. It's that goodwill that led to 100% owner financing.

Ace: Absolutely, one of the biggest mistakes that most business buyers make, is that they think that it's about being hard. A lot of people think that I'm this, kind of, cold-hearted and just hard-core guy. And, you know, I get that...

Andrew: ...And frankly, when I saw some of these tactics I thought maybe you would be, and then with a name like Ace, I thought this guy's clearly going to ace people out. I don't want to play pool against him, and I don't know that I want to sit at the other end of a table with him. I would much rather have him on my side. But that's not the way it works. [laughing].

Ace: [laughing] Yes, yes, it's really more about building a relationship. You know, even in that deal...I want people to be happy, a lot of times before I close a deal, you know, I kind of check in with them. And even in that last case, where they weren't happy, you know, I kind of say, hey, I do not want to close a deal where my sellers aren't ecstatic to sell to me, and to get the deal done. If you feel like you can go out and get a better price or get a better structure somewhere else, whatever, go ahead and do that.

But one of the things that a lot of people make the mistake of doing is coming into these deals and, you know, they get on the phone with the seller, and it's really hard-core, and they're like, oh, I'm going to, you know, steal this guy's business, and all of this, all that kind of thing. And the truth is, these things are done by building positive relationships. So as much as you can, it's great to not ever get nasty, always be very professional, always really be positive, and building as close a relationship possible, so we have kind of the three Rs. We want to show the seller respect, we want to hopefully create a sense of reciprocity and we also want to build a rapport. So, we focus on those three things with each seller.

Andrew: All right, people want to follow up with you, the best place for them to go is just to the website, which actually has your name. Like me you bought your own domain. Mine is AndrewWarner.com you got AceChapman.com. And when people go to AceChapman.com there's one section I recommend they check out before anything else. Yes all your contact information's there, yes they can follow up with you if they want to buy a company. But I like that tab at the top about your story. I especially like how you talk about how you built the first million dollar business using ugly as a lure and I'll let people discover that story for themselves, it's great AceChapman.com.

Hey, just so I give the audience a good sense of who's a good contact for you, what size businesses are you, do you help people buy and what do they need to have in order to work with you?

Ace: So, most of the businesses that we do are under \$2 Million, there are specific reasons around that, on the website you saw me mention Micro Private Equity which happens to be a term I got to coin on dubsepedia [sp.] but we focus on deals that are under \$2 Million because the multiple is just drastically lower than what the private

equity guys are competing for once you get above that amount. But we help all kinds of folks.

Andrew: I don't want someone who's listening to this who says, "You know what I never started a business before, I don't have any money but maybe this guy Ace can get me 100% donor financing on some businesses already profitable from day one. I'm going to contact him and he'll set me up in business for free." That's not the way it works, right? I want to make sure that we only connect you with the right people.

Ace: So, the ideal person is someone who understands that this is work, I mention a little bit about our process, as you can see it is work and so the truth is even if you're in a tough situation, we've helped people that have gone through bankruptcy and that kind of thing, if you're willing to make up for that with looking at a lot, you know you may have to look at 300 deals in order to close one.

The thing that I don't promote, and that I don't want to contact me are the get rich quick type of folks that think this is the new path to just instantly become a millionaire or that kind of thing, so as long as people are serious about buying a business and are willing to do the work involved with going out looking at deals, finding the right deals, getting a motivated seller. Right now there are just a lot of opportunities.

One of the things that I did want to mention is that we've got a tremendous number of, actually 2 million baby boomers that own businesses that are going to have to sell those businesses at some point or get rid of them or pass them down or whatever and a lot of them are having trouble finding buyers. And so especially, it's a little bit more of a competitive market when it comes to internet business but if you're able and interested to go into offline business, that's where a lot of opportunities are and what I tell people is the internet we're used to competing with other internet [??] and the cool thing when you get offline is that you're competing with people who have no clue. Like I mentioned, they've got a 14,000 person database, and they just don't use it. We're not going to find that a lot, so that's what the opportunity is, it depends on what your interests are as to how, what position you need to be in but a big part of it is being able to do the work.

Andrew: All right, Ace Chapman, thank you so much for being a part of this and for teaching us, everyone out there if you've got anything of value I always recommend that you contact the person who you heard and let them know by just saying thank you. I've seen incredible relationships built up here on Mixergy with people who said, "I got something of value out of this interview, I got something of value out of this course. I'm going to contact this person just to say thanks." And down the line, when it's time to build a relationship or do some business together they have that warmth that just starts with what I'm about to do right now which is saying, Ace, thank you so much for

teaching us.

Ace: Great to be on, man.

Andrew: You bet, thanks for being a part of it, bye everyone.