

**BUSINESS  
WEALTH**

**WITHOUT**

**RISK**

**UNPUBLISHED**

**CHAPTERS**

**VOLUME #2**

# **BUSINESS WEALTH WITHOUT RISK**

By Roland Frasier + Jay Abraham

## **Unpublished Chapter 2** **3 Wicked Smart Strategies to De-Risk a Deal**

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

I'll be straight with you: Doing business is risky.

For every story about an entrepreneur whiz kid starting a company and making millions before exiting, there are at least a dozen stories about business men and women who struggled for years to grow and scale a company only to have it crash and burn. These people poured their wealth, time, sweat and tears into businesses only to lose it all.

It's not just start-ups that are risky. Acquisitions and mergers are, too. Yes, I am a firm believer that M&A is one of the best ways to grow and scale a business portfolio, but acquiring a company can be quite the risky process as well. Every company has problems and struggles, and a major event like a merger or acquisition will only stand to highlight those problems. This is why there is a high percentage of companies that lose money, clients and employees in the first few months of a merger or acquisition.

Business is risky. It's that simple.

But it's worth the risk.

I'll be honest: I've lost money in business. I've lost money on start-ups and I've lost money on acquisitions. Every deal I've done hasn't been a slam-dunk, wealth-building, portfolio-maker. I've had my share of ups and downs, but I have learned a lot. And in the process, I've learned how to be strategic about the deals I make.

Still, despite the risks, I am a huge proponent of taking risks in businesses.

I've built my entire career on it. Most of the work I do is in helping business owners and investors grow, scale, exit, consult for and acquire businesses. I want smart men and women who love business and want to create and grow great companies to have all the tools they need to make deals, close deals and earn a whole lot of money in the process.

I know that there's no way to be successful without taking risks. So, I do whatever I can to reduce the risk on business deals as much as possible so that the

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

deals I make have the best possible chance of being successful. And I do the same for the business owners and leaders who I work with.

There are literally hundreds of ways to reduce the risk of a business deal, and you could probably do a Google Search right now to find most of them. These are all good things, and of course I recommend talking to your own legal and financial advisors before any deal to ensure your risk is minimized. Do your research. Read the Google articles. Talk to all the people. Try anything you can to make sure your deals succeed.

I'm not going to waste your time talking about simple ways to reduce risk that any first-year business student could find. I want to talk about the real strategies that I've tried, honed and succeeded at that I think can make a huge difference for business owners looking to acquire or start a company.

That's what this chapter is all about. I'm going to share some of my best, most creative, least-known strategies that I have used to reduce the risk on startup business loans, or on mergers and acquisitions.

## **Reducing Risk Through Delayed Expenses**

In advice that would make many financial gurus cringe, I always advise people to do their best to delay expenses. I know this probably sounds counterintuitive, but in the case of business acquisitions, it's a great way to reduce the risk. Let me explain: I told you earlier (and I'm sure you already know) that oftentimes the first few months after the founding of a business, or after a merger or acquisition are some of the shakiest. Delaying expenses allows you to get over the hump and get the business through the rough patch before payments pick up.

With startups, the first few months can be really tricky. While the idea is there, and the business plan is there, most businesses start with only a fraction of the clients they hope to have, products that may not be yet available, supply chains that are untested, and processes that aren't quite hammered out.

For different reasons, mergers and acquisitions start in a period of tumult.

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

New ownership means that new processes and products are being integrated, new employees or managers may join the team, and unfortunately, old clients and employees may leave. A merger or acquisition is a big time of shake-up and oftentimes, the first few months show a dip in profits before picking back up.

With this in mind, one of the best ways to reduce risk is to make it so your payments on a business loan or acquisition loan are minimal at the start, and increase once there is time for you to grow profits and make some money off of the business. This gives you a bit of flexibility to invest in the business at the start, and then allows you to make payments on your investment once the business is growing and scaling.

One way to do this is through a balloon payment. It's the quintessential "delay payment" method and in some situations, it helps. For example, I have a friend who was in graduate school and because of that, was living on a very low income. He and his wife found a house they loved in a neighborhood they wanted to settle in, but they really couldn't afford the house at the moment they bought it. They knew, however, that once my friend graduated, his income would increase significantly, and they could easily afford the house. Because of this, they opted for a balloon payment mortgage where their payments started out small, but grew significantly over time until the end when their payments were high. This worked perfectly for them because my friend's income did go up as expected, and they got the house they wanted before they could technically afford it.

This is a risky move, especially if there's no reason to believe that your income will increase. Had my friend been working a full-time job in his area of study at the time of the initial loan, with only expectation of cost-of-living increases, then getting a balloon payment mortgage wouldn't have been advised. The same concept works with business loans and deals. If you see a trajectory of growth for your start-up or acquisition and can say with confidence that in a year or two, the business will be making significantly more than it is now, then delaying payments is a wise decision. But if you're feeling shaky, or more specifically, don't see a path to growth, then it may not be a good idea.

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

There are balloon payments available on business loans for this reason, and if you're interested in this idea, that could be one way to delay payment. But if you know me, then you know that I'm not writing an entire chapter on getting a balloon payment. While it's a completely viable and feasible option, and one that I don't frown on, I have some slightly more creative strategies to delay payment that I want to share with you.

## **De-Risking Strategy #1: Supplier or Vendor Terms**

Most businesses heavily rely on their suppliers and vendors in order to create their products and bring them to market. A restaurant depends on their food suppliers, a manufacturing company has suppliers to send parts to create products, and a carwash relies on suppliers to provide cleaning chemicals. Digital companies rely on vendors like media buyers, copywriters, developers or SaaS products to provide the things they need to keep their business going.

Just like businesses rely on suppliers and vendors, suppliers and vendors rely on businesses. Suppliers and vendors often count on recurring payments from businesses to stay afloat. They spent a lot of time in the sales cycle getting clients and they certainly don't want to lose clients during transitions like mergers or acquisitions, or lose potential start-up clients. That said, they often are willing to work with clients to make sure that deals close and their clients stay in place.

With this in mind, one way to de-risk a deal is to approach a supplier or vendor and ask them to support you in the start-up phase or acquisition phase by offering financial support. In exchange for their financial support, you would sign a contract that for a certain period of time, they would remain your vendor.

This could mean a grant or a loan. A friend of mine did this, where they asked a vendor for a \$10,000 grant in exchange for a 2-year guarantee that they would remain as a vendor, provided all services and pricing stayed the same. The vendor got a guaranteed two-year contract, and the investor got \$10,000 toward their acquisition.

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

The other way this could work is through a change in terms. A change in terms doesn't mean the supplier or vendor has an output of cash in any way, but instead, it delays payment on the terms in order to give the business owner a bit of financial flexibility. I think the best way to illustrate this is through a case study. This is one that a friend shared with me a few months ago, but could apply to countless businesses or organizations.

## **Case Study: Super Sudsy Car Wash**

*Note: All of the case studies that I use in this chapter are based on real businesses and real deals, but have made-up names and details to protect the privacy of the owners and investors. Sadly, Super Sudsy Car Wash does not exist, but if it did, I would definitely be taking my car there because I really like "Dave's" business smarts.*

**Details:** The Super Sudsy Car Wash is a ten-year-old car wash on a busy street that has been minimally profitable for the last five years. While the business has potential, the carwash hasn't done much marketing and business has plateaued. The cost of labor and supplies has made it so breaking even is more and more difficult. The original owner is looking to exit, and an investor who we will call Dave is interested in purchasing the car wash. Dave has put together a growth plan that includes several strategies that he thinks will increase business. His hope is to increase profits by 50% in the first 6 months, and then 200% in the first 12 months.

Dave will be taking out a business loan to purchase the car wash, and his payments will start immediately. He believes that after a few months, he will be able to easily make the loan payments out of proceeds from the car wash, but the first few months may be tough as the business is only minimally profitable. He knows that if they have any issues with the change of ownership, such as employees leaving, or a change in suppliers, or drop in business, that the payments will be hard to make.

**Super Sudsy's Supplier Terms:** Super Sudsy's biggest monthly expense is through a supplier called Chem-Supply. They supply all of Super Sudsy's chemical

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

cleaning supplies like soap for the carwash machine, spray-on wax, fibersoft towels for drying cars and scents for car interiors. Super Sudsy spends about \$8,000 a month with Chem-Supply and the terms are COD (collect on delivery) where the payment for each delivery is paid as soon as the supplies are delivered.

**Dave's De-Risk Plan:** As soon as Dave realized that the terms with Chem-Supply are COD, he set up a meeting with Chem-Supply. He let them know that he was acquiring Super Sudsy and that he had every intention of keeping his ongoing relationship with them. He knew they had great cleaning products, and he appreciated their delivery, and he felt like their prices were good. He mentioned that he was, however, concerned about the COD terms. He asked if they would be willing to go to 90-day or even 120-day terms in order to be competitive with other suppliers. In exchange, he offered to sign a 2-year supplier contract with Chem-Supply.

Chem-Supply wanted to keep Super Sudsy as a client, so after a short conversation, they agreed to the new terms. In exchange, Dave signed a 2-year contract with them to maintain them as a supplier to Super Sudsy as long as their product, business and pricing stayed somewhat consistent.

It's important to note that the price point and delivery schedule stayed exactly the same. Super Sudsy still owed \$8,000 a month for the same cleaning supplies and delivery schedule. Yet this De-Risk plan saved Dave \$32,000 in the first 3 months of ownership.

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

Here's how that worked:

	<b>Old COD Terms</b>	<b>New 90-Day Terms</b>
Month 1	\$8,000 due for delivery 1	\$0 due
Month 2	\$8,000 due for delivery 2	\$0 due
Month 3	\$8,000 due for delivery 3	\$0 due
Month 4	\$8,000 due for delivery 4	\$8,000 due for delivery 1
Month 5	\$8,000 due for delivery 5	\$8,000 due for delivery 2

As you can see, the payments are the same, but that 3-month delay allows Dave to put \$32,000 toward his business loan in the first 90 days that he owns the business. That \$32,000 doesn't come due all at once, however. Instead, only \$8,000 is due after the first 90 days. While that money will eventually be paid to Chem-Supply, it will be paid after the car wash has started to increase their profitability.

As you can see, the risk of the loan defaulting early-on or of Dave having to dip into his own pockets to pay that business loan is significantly reduced simply by changing supplier terms. What's more, this is a pretty small ask for many suppliers, and a bit of a win for Dave.

## **De-Risking Strategy #2: Adjusted Amortization Schedule**

As you certainly know, a payment is never just a payment. Obviously, every payment has interest on top of principal and additionally, that same payment often includes taxes, fees and other expenses.

So if you want to put \$10,000 toward the principal on a business loan each month, your payment will likely be somewhere in the range of \$15,000 once you account for interest and taxes. That being said, if you want to decrease your risk, the

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

easiest way is to decrease that payment. The obvious way to do this is to drop the interest rate. If you are paying a 10% interest rate on the loan, dropping that rate to 5% will decrease payments and the risk of the loan.

I told you all along that this chapter isn't about the easy strategies that anyone can Google, and reducing the interest rate is a good idea, but definitely not the "big wow" creative idea that you came here for. So I'm going to give you another strategy that leaves the interest rate as is, and the payment amount as is, but will still save you money and de-risk your investment.

Some business loans have an amortization schedule that involves a standard principal payment with an additional interest payment tacked on. Others start with high interest payments that get lower over time so that the first payment has higher interest than the last. Either way, the payer is taxed on the principal portion of the payment only, while the interest portion is untaxed.

For this strategy, you ask the seller who is financing the loan to make it so the first year's payments are 100% interest. I know that seems counter-intuitive as you are essentially not paying off any of the principal at first, but what it does is remove the tax burden from your payments entirely for the first year, saving you thousands in taxes when you first acquire the loan. The downside to this is that you will pay more in taxes in the later years of the loan, but hopefully by then, the business will have grown to the point where it will be easy to cover that extra payment.

## **Case Study: Digital Pros Paid Media Agency**

**Details:** Digital Pros Paid Media Agency is a small agency that does about \$1M a year in EBITDA. There are two media buyers on staff, plus the owner, who is looking to exit. The agency is selling at a 2X multiple, so it can be acquired for \$2M. Additionally, the owner is willing to do seller financing.

A woman named Sandy is looking to acquire Digital Pros in order to integrate it into her own digital marketing agency. Sandy's agency specializes in all forms of

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

digital marketing, but they have always outsourced their paid media work. Recently, Sandy realized that the amount she is spending on paid media outsourcing is eating up a huge amount of her profits. Based on advice from several of her advisors, Sandy decided to look for a paid media agency to acquire in order to bring those services in-house.

When Sandy found Digital Pros, she knew it was a great fit for her– they have two experienced media buyers on staff, as well as several hundred thousand dollars of monthly recurring revenue from clients. Sandy is confident that within 6 months, the acquisition of Digital Pros will save her thousands of dollars and increase her profits.

**Digital Pros Downside:** Because Digital Pros is a paid media agency, they have a large monthly cash output on the paid accounts they buy for. For example, one recurring client has a \$50k/month ad spend. They pay cost + 10% on that spend, and pay their bills net-30, so after Sandy acquires the company, she will need to have cash on hand to pay the ad spend on accounts in addition to her first monthly payment to the seller. Sandy is concerned about that, especially as she integrates the agency with her own agency.

**Sandy's De-Risk Plan:** Typically, when you make payments toward the principal on a loan, you have to pay taxes on it, but you don't have to pay tax on the interest.

In order to make sure this is super simple to understand, I'm going to use nice, round numbers. As you certainly know, no deal is ever done with nice, round numbers, and you should always talk to your accountant or tax attorney before doing something like this as everyone's tax situation is different. But, for illustration's sake, let's say that Sandy's payment on that seller-financed loan is \$20,000/month and at the start, the payments include 25% interest each month, with the interest portion decreasing over the course of the loan.

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

With that in mind, each monthly payment of \$20,000 has \$15,000 go to principal and \$5,000 go to interest. Sandy will need to pay taxes on the \$15,000 principal payment each month. If Sandy is paying a 20% tax rate on that \$15,000, that means she owes \$3,000 each month in taxes on that payment. What this means is that her payment of \$20,000 is actually \$23,000 each month.

Since Sandy is anticipating that things will be a bit tight in the first few months that she acquires Digital Pros, she asked the seller to make one small tweak in the amortization schedule that will save her tons of money. Sandy asked the seller if for the first year, the payments could go entirely to interest. So while she would still be paying that full \$20,000 payment, she wouldn't have any taxes on it, so that \$3,000 each month could be saved.

This is an example of what this could look like:

<b>Month</b>	<b>Principal</b>	<b>Interest</b>	<b>New Principal</b>	<b>New Interest</b>
Year 1	\$15,000	\$5,000	\$0	\$20,000
Year 2	\$15,000	\$5,000	\$2,500	\$17,500
Year 3	\$15,000	\$5,000	\$5,000	\$15,000
Year 4	\$15,000	\$5,000	\$7,500	\$12,500
Year 5	\$15,000	\$5,000	\$10,000	\$10,000
Year 6	\$15,000	\$5,000	\$15,000	\$5,000
Year 7	\$15,000	\$5,000	\$20,000	\$0

There is a bit of a risk here for both the buyer and the seller. For the buyer, the risk is that by the end of the loan, they will be paying pure principal, and having to pay full taxes on this. This means the taxes on that \$20,000 payment toward the end of the loan will be \$5,000 a month. For the seller, they will be paying taxes on the full

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

interest payment that they get early on, but their loan will get better and better, making it attractive to them as their taxes go down.

Sandy figures with the adjusted amortization schedule, she will save approximately \$36,000 in taxes in year one, which will reduce her risk during that time significantly. As she integrates the new agency into her existing agency, her profits should increase, and her costs in buying paid media will go down, allowing her to more easily make those payments including the taxes.

As I said before, these are super rough numbers, rounded to make sure they are understandable. An adjusted amortization schedule can be a great way to reduce early risk in a start-up or acquisition, but always do it with help of professional advisors.

## **De-Risking Strategy #3: Consulting for Equity**

Anyone who knows me knows that I am a huge proponent of consulting for equity– it's one of the things that I coach business owners on most frequently. Many experienced business owners and operators– myself included– are asked to consult for other businesses. This is great! But when they do it in a way that allows them equity, it's a way to add some skin into the game, and give them an opportunity to earn money on the results they provide. (And, by the way, I have a course and a book on this very topic, so if you want to know more, then head to [www.rolandfrasier.com](http://www.rolandfrasier.com).)

It's no secret that consulting for equity is a great opportunity for business owners, but what does it have to do with de-risking a deal? I actually hadn't considered this until I was doing research a few weeks ago and I stumbled upon a Forrester report about how one of the best ways to de-risk a start-up or acquisition is to hire strategic or innovation consultants. The gist was that by hiring an experienced operator to look at the strategy or innovation before launching a business or acquiring a business, you had experienced outside eyes there to ensure that everything was on the right trajectory.

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

This is great advice, and something I'm sure that many of you do. But after reading it, I got to thinking... if consulting is a great way to de-risk an acquisition, and consulting for equity is a great way for an investor to earn an ownership stake without spending cash out of their pocket, then consulting for equity is a way to double de-risk. The consultant assures that the strategy and growth plan is on-target, and the consultant earns equity in the business, reducing their risk in the process.

## **Case Study: SaaS Co. Development Company**

**Details:** SaaS Co. Development Company is a SaaS company that makes a suite of marketing technologies. The company has an amazing, innovative development team that has created several innovative SaaS products, but no real Go-to-Market team so they have stalled out on sales. The owner, Megan, is also one of the developers, and she loves developing SaaS products, but is less interested and able to operate the business. She hopes to merge with another business that has a strong GTM operation so that her products can take off and she can focus on the innovative side of development. She's worried that if she doesn't start getting recurring revenue soon, her business will be forced to close before she can get her SaaS products into the hands of customers who she knows need them.

Mark is an investor and consultant who specializes in SaaS marketing. He has seen SaaS Co's products and believes they will be game-changers for many customers, but he knows that Megan just doesn't have the GTM background to bring these products to market. Megan approached him about consulting on their GTM strategy and Mark did an initial call with her, but after looking over her products and plan, he is confident he can help her.

**The Downside:** While Mark is confident that he can bring SaaS Co's products to market in a way that will be successful, he knows it's going to be a very time-consuming venture. They have great products, but no market research or

# BUSINESS WEALTH WITHOUT RISK

by Roland Frasier + Jay Abraham

market share, and the amount of work it will take to bring the products to market in a very sustainable and effective way will be substantial. He knows that Megan doesn't have the cash-on-hand to pay him what the work would merit, and he's not willing to do a milestones-based payment plan as it could ultimately mean he won't get paid for his work at all.

**Mark's De-Risk Plan:** Mark approached Megan with a Consulting for Equity Plan. Mark is going to do a full GTM launch for three of Megan's SaaS Projects. Mark has put together a plan that covers a full year of strategy. Throughout that year, Mark plans to work SaaS Co. up to 6-figures in MRR. Megan will pay Mark a \$10,000 retainer, plus Mark will retain 50% equity in SaaS Co.

This de-risks the merger of SaaS Co. as Mark won't be paying any cash up front into the business (he'll get paid!) but he also will have a hand in the strategy so he can ensure the success. Additionally, the 50% equity gives Mark the ability (and motivation) to make a lot of money if his GTM strategy works.

## De-Risking as a Practice

While I hope that the three strategies outlined in this chapter can be used to help you de-risk your next start-up, merger, or acquisition, I recognize that every single deal is different. Maybe all three of these will work for you. Maybe none of them will work for you. Regardless, the big thing I hope you take away from this is that the idea of strategically de-risking any deal should be part of the process.

It's easy to get caught up in a deal and start thinking about numbers and payment and processes, but I encourage you to pause and get with your advisory team and consider the ways you can de-risk the deal by reducing early payments, consulting, or adjusting the tax structure. Each of these things make it so your business deals can be more profitable for you, and less risky.