

Andrew: This session is about how to increase your company's value before selling it. It's lead by Thomas Smale. He is the founder of FE International which specializes in advising and brokering the sale of established websites and online businesses. So if you have a blog about max, for example, and you want to sell it, Thomas is the man to talk to. He focuses on companies that sell for 20,000 to \$2 million. I'm going to help facilitate. My name is Andrew Warner. I'm the founder of Mixergy.com who's about to go hoarse because all I do is interviewer entrepreneurs about how they built their businesses. In this case we are going to teach you what Thomas has learned from having brokered millions of dollars worth of sales.

I invited him here to talk about- ... frankly all the things that he wishes everyone who came to him did before they sold so that they can increase their value and allow him to sell their business for more money. Thomas, welcome.

Thomas: Hey Andrew, thanks so much for having me on.

Andrew: Thomas, before you started you told me that you had a client whose name you changed for the purpose of this conversation, who said hey I want to sell my business for seven figures. I liked to do a million plus dollars worth of sale of this business and you told him what?

Thomas: I said to him ... and this is a very common question people come to me with a certain number in mind. So I gave him some quite generic advice based on [inaudible 00:01:35] and some similar sites I had seen in the past. So I said to him, "I suggest you speak to your affiliate network and try and negotiate a slightly better affiliate commission.

Andrew: You gave us a ... sorry to interrupt what you are saying but here's the email you changed his name in this email. But this is what you sent to him. I'm sorry you're describing it?

Thomas: Yes, so I was saying in ... speak to your affiliate manager and get a better rate on the CPA deal he is getting with his network was quite a quick win. Generally working on increasing conversions on a site to extract maximum value. So one of the things he did, for example, is added a video for the sales page to help increase signups. Another thing he was doing he wasn't placing content very regularly. So I just said to him increase the regularity of the content you're posting, gets you more exposure in search engines, encourages users to come back and from a buyer prospective it generally shows the business has kind of been well loved and looked after so that's a good sign.

Andrew: So I get what you are saying here. You're saying, "Look I know you want to do

this for seven figures, but you're just not there. I want to be honest with you but I also want to tell you that the changes that I want you to make won't take years and years. They will have dramatic impact quickly, and you gave him some advice some of which we'll talk about. But it seems like advice that you give any entrepreneur. What's the difference between someone who's coming to sell and someone who's just looking to improve their business? What is the difference in the advice?

Thomas: I think a lot of the points are the same so you can grow your business with the majority of the points we are probably going to discuss. There are some points in there that are essential to if you want to sell a business. But aren't necessarily going to make your life easier on a day to day basis. In fact, some might make your life more difficult. But the majority of the points ... I mean, ultimately my aim is to help someone maximize the value for their business. So whether they are looking to sell or not, the advice should still apply.

Andrew: All right, fair point. So even if the sale doesn't go thorough, they've improved their business and, of course, what you're trying to do is not to look to add some window dressing here you're talking about sound business advice that would work at any stage in a business. Some of it is especially important to talk about with people who want to sell. All right, so you did give him ... let me look at this email again. This is the email that you sent him. You said, "No, I can't do the number that you're looking for, here's some tips to improve." As a result of him taking this advice ... and by the way people don't need to exactly read it, I just want to show you the email comments. Thomas, you did a great job of explaining what you told him. He took your advice. What happened?

Thomas: So this thing was back in June, 2013. [inaudible 00:04:26] run by couple of young guys and unlike a lot of people ... I speak to a lot of different clients. I always try and give easy advice, the quick wins. I don't want to make someone's life extremely difficult. I want to give [inaudible 00: 04:42] that's simple to implement and well quite easy to add value. So in this case they went away, listened to me and they came back about a year later. So some time in the middle of 2014 and their business, we have it listed at the moment. It did \$110,000 last month [inaudible 00:05:02] ...

Andrew: Is this your listing of your business? This is it?

Thomas: Yeah, that's the one.

Andrew: So now he actually is ... he's got yearly revenue of about \$1.2 million. He's got asking price. Not just of a million but 2.7 million and nice profit too, 1.2 almost. Wait, so revenue and profit are almost exactly the same 1.2?

Thomas: Yeah, it's a content site and it's very much owner runs those partners who do the majority of the work [inaudible 00:05:36]

Andrew: Meaning, like a blog, a WordPress site.

Thomas: Yeah, exactly. It's built on WordPress so it's a very lean model. I think a lot of people look at it with a similar skepticism that you did but we find the vast majority of online businesses we sell [inaudible 00:05:51]. So it's not currently on common set business making that sort of revenue with low cost.

Andrew: Cool. Go figure. I had no idea that you can do that well and if you are the guy to talk to when it comes to selling it I was looking online actually before we started. I want to get into the big points here. We have a big board of techniques that we're going to be talking about. But before that you and I were talking about this. This is a Flippa account. It's actually pretty interesting that you had 40 transactions on Flippa totaling \$1.4 million. That means on Flippa you sold 40 companies total sale price combined of \$1.4 million. Is this all that sales that you have? Is this where you sell on Flippa?

Thomas: No, so back when I started the business in 2010 Flippa was [inaudible 00:06:41] so to speak and continued ... I was selling mine on Flippa which I started out doing. I eventually got into brokering and the majority of the sites I sold in 2011 and 2012 were on Flippa but since then 2013 I barely sold anything on Flippa, 2014 and 2015. I don't think I've really logged into my account. The vast majority of clients we have now we've built out of reputation kind of a standalone reputation. Got our own list of buyers [inaudible 00:07:15] --

Andrew: People buy and sell directly through you not through Flippa. What are your sales now? What were your sales, say, 2014?

Thomas: Twenty fourteen we did about eight million in transactions on behalf of clients.

Andrew: And ordinarily that's what you do. You work to help a customer and not improve their business in time for a sale even though that's what's we are going to be talking about today. You will actually go out there and find a client for your customer. Your incentive is to maximize the sale price and what's your commission?

Thomas: Yes, so the commission varies between 10 and 15% depends on size of the business. So a \$50,000 business would be 15%, a million dollar business would be 10%.

Andrew: Okay, so if I were to do a quick back of the envelope calculation, last year your

money the money that you got as a result of all those sales is roughly a million dollars.

Thomas: Yeah, just over that number yeah.

Andrew: Right, impressive especially since you still broker companies that sell for 10s of thousands of dollars and, of course, as you told me before we started up to two million in sales. All right, up to two million in sale value of the business itself. All right, let's go to the big board here. Let's not mess around. Let's start with the first big idea that we are going to talk about which is. You say this is something that every entrepreneur needs to know about before they sell it's to keep more accurate accounts. Can you describe for me what is the typical entrepreneur's accounts. What do they look like when they come to you?

Thomas: Yeah, I'd say, to be honest, I don't really look like anything most entrepreneurs especially online because they are quite a [inaudible 00:08:44] you find a lot of my clients are quite young. So generally in their 20s or 30s might not have run a business before. So generally speaking their accounts they come up with are not very accurate at all, or they just don't even exist. So I would say, at least, 50% of the time I'm providing them with templates to fill out. As you go up the value chain slightly bigger businesses and older business owners do tend to keep better accounts, but I would say the vast majority of people I deal with have extremely messy accounts or they don't they [inaudible 00:09:18] that's assuming they keep them at all.

Andrew: You told Ann Marie Ward who produced this session that you had a client who came to you who wanted to sell their business and I think they didn't even have a bookkeeper. What did you see and what did you say to that client when they came to you?

Thomas: Yes, so what I saw was a lot of messy numbers that didn't really add up to anything from an owner's perspective, assuming you get it past the tax man. Having messy numbers is really a major problem on day to day basis. A lot of people just get the end of the year, send the numbers to their accountant and then pay whatever taxes they have left over. But from a buyer perspective if you don't have accounts that are accurate, then they are not going to be interested.

Andrew: What's the difference between a buyer wants to see and what the IRS wants to see or what you need to prepare for the IRS once a year?

Thomas: Yeah, I think one of the key differences between what would be on your tax return and what we present to clients. So the key difference is on your tax return assuming you have an LLC or an Inc. or whatever you'd have your net profit of the

business, and generally as your accountant draw up an obligation to get your net numbers low as possible to reduce your tax liability. From a broker perspective it's our job to do the complete opposite, and show a company make as much as possible. So what business brokers use especially if you're dealing in the [inaudible 00:10:45] million range is a figure called seller discretionary earnings. You might see seller discretionary income or cash flow but that's effectively the net profit of the business. And then you add back anything that's discretionary to the owner. So you might find health insurance, car, any owner drawings or salary. I guess how they [inaudible 00:11:07] the business so you effectively get a like for like comparison of the business. Where let's say both to get two businesses both made \$10,000 in profit to the IRS but one owner paid themselves \$50,000 and another owner paid themselves \$150,000. When you do that active is got different value which is why we sell it on seller discretionary earning.

Andrew: That's fairly simple. Well that's fairly easy to undo. You go through and you say which of this expenses are really paying myself in a way that the government allows me to. Yeah, they said I can write off my car so I wrote off my car, but the new owners may not even care about a car. That's fairly easy. What about the rest of the income statement that we need to keep organized properly. My hunch is that I know the IRS doesn't care whether I spend money on SEO or Facebook ads or Google ads, but a new buyer might want that broken down. Is that the kind of thing you are talking about? More detailed expense reporting?

Thomas: Yes, that's another thing you find a lot of people especially if they use an accounting program like QuickBooks or Fresh Books, anything along those lines. They tend to lump a lot of expenses into one category. So you might have marketing, for example, is someone spending \$5000 a month for marketing. A buyer would want to know is that an employee ... a multi employee you are paying \$5000 a month. What are you spending \$4000 a month on AdWords and \$1000 a month on Facebook ads. So from what you might present on your tax return it might be quite generic is just like the cumulative number for the whole year. But from a buyer perspective they want to see the numbers on a monthly basis which is another key difference and they also want to breakdown the expenses that are relevant to the business.

Andrew: I see, okay and you know what? And I guess on a extreme even though I can't imagine running a business this way. I can see somebody saying, "I operate my business on a cash basis not accrual basis. That means, I will take all the money that came in from whatever account I have strive[SP], PayPal etc. [inaudible 00:13:14] and I'll see how much money is left, put it all in the bank, and see how much money is left at the end of the year and the difference will be my expenses and that's what I'll use to figure out how much money I made and report to the IRS. That's kind of an extreme case. It's a little even hard for me to describe but it makes sense to, say, maybe I think

what the government is saying here is all the money that came in, here's how much I left, the rest must be expenses.

Thomas: Yeah, that's quite common especially with younger clients who have college, for example. I know when I started out I didn't have a clue about accounting or bookkeeping. So I probably fell for the same traps. I think a lot of especially younger clients have the same issues. A lot of people they are not numbers people, they are not accountants, they are not bookkeepers. They generally just forward the information to their accountant once a quarter or once a year and pay what's left.

Andrew: Okay, right. On to the big board. Let's go and take a look at the second big point that we are going to talk about which is to increase content posting frequency. That means post more often. What is this chart?

Thomas: So this is another interesting one. It shows the net profit of a business over a period of time. So the x axis is months and this is the business where I spoke to a client ... one of the reasons a lot of our clients come to sell. They don't have time for business, they are no longer interested, they have another project. Just very common to see sites where especially if it is a blog where I know it might only post so once a month, once a week, once every six months. In this case the client was ... and [inaudible 00:14:58] and quite a popular bloke, he was only posting once a week. My advice to him was go away and post more often. Content especially if you've got a reliable writer is generally quite cost effective and affordable.

In this case he had an outsource team of writers so an article wasn't costing him much money. I think he was paying \$30 an article, \$40 an article. The advice is literally simple as instead of posting once a week, post an article every single day. And see what sort of compounding effect that has on income, and we can see very early on he was making under a \$1000 a month then in income and after posting daily for six months now it's got to the level where it's \$6000 a month. So it seems very simple but I like to provide advice to people that is simple, easy to follow, easy to execute. Quite often it's literally just a case of post more often you will get more traffic, you'll pick up more regular return in business and it'll keep you happy.

Andrew: And I get how it is when often when we are ready to sell the business is at that point where we're just done with it, we're ready to move on and that's why people don't post as often. That's why they don't pay attention to those kinds of details. You're saying pay attention to it. If you're about to sell, pay attention, get back to it, publish more often and as a result you'll see often that your business revenues will grow. And then you'll be able to do right. You know what's interesting is a lot of the advice you are going to give is what people I have interviewed have said they did after buying a company. They'll

buy a company and then they will start posting more often. They'll buy a company and then they will start to work on the conversion rates. They will start to negotiate little things. As a result of making this small tweaks, they get all the up side. You're saying as a seller get the upside.

All right, let's go then to the big board again and take a look what the next ... here we go. Actually I'll highlight it right now. Improve your site's conversion rates and let me take a look here at my notes on that. Actually I'm going to show your website and show how you did it. This is one way that you did it. I don't know if people can see, but I'm just kind of clicking this box up and down. It says download your free guide to buying an online business. This is Drip, right? Get Drip.

Thomas: Yeah, get Drip.

Andrew: Created by one of our past interviewees on here on mixergy. What did you do? And how did it impact your business?

Thomas: Yes, I must admit I give clients a lot of advice and often I find myself not following the advice I gave to the client. So this is only quite recently increasing conversion rate is quite generic general advice. So everyone says it sounds quite cliché but in reality it can be quite easy to do. And increasing conversion rates can relate to anything. So it could be getting increase in the conversion rate of people clicking on a button, increasing the conversion rate of people signing up to your email list. Increasing the number of people who [inaudible 00:18:08]. It can be all sorts of things. It's quite all encompassing wide advice and in this particularly case we had been collecting email addresses on our website for three or four years but we only have a small opt-in box at the very top of the ...

Andrew: The one that says join our business network right at the top.

Thomas: Yeah, it's in the top right and it converted reasonably well. We get relatively targeted traffic. People want to buy the sites they come across but didn't convert particularly well at all. So we added get Drip plug-in, created an eBook [inaudible 00:18:49] website which is very relevant to what we do. The vast majority of people that come to our site want to read that content. We added the plug-in and it made a significant difference to subscribers. I think within a month we had seen about 150% increase in signups versus the previous month. So quite a significant difference is quite an easy thing to do effectively in this case we were turning a low conversion rate into a more normal conversion rate but it always surprises me how people don't even bother collecting email addresses. It's very easy to [inaudible 00:19:26]. They don't test the color of buttons, they don't test different price points, they are all sorts of things you can

test.

Andrew: And you are saying start doing that before the seller does it. You want as much to the upside as you possibly can get.

Thomas: Yeah, absolutely. If you had a value of a subscriber, say, one dollar per subscriber and you could double the number of subscribers you're getting on a daily basis. Then you've effectively doubled the value of the business if you look at that very simple way. And if you are a buyer of the site, you're generally looking for sites where these kind of things haven't been exploited. You can go in there and you know you can triple the number of sign ups and email list that's revenue generating. Then that business becomes a little bit of a no brainer to you and that's a pretty good reason to buy it. But from a seller perspective I'd say on [inaudible 00:20:19] I want the seller to sell for as much as possible so I'm always pushing people to go for easy wins.

Andrew: Yeah, the more they sell for the higher your 10 or 15% is.

Thomas: [inaudible 00:20:31].

Andrew: Cool, all right. Back to the big board. The next thing you say is interact more often with your email subscribers. What's this chart? Let me bring up the chart, there is it. What is this chart?

Thomas: Yes, this is an analytics account and it shows a one year difference. So the orange line is a one month period into [inaudible 00:20:54] just over a one month period in 2013. And then ... sorry, 2014 and then you got the exact same period 2015 and you can see that's the blue line which is higher, and basically the only variable in that time period was email mailing list more often. We come across a lot clients who do have a mailing list and they never email them. It's a very common thing people come along and they say "Hey Thomas, I haven't emailed to anyone for a year." The more you find if you do start emailing people you can see this spikes almost on a weekly basis where the number is slightly higher than the average. Where the emails are going out and you just find over a course of doing that for 12 months the effects of emailing have just compounded. People just naturally come back more, often more people linked to you. More people talk about you, more people recommend you.

So it's one of those things that can take a little bit of a while to build up momentum but over time it's very sustainable from a buyer perspective. Buyers are looking for sustainable businesses. So doing things like emailing more often it's really not very difficult. It takes five minutes to send an email to a list once a week, or you can even just set up a auto responder and just even an hour of work well in advance of the sale can

make quite a big difference versus not emailing at all. Which is more common than I think a lot of people would think.

Andrew: Hey Thomas, what's the multiple on profits? I guess there's a multiple on profits right? That used to sell a blog. What's the multiple on profits for a blog?

Thomas: Yes, we do sell a discretionary earnings not profit but for the purpose of most blogs it's usually the same number.

Andrew: How much money can the seller if he wanted to take and put in his own pocket or use to buy stuff that the seller likes. So it's multiple of that which to me means essentially profit.

Thomas: The multiples vary but the majority of sites we sell in the two to three times' annual range. Some will be higher, some will be lower, and a lot of businesses we look at value and will be worth significantly lower than that but the average sell we have is somewhere between two to three times.

Andrew: Two to three times, so the buyer is thinking either I can actually ... do buyers except to keep the profits the same and earn back their money over two or three years, or are they thinking we can increase the profits dramatically using our bigger mailing list or something else.

Thomas: Yeah, it really depends on the buyers. We have a real range. You might have a first time buyer who might come from a off line background. They might have a background, say, in real estate investing and they know less they buy a website that's three times earnings, hire someone to run it because they don't know what they are doing. They might quite usually get a 25% annual return not really having to do everything and then you get buyers who are very much gross[SP]buyers and they're [inaudible 00:23:55] buying a site if they can triple or quadruple that. So we get a range. I'll say it makes people who buy a site just to run it as it is. Which is why it's important to make sustainable changes versus clients who buy a site and try and grow it aggressively With generally speaking some of the ideas I've gone over here, and when we sell a website to someone I'll pass on exactly the same advice I would to a client who is looking to sell. Because again it's in my best interest for them to do well with the business, grow the business, and hopefully come back and sell it with us two or three years down the line.

Andrew: Right back to the big board, next big point is cut down on unnecessary expenditures. So you actually had a client who had ... I'm trying to think of a way to put a camera on you or not. I see that you're scratching around. I don't know if I want to put

the camera on you just you're doing it. Is it awkward for me to point that out?

Thomas: No, it's fine. Sorry, I get distracted if I see [inedible 00:24:55]--

Andrew: Don't worry. I do the exact same thing if sometimes I show the screen for a little bit longer it's often because I need to hit the mute button and sneeze or blow my nose or something weird. Actually nothing weirder than that. Let's go back to ... actually I think it's a little weird that I brought that up, don't you?

Thomas: A little bit. I'm kind of used to it.

Andrew: You're used to more ...

Thomas: [inaudible 00:25:20] you moved the screen and I assumed that's what I thought you were looking at. I didn't realize you were looking at me and I tend to be quite fidgety [inaudible 00:25:19]--

Andrew: I see that.

Thomas: [inaudible 00:25:30]

Andrew: You know what? In researching I saw you are doing a lot of interviews. I feel like with all the interviews that you do and all the on camera appearances I feel you are comfortable on camera but I'd like to see you get better lighting.

Thomas: Yeah, I think it's definitely our office. We've only been there ... We keep upgrading, we keep growing and hiring so we keep upgrading the office and one this light sensors ... I must admit most interviews I do tend to just do podcast and then [inaudible 00:25:55].

Andrew: Used to audio?

Thomas: Yeah, the camera I haven't gone on camera for a couple of years now I think but it [inaudible 00:26:03] I need to get a good setup.

Andrew: I get it. I would do audio if I were you too not because of lack of video but because you got that accent. Where are you from? That's a great accent.

Thomas: London.

Andrew: London, yeah, that to me says that's the guy who's going to manage my money

right. That's a guy who can communicate prestige.

Thomas: Yeah, it's amazing how many people perceive Brits as trustworthy.

Andrew: Yes.

Thomas: It's obviously true but it's definitely a perception thing. I speak to a lot of clients who go "You're a Brit, you must be honest." You probably make stupid sarcastic jokes and you might sneeze on camera.

Andrew: I remember when I worked on Wall Street as an intern in college, there was some guy who clearly was not British, but he practiced the British accent just so that he could communicate the trust that he knew people associated with that British accent and I think eventually he was caught for doing something illegal. It became a big national story. I forget the guy's name.

Thomas: [inaudible 00:27:03]

Andrew: No, no, you got a real accent but I always thought a lot of the stuff that guy did was kind of weird but that is a smart idea. Take on the accent, imagine if I had that accent. Alk right back to business here instead of me talking about the more superficial stuff. You had a guy who worked with you or who's a client of yours who had a full time customer support person. What's up with that? What's wrong with that?

Thomas: So what we intend to find is a lot of clients who came to me may have a successful business in the past, but due to neglect or lack of time or lack of skill the business might have declined. So this particular business, one that I was doing really well, the owner had hired a full time customer service rep. Which was required and needed for the 45 hours a week which was great. She was paying him a full time salary. But over time as the business declined, revenue kept going down but the cost stayed the same. He continued to pay the same person full time the same amount of money but for less and less hours. There was less revenue, less customers call to deal with, less problems, less sales.

So what I found when looked to the business from a slightly more critical and objective perspective is that he was paying \$2500 a month for someone to work effectively 20 hours a week. So it's very hard for people often to negotiate with staff who have been with them for a while but when you explain the difference in value between paying two and a half thousand dollars a month and cutting that in half to reflect the actual amount of work. So that done so it's 1250 he ended up doing. That's quite significant up lift in value and from the worker's perspective they are only working 20 hours a week anyway.

So it's quite a fair deal. It's not like I would advise clients to give everyone a pay cut just before selling, this is a justifiable decrease based on a 50% decrease in workload, yeah.

Andrew: Yeah, let's take a look at how that played out. Where is that? There it is. Here are the expenses so you see ... This guy had decent expenses \$371 in refunds a month, \$7 in charge backs in his first month. Those all numbers tend to stay fairly consistent same with customer support 2500 and overall expenses were roughly \$3000 a month. Let me see. Suddenly all those expenses dropped. Suddenly the expenses for the customer support person gets cut half and as a result overall expenses go from anywhere from 2500 to roughly 3000 a month to only 1400 a month, 1500 a month. That's significant. Great, all right and on a bigger level, of course, that kind of change will have a lot more impact. So you're saying, look at your expenses and start cutting out the things that aren't necessary. That's what the buyer is going to do anyway.

Thomas: Yeah, exactly. They also do it in a sensible way. I think a lot of people try and get rid of costs that are actually necessary. So, for example, they might stop emailing or stop adding new content. That's not what you should be doing but you should definitely look to optimize things that are in place. If someone is working too many hours or if you are paying too much for say if you're on hosting server and you're paying \$500 a month, but you can get for \$50 a month elsewhere. Then move it now because if not a buyer is just going to do that and they can extract all the value that you've left on the table.

Andrew: Back to the big board and next you say negotiate better deals with third parties. We're talking about suppliers, ads networks, everybody. One of your clients had a deal with an affiliate program that's pretty common in this space. Every time this client of yours referred one of his users to a web hosting company and that user signed up for the web hosting company, your client got 75 bucks. Seventy-five dollar payout for hosting is pretty standard. You talked to them and as a result what happened?

Thomas: [inaudible 00:31:18] more background when you find a lot of people ... still a lot of people do affiliate sales with various networks, but very few people ever try and negotiate. They'll never ask. Most affiliate networks can pay you more especially if you send them qualified leads or good sales on a regular basis. So in this case this guy had been consistently sending sales at \$75 a sign up which like you say is common in the hosting space. It's usually quite a good starting point but he'd never ask for more money. He'd been quite consistently. He'd send them sales for over a year, good quality traffic. He wasn't doing anything funny. It was all good genuine traffic and all he had to do was ask. Ask the affiliate manager, "Hey, I have been sending you traffic for a while now and sales. I've spoken to some other networks that can pay me more money for a similar sort of volume. So can you increase my rate to \$150 a month" which is what he

[inaudible 00:32:17]--

Andrew: Let's see if we can bring up their response. Actually that's an old chart. I want to bring up just this, here is that person's email. Like you said, I have been running traffic to you for around a year now and I was wondering if you could increase my CPA above 75 bucks perhaps double that. I have been talking to other networks that can pay more but I value our relationship. And the response that he got back was your leads have been solid so far so we are happy to do that so you are now set up to get \$150 CPA going forward, look forward to continue our relationship. So this is a little tiny different people see on the screen that's why I read it for them. But that's what you're saying to do. Look around, see who you can negotiate with and then just start negotiating.

Thomas: Yeah, just ask. I think all you need to do. A lot of people say, "Hey Thomas, what's the trick in negotiating?" But what you find it's the difference between not doing anything and just asking. If they say no, it's not a problem. You can move on to the next one. But in my experience if you have been a consistent customer for a long time, the vast majority will have some movement.

Andrew: Right and now our final point. This one is especially relevant when people are selling their business. You're saying build a team and have the team members sign contracts. What kind of contracts?

Thomas: Yes, so I think it depends on the kind of employees you have if they're have genuine employees then have them sign employment contracts. If they are freelancers, have them sign freelance agreements but generally related to that specific business that they are working for. So it's quiet common. Similar to not keeping accounts. There are a lot of people who hire freelancers. You might have been with them for, say, three, four, maybe eight years. They have been working forever but they got nothing in writing. Which is fine for the person who is running the perspective because they have known that employee or freelancer for a number of years. They turn up every day, they are loyal, they get paid, kind of on a hand shake agreement.

From a buyer perspective that's quite a big risk. They don't have that existing relationship. They don't know who the freelancer is, they don't know they are going to stick around. So if you are ever thinking of selling a business, it's important to get people to sign contracts. It doesn't necessarily need to be anything overly official or strenuous on the freelancer employee. But generally speaking stating what hours they work. Stating what company they work for, stating how much they get paid. Just so you document the whole process and it adds up peace of mind to a buyer that the freelancer or employee is going to hang around for your sale which is also important that you quite

often a team can make or break a business.

Andrew: You told us in the pre-interview you did with April Dykman, I think, that you had a client, I'm looking at notes here, with the business listed for a quarter million dollars. The business had three employees none of them had contracts in place. Buyers found that very risky and worried the employees will leave. The best offer as a result was \$170,000. So then the owner went away, got employees to sign formal contracts which assured the buyer and it led to the full asking price. I see how that's a winner from doing it but what about buyers who are buying not because they want to keep the team on. But because they have their own team. They want to just take the asset and have their team run it without adding more expenses, in fact, reducing expenses of having existing team in place. By signing contracts aren't you preventing them from doing that?

Thomas: Yeah, generally speaking I would say the vast majority of the time the buyers choose to keep on the existing team. Generally speaking for, at least, six months. It is quite rare for a buyer to come in and have a complete shake up very early on. Especially if you've got freelancers or employees who are quite key to the business. So you're correct in that a lot of buyers do look it in that way and a lot of sellers think that's what might happen. But generally speaking if you've got loyal staff who've been around for a while then it shouldn't be a problem., And generally speaking most freelancer contracts have break clauses in them. Maybe like two months or three months so it's rarely going to work against you having formal agreements in place. In my experience 90%, at least, 90% of buyers will keep the existing team on beyond the sale.

Andrew: I see. I would never expected that. I mean, at the number that we are talking about here. When we are talking about a sale for quarter million dollars, then it seems like the asset is more important than the people but you are saying you're finding that it's a people too.

Thomas: It really depends. Some businesses might not have any employees so the point is irrelevant. In other cases they might have five freelancers in the Philippines who work on the business, have been for years and they basically do all the work. So in that case it's slightly more critical to the process. So it really depends on the business.

Everything's

different but generally speaking if you do have people working for you, get them to sign something.

Andrew: All right, thanks for talking about how you do this and teaching us what we can do to prepare our business for sale. Your company is called ... and what you do is you sell businesses. Your company is called FE International. You changed the name. What was it before?

Thomas: It used to be called [inaudible 00:37:40] but we went to a slightly more formal name kind of more in keeping with the kind of businesses that we sell now [inaudible 00:37:52]--

Andrew: Which is ... Basically it sounds like that is connected to Flippa. You're saying if you're thinking Flippa, if you're thinking about buying company and quickly flipping it and selling it we're the company and now it's no longer about that.

Thomas: Yeah, 2010 that was what the company was about basically buying, selling, flipping websites, but four years on we're now a full service brokerage firm. We don't flip sites anymore. So the name was no longer in keeping but anything else is still the same company just different name.

Andrew: Same company, same people, the site is FEinternational.com My guess is a good person to follow up with you is someone who has a business that's doing consistent revenue. What's minimum revenue and profit that you like to talk them with?

Thomas: Yes, generally speaking anything over \$10,000 a year, sometimes smaller than that \$5000 a year.

Andrew: Even someone who is making \$5000 a year you could sell the business?

Thomas: Yeah, we are funny. At the moment businesses making \$5000 a year or selling for \$15,000. We've got quite good over the years we've built quite a processes. I've got a good team in place. So we're quite efficient in sales. We can get them through in a way it is profitable for us but a lot of other companies in the space can't get those through in an efficient way to justify it.

Andrew: Yeah, because it does require a lot of work to sell a company. All right, feinternational.com. Thomas, thank you so much for coming in here and talking about this and teaching us.

Thomas: Thanks, Andrew. Appreciate having me on.

Andrew: Great. Thank you all for being a part of it. Bye everyone.