

Daniel Hall Presents



Episode 48

Ethically Spy on Other Businesses to Learn the Profit Strategies That Are Working Now

With Ace Chapman

Please welcome Ace Chapman to the show today. Ace basically bought his first business when he was only 19 years old. A mere babe. It was an online stock simulator called Cool Wall Street. After selling it and seeing the benefits of buying the business over starting one, he has bought and sold over 30 businesses and helped his clients, all over the world, buy 100 businesses.

Learning from Buying

I'm excited about what we're going to promise folks today because this is something that has been overlooked in the space. Every interview I get on, people are like, "Okay, how do we buy a business? How do I go out and buy one, or find something with some synergistic value and buy it?" **One of the keys, before you get to that point, is something that we've been taking advantage of for a really long time, and it's the fact that some of the most valuable information is learned while you're looking for potential businesses to buy.**

So, we're going to talk about the process of going to the market, seeing what's on the market, getting prospectuses, and looking through those because you never know where you are going to find that amazing deal that you want to buy.

You always want to be in the market, looking for potential deals. But, you're also going to learn what other businesses around you are doing to be really successful. You're going to learn how to take your business to a whole new level by just shopping for businesses for sale. In other words, you're basically going to be able to educate yourself on what's out there and what they are doing, and that way, you can take bits and pieces of what they are learning and plug it into your own business, your existing business, to make it more profitable.

Two things are going to happen. Number one, you're going to come up with variations or iterations of what they have done to apply to your business. Then, as you look at other deals, you're going to see opportunities like, "Wow! This business isn't doing things like other businesses are doing. It's already successful at this level, and if I buy it and take it to another level, there's this whole new world of possibilities." So, there's a lot of value in taking the time to be in the market to buy a business.

It's amazing to me that people pay tens of thousands of dollars to learn information on how to build an Amazon business, or how to build a drop shipping business, or how to build all of these different business models, and that can be really valuable.

I have nothing against going to seminars. Education is really valuable, but how much more valuable is it to see the finished product, to see someone who has built an Amazon FBA business, or has built a drop shipping business, and now that business is up for sale, and you can get the perspectives. **Maybe you want to leap frog and just buy that business, if it's a great deal, but at the very least, you're seeing where you want to go.**

I work with clients who are interested in buying businesses, and we go through this process, and you wouldn't believe the number of times when I had to pull the reigns back on people because they come in and they work with me, and it's like, "I know that I want to own an Amazon FBA business. This is what I want to do, and I just want you to help me do it." I have to say, "Listen, let's just see what's out there." Sure enough, by the end of the process, they come back to me and say, "Ace, thank you so much for saving me. I thought that I wanted that, but that would have been a total nightmare. It's not a right fit for me. It's not a match for my personality. I am so glad that I bought this affiliate business instead."

Overview

What we're going to do, to kind of walk through the process, is go to a site called BizBuySell.com. **This is where brokers go, and individuals go, to list their website and offline businesses as well.** They put their businesses for sale there, and they put an initial bit of information there. What we're going to do is request the prospectuses. I'll walk through how you want to do this in detail, but we're going to request the prospectuses, and we're going to go through the prospectus and look for, different keys:

- How are they growing this business?
- Are they marketing it?
- Is it SEO?
- What are the products?

All of those good things, we're going to pull out of that prospectus. The other thing that we're going to do, in some cases, is schedule a call with that seller where we can really dig in and see, "Hey, this is a deal that I may want to buy, but at the very least I have a new contract." The average person that goes through our process, they look at over 100 deals before they buy one because it's a very valuable process. That's a little bit about the step-by-step, and we can kind of dig into the details of what you want to look for and what you want to pay attention to.

Research

You're going to go to BizBuySell.com, and it is totally free to browse around. **Every time you go and look at a listing, it's going to have some initial information.** What you want to make sure of is that the deal isn't something completely outrageous. Number one, people do try to go on there and sell complete start-ups. Is it valuable for you to waste time looking at a start-up's prospectus? No. They are in the same spot that you're where they are just trying to sell an idea. **So, anything that's not making an income, we're going to totally skip over and go to the next deal.**

The deals that we want to focus on being at the other end of the spectrum, which is... Sometimes they are making some money, but they want to charge some outrageous amount for the deal, and that also can skew our view of what the real businesses are out there, of what they are doing. **We like to look at deals that are about three times the earnings.** Two at the low end, and three on the high end, of the total revenue. What we call that is a multiple, and it basically means that if a business is earning \$100,000 a year, we are going to want to buy it at either \$200,000 or \$300,000. Somewhere in that range. But, those are the real businesses that are really for sale, and it's not some "pie in the sky" type of dream.

We want to look at what the business is earning, and we want to look at what they're selling it for. If those two numbers match up, that's something worth looking at. Next, we're going to request the prospectus. This is the point where you do have to register, but the good news is that it's totally free. So, you register and you enter your information, and you request information from the broker. Now, the brokers don't just release all the information and put it out there for all of the world to see.

When you're looking at the listing, it's going to be very generic information. It will be what the industry is, a little bit of details about what the business does, and then some of the high-level numbers. To really dig in and find out what the business is, what the product is, how they are marketing it, and all of the details that we want, we do have to

request that information from the broker. The broker is going to send us an NDA (Non-Disclosure Agreement).

When we get that NDA, what they are wanting us to give is a guarantee that we're not going to go blabbing to the world that this business is for sale, that this is what they do, or start to share all of this information. You know, the complete nightmare would be that this client has trusted that broker and then you take that information and post it on a blog post or something somewhere. That's what you are guaranteeing when you sign that NDA. You want to show that broker that you are somebody who is professional, so you want to take that NDA, sign it, and send it back immediately.

The sooner that you send back information, the sooner they are going to be willing to get you the prospectus. If you sit on that NDA for a week, and you don't sign it, and a week later they get it back, they are going to feel like, "Oh, this person isn't even serious." They might not even send you the prospectus because they feel like it's going to be a waste of their time. So, you want to get that NDA back to them as quickly as possible. Once they get that, they'll share the additional information with you.

That's when we get the prospectus, which is kind of, really, gold. I mean, what seminar do you go to where the person throws up their financial information, in some cases even tax returns, and all of those details. You know, you might pay \$5,000 to go somewhere, but they aren't sharing all of that stuff with you. This is literally gold that you are holding, completely for free, when you get that prospectus.

Reviewing the Information

We know the gold is there, so now we have to dig in. When we are looking at the prospectus, we are looking for a few key things. **Number one, what are the things that it takes to run that business?** You know, number one is the process. What are the processes and systems that are in this business? What are the tools that they're using? Just knowing the tools is so valuable... Maybe that's going to tell you, "Hey, I was using Infusionsoft, but everyone else is using ActiveCampaign. Maybe I don't need to pay this high amount for Infusionsoft if everyone else in the industry is paying a lot less and using ActiveCampaign." That alone will save you so many years. I can't tell you the number of times that we've been in businesses and we've used the wrong tools. Just that can cost you a lot of time.

Next, we are going to look at the market. Obviously, we want customers coming in, and we want to be able to sell them things. It's tough to have people buy stuff from you if there's no one there to buy them. So, where are they getting the customers? What type of marketing are they using? Again, just knowing what platform they are using is incredibly valuable. So, if they are saying that they're doing PPC through Google Adwords, and the whole time you've been taking class after class about how to market on Facebook, and another class on how to market on Instagram, and another class on how to leverage Snapchat, and none of that stuff is working, it may be that the whole

time you should have been advertising on Google Adwords. So, that again is a really powerful, time-saving thing, and we've got another piece of that gold.

The next thing is, who is on their team? When it comes to building any business, you need to know who are the people that you need to put in place. Everyone wants to go out and hire VA's, but it could be that what you really need is an English-speaking person who can jump on the phone and follow up with each customer. That's what they have, and this whole time, you haven't been doing that. Maybe your return rate would be a lot higher that way, and you can get rid of this other person, hire the right person, and start to build out your team. This also tells you, and you can start to plan out, when to hire who.

A big problem with us, as entrepreneurs today, is everyone wants to be that solo entrepreneur, everybody wants that theme where you don't really have to deal with employees and all of that, but sometimes, the ROI on having the right employee is amazing. **You want to be sure that you're planning well.** If you want to build a multi-million dollar business, and you get a prospectus on a million dollar business, and you already have 13 members and that's what it takes to run that, there are only one of two things that need to happen at that point.

Either you need to decide, "Hey, I really don't want employees, so I need to find another business model that doesn't take employees,"... If you look at prospectus after prospectus, and you see that most people have 3-5 employees, but you don't want this, then guess what? This process just saved you a ton of time and effort because you know that you need to be doing something else. You know that should not own the type of business that you've been looking into since you don't want to have employees, and therefore, you need to go find another model.

What it's going to do for people who do want to go through with that business is give you a step-by-step process, and you're going to know, "This is the employee I need first, and then after that we'll get this employee, and then after that we're going to need to hire this type of employee, and then after that, I need to take this step and I'll need to hire this person." So, it gives you that ability to plan.

Then the final thing is understanding the financial information. They are going to send you all of the financial details of the business. So, you're going to get an idea about what the margins should look like. You're going to see what the budget is of the business that was spent on the hourly employees and what was spent on Instagram ads, or whatever. So, you're going to get a good idea about what the financial information of such a business should look like. Secondly, you're going to be able to look at the financial information and see what they are paying for the product. You know, "If I'm buying this product and I'm paying 60% of my gross margin, and they are doing it at 30%, I need to go hunting and negotiating to figure out how I can save some money because that's going to increase my bottom line instantly."

We've got to see what the percentage is that they are spending on their team, and all of these things we'll get to see. Most importantly, we are going to see that final profit

margin number. That's going to give us a goal so that we know, "Alright, it might grow this thing to this amount, and then I'm going to have this kind of margin." We've seen deals where we've realized, "Hey, this business is doing a million dollars, and their margin because of the added cost of being at a million dollars, they are making \$200k net." We may have a business that is a \$300k business, that instead of a 20% margin, is making 40-50%, so it's making \$150k.

So, the question becomes, "Okay, this million dollar business, they've got employees, they've been dealing with all of these extra ads, they're having to manage a lot more logistics, and they're only making \$50k more. Maybe I need to stick with the \$300k level, and I don't even want to grow my business to a million dollars." Again, this comes down to intelligence that's wrapped up in presently existing and successful businesses that you're basically extracting, or harvesting, out of these prospectuses.

Implementation

The most important thing is implementation. You're deciding, "Is this deal a great deal that I want to actually buy, or is this a deal that I want to be able to take some ideas so that I'm able to do something where I am implementing those ideas and doing things on my own?" **I'm either going to take the ideas and implement them into my business, or I'm going to buy this business and then I can merge those.** One of the deciding factors for this, and this is a really huge key to the way that we do deals and the way that we've built our portfolio, is the next level up, which is that you can take some of the ideas that you've already figured out in your business and apply it to those businesses.

We've got a really great track record of exploding businesses for a lot of people. You go to my YouTube, and you can see that people are like, "Oh, we bought this thing and we doubled it," and that kind of thing. Well, a lot of the reason is that, right now in my portfolio, I have over 30 businesses. Within those businesses, we've figured out some things. So, if we buy an eCommerce business, we are looking at that business and going through the whole process that I just talked about, but we're also looking at what we've already done and saying, "What aren't they doing?" So, if that business is already at a 20% multiple, and we realize that we can cut a cost because we already have something, or we realize that they are doing great with Adwords, but we've already figured out Facebook ads for this business, we can take that on.

We're doing a really neat thing with a deal that we're closing, and that is that we can take that deal and apply that to a business that we own. I'll give a specific example where we have a really great eCommerce business in the cosmetic space, and we've got another thing that we're buying that has the same demographic. They've done something with Google shopping ads that we want to start doing. So, we can take that and merge them, and the business that we have is killing it with influencer marketing, which is a great match. We can take both of those businesses and grow both of them by cross-pollinating these concepts and ideas.

Those are the keys when it comes to this aspect. Now, we've got a very long process. After this, we take those deals and we build a funnel, basically, and we take the deals that we do think we can cross-pollinate and use some of the strategies that I've talked about. Then, we go into putting together an LOI, which is a Letter of Intent; this is how we make offers in our space. We'll put together the financing on those deals, and our goal is to end up with four or five of these deals where we have these opportunities to take these ideas and cross-pollinate them, and we know we can double. We're comparing those and saying, "Which of these awesome deals that we have right now are the ones that we want to close?"

Obviously, another thing to keep in mind as you're looking at these deals that are on the market is that we don't buy the deals that are on the market, and this is for a couple of reasons. **Number one, you aren't the only person who has realized that you can take these ideas and learn a lot, and some of them don't have as much integrity as you.** There are people all over the world that will just take ideas and duplicate them. We take deals from what I call the hidden market, so among the other things that we're doing while we look at these other businesses, is we're generating our own deal flow so that we can buy deals that nobody is able to get any of these strategies with. So, keep that in mind.

Our goal is definitely buy the businesses with ease, and the bottom line is that in every market we know that the best of anything is never going to be advertised. So, the best deal when you're looking at houses and the best deal that an agent gets... an agent gets this rock-bottom deal, before they put it out there, they are going to call their friends to sell that, you know? "I have a car, somebody needs to get rid of it because something happened, and they want to sell their Rolls-Royce for \$25,000." They don't need to put that in a newspaper. They're just going to tell some folks and they're going to sell that.

So, the very best deal for any of these things that are advertised is never going to be out there in the open. We know that at a gut level, but then you take that over to businesses. Now, in business, none of us have ever walked into a business that says on the outside, in big letters, "This business is for sale. Come on in, talk to the owner, and see if you want to buy this." That's because great businesses don't want anyone knowing that they're for sale. They don't want anybody looking at their information and just easily taking it. The very best deal for anything isn't advertised, but for businesses, the very best thing is never, ever, ever advertised. Understand that while you are looking at these deals. You may find the diamond in the rough, so it's worth going through this process, but that's my disclaimer. Don't think that these are really the great deals that are out there.

Connecting with Ace

Feel free to go to AceChapman.com. You can find out a lot more about what we're up to there. I've got a website called Website Mobile, and that's where we have built a group of folks that go out and do these deals. I do have a book about a lot of this stuff. It's called [The Ace Formula](#). That's for sale at Amazon.

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