Marla DiCarlo:

That's the other thing that's very important. They need to know they need to do a stress test to make sure that the money that they're going to take at closing, what money they're going to put it in their pocket, is going to achieve the financial objectives that they thought they would.

Elizabeth M.:

Hello. This is Elizabeth Mower, president of BEI.

John Brown:

And I'm John Brown, the founder of BEI.

Elizabeth M.:

Each episode, we take you into the world of exit planning. Sharing the stories, struggles, and opportunities of business owners and their advisors. We'll get into this episode's conversation right after this.

Jared Johnson:

Gain the inside knowledge the thousands of business owners and their advisors have used to plan for the future. The BEI membership equips you with the proven process that enables owners to exit their business on their terms. Receive access to case studies, podcasts, like the one you're listening to now, a resource toolkit and so much more. Cement your position as the trusted advisor to your most successful clients. Get started today by visiting exitplanning.com forward slash membership. That's exitplanning.com forward slash membership.

John Brown:

And it's my pleasure today, my true pleasure to talk with Marla DiCarlo, who works with a lot of our BEI members throughout the country. Marla is a co-owner of an organization called Raincatcher and Marla, why don't you explain what Raincatcher is and what you do?

Marla DiCarlo:

Yes, so we are business brokers. We help sellers to sell their companies, and I'm always looking for opportunities to help business owners to maximize value as well.

John Brown:

But you didn't start life out as a business broker. You've got kind of an interesting path to get you to where you're at today. So tell us a little bit about your earlier days and what actually got you motivated to become a business broker?

Marla DiCarlo:

Sure. So well, I come from an entrepreneur family, I guess. They are entrepreneurial family. They had small businesses when I was growing up and I saw the challenges that they faced at 10. I was working in a pet shop, selling to customers and-

John Brown:

Well that must have been fun for a ten-year-old?

Marla DiCarlo:

It was. It's where I learned my sales skills. And I saw the challenges that my mom and dad went through. And so I've always kind of had a heart for helping the small business owner. I'm an accountant. And my path led me into mergers and acquisition. We had a 500 million portfolio to invest in companies. My job was to fly out, perform due diligence, figure out if we could help them. Really, we were doing exit planning and it was then that I realized for the first time how underserved small business owners are. I think of this one company, when I went to meet with them, it was a family trucking company and the father handed it down to the son, 60 years plus, and they couldn't figure out why they were losing money and they thought they were doing something wrong. So I came in and I'm looking at their financials and I'm getting to know their processes-

John Brown:

And this is when you were an accountant still. You're not a business broker yet.

Marla DiCarlo:

Correct. I was an accountant, but I was working for a mergers and acquisition company. And what I did is I performed due diligence on companies. And then we would figure out if they met the portfolio. So I was going over financials with the owner and it was very obvious that there were cost of sales that had not been included. And so their gross profit margin was off. And he thought he had been operating, let's say it was a 60%. I forget the numbers now, but it was a 35%. And the reason why is, he paid attention to his numbers, but he had the wrong numbers. He had a bookkeeper that did his accounting and he didn't have someone high level helping him to look at his financials. And by the time we found this, this has been going on. He had added this new service offering to his business that had been going on for two years.

Marla DiCarlo:

And it was just too late. I mean, there was nothing I could do to help him to rebound in cashflow. I mean, basically we recommended that he just liquidate his business. And I walked away from that, and I can remember sitting on the plane and I'm just thinking about the conversations that I just had. And I thought that stinks, I mean that's horrible. That can never happen again. And it happens often.

John Brown:

Yeah. I think that's almost the normal rock because owners just don't think of the availability of help that is available, that you could have helped them with. And they just don't know what they don't know.

Marla DiCarlo:

That's right.

John Brown:

He knew the trucking business, he didn't know accounting or finances.

Marla DiCarlo:

That's right. And no one had ever stopped to say, well, let's really dig in and let's figure out what's going on. And so I left that company and that's where I had the idea of creating my fractional CFO company, because I thought I can fix this. I can level the playing field for a business owner by helping them to fall in love with their numbers and understanding their numbers and then making sure they have accurate numbers. So that was really important. That's where my love for small business came into play.

John Brown:

So how did you get from there to Raincatcher?

Marla DiCarlo:

So I had the CFO company for, I guess it was about six years and loved what I did, but it was a lot of work. Really, what I did is I learned a lot of lessons from it. I grew it too fast, a lot of the things that we talk to small business owners about today. So I sold my company to a national company. And then that led me to Raincatcher. I was the CFO for Robert Hirsch, who was the founder of Raincatcher and he invited me in because he needed somebody with strong operational and sales skills and that's me.

Marla DiCarlo:

So I love what I do. I tell people all the time that I knew Kaizen was important and it helped me to grow. And it helped me to really... I mean, I've worked with probably well over 500 business owners in my career. And it's really helped me to look at things through a lens that I don't know that everybody gets the opportunity, to have those experiences, which I've then been able to incorporate that into how we help small business owners to prepare for that once in a lifetime event.

John Brown:

So talk a little bit about what a business broker does. But you have a different spin on that as well. So I think most of us have an idea of what a business broker is. They sell your business and they receive a commission for selling it. But what does that process look like first of all? And then what do you do that's more helpful I think, and maybe different than the average business broker?

Marla DiCarlo:

Yeah. So the process is that a business owner decides that they want to sell. And there could be a variety of reasons why, right? Which is part of the problem. If we can educate them earlier, it's better, but they decide they want to sell, they come to us, we sign an agency agreement, they pay us a success fee on the gross purchase price of whatever it is we sell their business for. We market their business. We answer buyer questions, we negotiate couple of different agreements, letter of intent, all the way to an APA or an SPA, a purchase agreement, stock or asset. And then we help them with that final transition of closing their business. And that all sounds so easy right? I think I just simplified it.

John Brown:

I think you did. I am sure you did.

Marla DiCarlo:

But it's a very complicated process, especially if you've never been through a process like that. And for most small business owners, in my opinion below, let's say 20, 25 million in enterprise value, this is probably the first time that they're selling a business. And they don't know what they don't know. And so our job is to be able to help them through that and where Raincatcher is different than our competitors is, we do not take it lightly that business owners put blood, sweat, and tears into growing their business. That's not just a cliché statement for us. And we want to make sure that they have an opportunity to maximize the full value before they sell their business. A lot of business owners will come to us and maybe they have been preparing for a couple of years to sell and they think they're ready. And so they come to us and unless they've already talked to a broker in the past, or they had a CPA that really rolled up their sleeves and gave him a good valuation, oftentimes there's a valuation gap.

John Brown:

Yes. And I know which direction that goes in. They think their business is more valuable than it is.

Marla DiCarlo:

Yes. And so we're the lovely group, right? The first person that's telling them that their business is not worth what they thought it was. And that could be really frustrating. Especially for a business owner that is maybe waited too long and they're just quite frankly done. And so we're having to come to them and tell them, "Okay, you have a great business, you should be proud of what you've built, but there are some things that you still need to work on in order to attract a full purchase price and deal terms." Right? So we talked about that in the past, where I can get someone $5 million for their business if that's maximum value, but what if I only bring them 25% in cash? That's not such a great deal.

John Brown:

Yeah. And I think that's something owners really don't realize, and probably a lot of advisors. Today because buyers, I think in part are forced to pay more money than in the past, there's just more competition among buyers for good businesses. They're covering their downside because they're putting up more of their own money by having earn-outs, by having promissory note, carrybacks by the seller. So you probably seeing that a lot. Are you able to negotiate more favorable terms usually?

Marla DiCarlo:

If they put the work in ahead of time. Every once in a while we get lucky and I will say, it's luck. If a buyer, I'm sorry, if a seller doesn't know about the attributes or the drivers that are important, what a buyer looks for when they're purchasing a business and they haven't worked with an advisor to make sure, I call it buttoned up, another word would be turnkey. That they're truly good, that they've worked on those areas, owner dependency, customer concentration, documenting processes. I mean, there's really eight that come to mind. And if they haven't done that, then more than likely even if we can take them to the market for the full purchase price that they would like to receive, we may not get multiple bidders. And that's the key. That's what the key is and when you're selling your business is getting those multiple buyers.

John Brown:

The leverage shifts right?

Marla DiCarlo:

Correct. Because then we're able to use that to our advantage. We call it buyer tension, to be able to negotiate favorable terms. The other thing that I see oftentimes too, is that the seller has an opportunity to choose who they want to buy their business, who they want that legacy to continue with.

John Brown:

How large does a business need to be before you're going to see multiple bidders? I mean, it's not a small mom and pop store that's going to do that. It's going to be a store or a company with significant cash flow I would think.

Marla DiCarlo:

Yeah. I mean, typically in our end, what we see is we see those that are 3 million in revenue plus, having more opportunity for multiple bitters. You're right. When you're below that, when you're in the main street or maybe the lower end of the lower middle market, it's usually going to be an individual buyer. Someone that is a competitor or someone that is looking to expand locally. Normally those groups are going to be the mom and pops that we shop at locally in our area. So it makes a difference. Yeah. The revenue size definitely plays a part in that negotiation process as well.

John Brown:

So I know actually, Marla spoke at one of our training sessions for advisors about two weeks ago or so, we call them boot camps. And it was interesting how our training to help owners develop value, to develop the value drivers, a great management team, the other value drivers you're talking about, really fits in nicely with your approach to selling a business. Because you mentioned at the time, a couple of weeks ago, that you don't want to take a business to market unless the owner can achieve her objectives and goals in their process. And so do you actually work on value development personally or do you look to the outside to the BEI advisors and so on who do that?

Marla DiCarlo:

Yeah, we actually work with BEI advisors. We believe that we are good at one thing, and that is selling businesses. That's what we do well. And so we like to partner with like-minded individuals who speak our same language, which is why we're also BEI member and work with them because we know there's a lot of advisors out there that maybe shouldn't be advising. They do not have the training, maybe they get involved in areas that they really don't have the experience or the background to advise. And so one of the things I really like about your program and BEI is that you walk them through how to do that and the tool that they can use.

John Brown:

Sure. Another thing that you provided at the bootcamp that I'd like to make available to the listeners is you have a single page, maybe it's on both sides, 10 questions to ask business brokers when you're interviewing them to see if you want them to represent you in the sale of your business. And we talked about that at the bootcamp. It's really a valuable resource for your owners out there or advisors who are working with owners who are thinking of someday selling their business and using a business broker, or maybe even an investment banker, it's a good resource for all of us to use. So thanks for making that available. That'll be a lot of fun. So tell us about another client that you started representing.

Marla DiCarlo:

Yeah. So gosh, we have so many different stories, right? I mean, it's hard to choose one. Great stories actually, and then not so great. There's a lot of emotions that go into selling a small business. So the one that comes to mind is actually an HOA company that we sold here in Colorado. And why that comes to mind is because the owners that own the company, really sophisticated seasoned professionals. I mean, they've got the education, they have the background, they put a lot of work into people, process and systems and getting their company prepared to sell. But they thought they had another five years. And unfortunately, a life event for one of the owners changed that. And so they're finding themselves, three years into their company where they've got to sell it, they've invested a lot of money, a lot of time.

Marla DiCarlo:

And the minute I met these guys I thought, oh, I want to work with them. Because they're just likable, good people, good group of people. And as we went through that process together, it was interesting, the gamut of different feelings, emotions that came up from these sophisticated, buttoned up professionals. I can remember at one point, one of the guys, he has a background actually in investments and has done some M&A work. And he said, "Marla, I wonder if I should get in the middle of the negotiation because I know my company better than you. And you know what I think this will be good." And I said, "Well, okay, the problem would do with that is, let me tell you what this buyer said about your company and then let me tell you what this buyer said about your company. And then let me tell you what this person said."

Marla DiCarlo:

And by the time I was done he went ouch. And I didn't do it, right? To cause a problem. But this is where I had been the objective third party. For me, I'm able to hear that and know what it is. It's a buyer setting up negotiation. And it didn't bother me, they were calling my child ugly.

John Brown:

Exactly.

Marla DiCarlo:

But for him, that was blood, sweat, and tears. And so it affected him. And in the end, we ended up, because they had invested the time and the drivers and preparing to sell, we were able to choose a buyer that they are thrilled with. Could not have been a better fit for their company. The culture's right. They're expanding the brand. They're going to continue the legacy. And so even though they had to sell it, five years earlier than what they thought, because they invested in preparing to sell from the beginning, they had a better outcome.

John Brown:

So that's a great story. And another interesting aspect of that is, as advisors, especially we tend to look at a third-party sale as maximizing the financial return or reward for our business owner client. And we focus on that. And as Marla just was talking about what was really driving her owners and they'd only had the business for three years, were things like culture, legacy, probably making sure the employees had their jobs remaining for them after the sale. And these were seasoned business owners and professionals. We find that all the time in exit planning, we have to dig deeper than just, I think we can sell your business for top dollar, or if we're going to transfer the business, using an ESOP, the most important thing is to get top dollar. That is not the final driver for most owners. For some drivers it is. And that's fine. Those are actually the easy deals for business broker or investment banker and exit planners, all they want is as much money as possible. That's easy.

Marla DiCarlo:

Oh, to your point, John that's exactly... So when I first sat down with them, they thought that it was about the money. And when we started going through the process and the very beginning of doing the interviews, preparing the marketing materials and really understanding what type of buyer they want. That's one of the things we do, we always prepare a buyer persona, an avatar, if you will. So we know what type of buyer we're going after. And it was obvious. I mean, fifth phone call with them I said, "Guys, listen, I may be off base here, but I know you need to make a certain amount of money to pay off some of the debts, but there's something more here. You're not looking for just any buyer, you want a buyer that it's not going to fire your employees, that's going to continue to uphold the brand you've built. You're looking for her buyer who cares about people, process and systems."

Marla DiCarlo:

So it does matter, what happens in that process. And that's where I think a lot of business brokers, and I've worked with those business brokers, where they don't listen to that. They don't take the time to really understand what their client wants. They look at it, it's transactional.

John Brown:

Right. And it's not just business brokers. The same can be true of lawyers. As an old lawyer, one thing we always looked at was to try to minimize taxes and maximize the net after tax proceeds, that was our job. And we didn't probably spend as much time as we could finding out the other reasons causing the owner to want to sell to the right person. And I remember I still talk about this in some of the training we do that, when I started creating the seven step exit planning process, I'd say, well the owner's goals are, when do they want to leave? How much money do they want? And who do they want to sell to? And I focused on that my earlier younger, less intelligent years. And occasionally I'd get a financial planner usually saying, "Well, John, sometimes owners want more than just that. They want the culture of their company to remain. They want to make sure it stays in their community."

John Brown:

And I would say something along the lines of, "Well, that's just too touchy feely for me. I'm a lawyer and I'm going to do this." Well, that was so wrong and defined somebody who's in the business of selling businesses, which would ordinarily be just a financial transaction, right? In its simplest form. It can be a lot more than that. In some of the smallest businesses, it's where the owner is most attached, because they're most deeply involved still in that business. So it's wonderful to hear this.

Marla DiCarlo:

I did that with my fractional CFO company. I tell the story often. I remember sitting in the training room, because I was going to continue as the market president here in Colorado. And I'm sitting in the-

John Brown:

After you sold your company?

Marla DiCarlo:

After I sold my company and I'm sitting in the training room and they had just left the two executives that would be calling the shots on what's going to happen next, and they were talking about, "Well, we're going to change this model with the employees. And we're going to change this with the customers and we're going to add this and we're going to do this." And they walked out of the room and

I had a friend of mine sitting there, a training buddy, and I looked at him and I said, "They're going to change my employees, my customers, my service contracts, my." Right?

Marla DiCarlo:

But it wasn't my business anymore. But it was emotional, because that was something that I built from ground up. So I think we do forget about that as professionals. And it is a little touchy feely, but it's because it is, it's emotional. This is an industry when you're in or not an industry, but a market size when you're dealing with small business owners, the personal side comes into it. Some of my most, gosh, conversations that stay to mine today with my CFO clients had to do with personal stuff. Because they would say, "Marla, I don't know what I'm going to do. If I don't close this customer, my wife has her eyes set on buying this home. I promised her we would get this a year from now. And if I can't do this, I don't know how I'm going to scale my company." And it was very emotional, lot of tears often times. So it's important to remember that. I think we overlook the human side of small business.

John Brown:

Well, because professionals, for the most part, not always, are transactional in nature. If they're CPAs, I do a tax return every year, I do the financial statement. Lawyers, I do your estate plan. I do a contract for you. We don't develop those longer relationships in part because our hourly fees make it difficult to do that sometimes-

Marla DiCarlo:

Absolutely, so that was [crosstalk 00:25:15].

John Brown:

... just so we need to maybe restructure how we provide services and get paid for business owner clients. I think that is something that would be worthy of another podcast at some point. What else would you like to talk about?

Marla DiCarlo:

I just come back to helping these small business owners with this once in a lifetime event. It's something that is really important to me. It's important to who Raincatcher is. It's why... I call it, we're the Robin hood of small business and business brokerage. Because we want to help these small business owners when they come to us to understand that there are options. Some are ready to sell, some maybe if you have a sick wife or a husband and you just don't have a choice, it is what it is. A divorce, whatever. But whenever Raincatcher hears, talks to a business owner where we go, okay, he, she said that they have a year or two years left in them. We can see the value driver scores and we know that there's some areas that we can help them improve.

Marla DiCarlo:

We always take the time to educate them on those options and let them know, hey, I know you thought you wanted to sell, but let me talk to you about working with an advisor. And also educating them I think on why those value drivers are so important. We go into that conversation, talking to them about the process of selling their company and what a buyer looks for. And I feel like that's when they really understand, okay, I have a couple choices here. I can sell today and maybe I am getting the full value that I wanted, but I know there's a chance I'm not going to get the buyer that I want. Maybe if I put a year in, it's going to increase the value almost always, right?

John Brown:

Yeah it's interesting. So in the exit planning world, we call that determining whether the owner has a gap between what she has today and what she needs to have, in order to exit on her terms. When they want to the person they choose for the money they need and to achieve these other aspirational goals. And so we spend time on that and if the owner gives us some time, because there is a gap that's really important. If the owner comes to me, and I had a client towards the end of my legal career, who had a nice company. It was a trucking related company in fact. It was the owner, his wife, some sales people and he was working 60 hours a week plus she was working the same amount and they came to me and they said, "We've got to sell this company. We've got to get out. We're just burned out." By that time I had learned, I said, "Well, that's interesting. Can I suggest... " Because they wouldn't get much money. It would be a fire sale.

John Brown:

I said, "How about if we look at maybe developing a management team or at least a manager to take some of the burden off of either you or your wife or both. And that's something that we could probably do in a matter of months." And he said, "Well, I've already done that." I said, "Well, so you hired a management person." And he said, "Yes." I said, "Well, how did that work out?" He said, "It didn't work out." I said, "Well, did you fire him? And did you think of hiring another management person?" He said, "No, I just kept him as a salesperson, but now I'm ready to get out of the business." And that was it. They had a fire sale, they got a fraction of what they could have gotten had they come to us a little bit earlier and he ended up actually as an employee of the company he sold the business to, still working 60 hours a week.

Marla DiCarlo:

Yeah.

John Brown:

That's just a sad tale.

Marla DiCarlo:

That's just a sad tale, that happens often.

John Brown:

So Marla, thank you very much. This has been great. I've enjoyed it.

Marla DiCarlo:

Thank you, John. I appreciate it. And yeah, I just welcome anyone that has any questions for about selling the business, we give a free valuation to any business owner. Thank you for your time.

John Brown:

Thank you. And this is why we plan. Thanks.

Elizabeth M.:

Thanks for listening. Join us for our next episode. For more content like this, please visit exitplanning.com.