Investing in Online Businesses – Podcast #77

Podcast #77 Show Notes: Investing in Online Businesses – An Interview with Gregory Elfrink from Empire Flippers

I find the subject of selling online businesses endlessly interesting. Although I haven't just bought a few random sites from people I didn't know, I've considered it in the past, and I think it may become an up and coming asset class. I own part of a couple other websites in the WCI network and regular readers here know that I considered very seriously selling this website a couple of years ago. If you ever wondered how to invest in online businesses this episode is for you. Gregory Elfrink, from Empire Flippers, walks us through the process of buying an online business and gives us the ins and outs of this asset class. Now don't go investing 50% of your portfolio in online businesses but if this is interesting to you consider investing a smaller percentage.

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Quote of the Day

> *A big enough bonus can convince even honest, law abiding finance workers selling garbage products that they're doing good for their customers. – Morgan Housel*
>
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Introduction

Before we get into the interview with Gregory I want to say thanks for what you do. I know the work you do each day is not always appreciated by those you do it for. And a lot of people don’t appreciate the fact that you sacrificed a significant portion of your life and health to do it.

Regardless it is pretty interesting work. I had a fascinating heart rhythm, an arrhythmia in a young person in the ER just the other day. They had isorhythmic atrioventricular dissociation, which I’d never seen before in all the years I’ve been practicing. It was kind of fun, I put it up on Twitter and got a lot of responses. I had the cardiology types who correctly identified it, and I had the orthopedic types who said, “it goes up, it goes down, looks like it’ll move keflex around the body.” And then of course I had the finance people commenting on it, who said it looked like a stock chart for something they didn’t really want to buy. But either way, it was pretty fun to see what people thought of that EKG. There is still lots of interesting stuff out there that you haven’t seen yet in your career. It is still intellectually stimulating and so it is awesome sometimes to have a job in clinical medicine.

Main Topic

But on to the main topic of this episode. Though we realized during our interview that Gregory and I grew up in the same neighborhood in Alaska, he now lives in Vietnam. The idea of being location independent is pretty foreign to most of my readers, but it is pretty awesome that he is able to live basically anywhere he wants in the world and continue to do his job because it is all online. If that sounds appealing to you now or in the future investing in online businesses may really be for you.

Empire Flippers is one of the top brokers for online businesses. They’ve sold 50 million worth of websites. That just doesn’t seem like very many to me for the number one, or close to it, business. But this industry really is that tiny, that 50 million gets you to number one spot. Online businesses are really not that old. They have just become an asset class in the last few years. The oldest online model, an affiliate site, or an AdSense site, have only been around for maybe 10 years, and really probably more like seven years when it comes to buying them as an asset. That gives you the backstory of why this is now just starting to happen, the sites are at their maturation point.

Types of Online Business

There are many different types of online businesses or websites. Here is more specific information concerning the 11 most popular online business models. But for our purposes here we discuss 3 mains kind of online business models:

Content Sites:

Now these are sites like mine or Physician on Fire and Passive Income MD where the primary business model is producing content around a certain subject. You may click on a link in one of our articles and be sent to Amazon, and if you buy anything off of Amazon.com in the next 24 hours, there's a cookie that Amazon has given that site owner that will give them a commission on anything you buy, at no extra expense to you. Amazon is the most famous one as far as affiliate programs go. But student loan refinancing and real estate crowdfunding companies work similarly. So content sites would include companies that make their income off affiliate deals and AdSense Google ads. Basically the site owner sells their products or services and doesn't have to keep any inventory themselves.

E-Commerce Sites:

Ecommerce is like having a digital retail store. You buy a product, find a place to store and fulfill orders for that product, and promote the store through internet marketing strategies. This could be something like creating a Shopify store, where you source your own product and sell those through your Shopify store. Just like a traditional retail store, except for there is no offline component. This category would also include drop shipping sites, where you don't hold the product yourself but the actual factory ships directly to the buyer. Amazon has a version of this too, Amazon FBA, which is basically a traditional e-commerce store, only all the sales are happening on your Amazon product listing. And Amazon takes care of a lot of the more tedious and oftentimes painful parts of running an e-commerce business for you.

Software as a Service Sites:

These are the SaaS sites Gregory refers to in his interview. If you are familiar with sites like Mail Chimp, what I use to send out [our monthly newsletter](#) , it is a software as a service site. I pay monthly for it. These are currently a very, very hot business model because the recurring revenue is obviously very attractive. Apps would fall into this broad category as well.

In terms of what is the most common, definitely e-commerce and content sites.

Why Invest in Online Businesses?

Gregory gives his reason in this example:

> *Let's say you were really big into low cost index mutual funds, you don't have to do anything with them. But you want to get into something a little bit more risky. If you're the average Joe, it's unlikely that you would ever have the amount of money you would need to put into a certain stock to either make that price go up or that price go down. But with a website the required money to make a significant difference in the revenue of a business is much lower.*

The other investment to compare with is real estate. Real estate gives you a little bit more control, because it's a physical house, you can repair it, fix it up, and then hopefully sell it for more later. An online business is very similar to real estate, (only more volatile because things change all the time in the online business space) but you have more control over it than real estate. Here is his example:

> *Let's say you bought a content site for $40,000.00, which roughly will get you a site making 1500 to $2,000.00 cash flow on that profit every month. You would be hard pressed to do that same deal in real estate, and you'd be even more hard pressed to do a test, like a two week test that we call conversion rate optimization, that tests your affiliate links and different colors, different fonts, and different placements that could lift that income up by 20% within the first month, which isn't that uncommon with using conversion rate optimization.*

So why invest in online businesses? There is great potential for higher returns.

Why NOT to Invest in Online Businesses?

You do need to have some kind of skill set. You have to learn a little bit about what you are buying. So there is a learning curve there. But maybe not a bigger learning curve than investing in real estate, and the cash on cash return could be awesome.

When you are looking at your Personal Investment Plan (you have one right?! If not, take this course and create one.) and trying to decide what percentage of your portfolio to invest in online businesses (if any) remember this: It should be absolutely okay if you lose everything. If you bought a content site with the main traffic source being Google, like Google organic traffic, and Google changes it's algorithm, you might lose all that traffic overnight. Is that something that happens often? Not really, but it can happen, so you should always be okay with losing this money.

So why not invest in online businesses? Risk and the learning curve. But if you want aggressive growth and have the willingness to learn some of the skills that can get you a leg up, look more closely at this asset class. $40,000-$100,000 invested in an online business would be a pretty good starting point.

What is the Skill Set Needed?

If you are like me you don't want another job. So I asked Gregory how do you get it to be more passive investment like rather than job like?

His response:

> *One of the cool things about online businesses in general is a lot of the work is pretty front loaded. Go back to a content site, you start a site, let's say it's about juicers, you put in all that work, you get 50-80 articles on there, it's starting to rank in Google, you're starting to make some money. You get it up to that $2,000.00-$5,000.00 per month selling juicers and other related products around that niche, then you stop working on it. You go on a vacation or whatever, and that money still keeps coming in. Just because you stop working on it doesn't mean Google isn't sending traffic to it over and over again. So you could theoretically have this huge website with thousands of articles that are pulling in this organic traffic on a daily basis, making sales for you, more or less hands off.*

Sounds great right? Well, there is some maintenance. According to Gregory:

> *You'll want to update the articles, if you see something weird happen with your traffic you should probably investigate that. But overall, there's not that much to go*

into maintaining a content business, or even in some cases an e-commerce business, if you get the logistic side down. If you're looking at buying a business, that seller is going to tell you what those skill sets are. They usually have standard operating procedure, kind of like an operator's manual that the investor can look at, and that allows the investor to say like, "Okay, well, am I willing to do this, or is this too much risk?"

With this kind of investment, especially in the content site, once you buy the site, unless you want to grow it can be maintained with minimal effort. Of course if you want to scale the business, ask any blogger, there is going to be a lot more work involved.

What Kind of Multiples Should You Expect?

In this industry multiples are talked about in two different ways. 2-4X is for annual earnings before interest, taxes and amortization. 20-50X is monthly. Online businesses can be valued on either. At Empire Flippers, they are valued on a monthly multiple, because it lets the investors see a little bit better, and also lets them evaluate the business better. Gregory said right now they are seeing 25-35X of monthly net income.

When I considered selling this business I was surprised just how low the multiples are. You are selling for basically what you'll make in profit in the next two years. I came to the thought that well, shoot, if I'm selling it for that small amount of money, I can just hold onto it, make that money over the next two years and still own the thing. I mean, these are incredibly low multiples compared to a brick and mortar business, or compared to a real estate property. So I asked him why does anybody sell with that kind of a multiple?

I got various reasons. One guy use the money from selling his sites to leverage himself into a more lucrative market. Another guy sold his business to adopt a child. The coolest story he shared was actually about a Cambodian, he sold his business for around $250,000.00. That's a lot of money for anyone, but that's generational wealth income for this guy in Phnom Penh, Cambodia. So now he started teaching all these other Cambodians how to create these affiliate sites in the American market.

Gregory says:

> *The multiples are lower compared to a traditional business but I would say the cash flows tend to be much, much stronger than a traditional brick and mortar business.*

The multiples may be lower because of the risk and/or because this asset class is relatively new. Or because there is very little financing in this industry.

What is the Process for Buying an Online Business from Empire Flippers?

Most of the scams and illegitimate opportunities when it comes to buying an online business happen at the sub $40,000.00 range. The reason why is just because it's much easier to fake traffic and sales at that level. So Gregory recommends starting at 40k. You can obviously start much lower than that. There's nothing wrong with buying a sub $40,000.00 business, just if you're in that range, be extra careful with your due diligence.

The process depends on if you decide to go with a broker, like Empire Flippers or if you decide to go with a private sale. On a private sale you find the site yourself, and you reached out to that site owner, you asked them if they are interested in selling, and they say yes or no, and that process starts.

If you come to a place like Empire Flippers, you can click on their marketplace, and they have all these online businesses that are for sale that they have vetted. They use a deposit system where you put down a 5% refundable deposit, that way they are only bringing potential buyers to their sellers, who are actually interested in the business and have some skin in the game, even though they always refund the deposit.

Empire Flippers gives you more substantial private information about the business, such as the URL, the P&L, and any other sensitive information that they keep from the public eye. You can get that so you can start your due diligence. You can start asking their salesmen questions and their business analysts will respond with answers, they'll talk about what the seller might be willing to take, etc. And eventually a potential buyer will get on a buyers-seller conference call, where one of their business analysts helps that buyer negotiate the deal with the seller, and answer any other outstanding questions.

Once you come to a price that you agreed on, you sign what's called a APA, asset purchase agreement, and that any other kind of contractual stuff you want in the deal, such as support or certain privileges, if they have a special deal with a manufacturer or things like that. And once that's all signed, the money is sent in to Empire Flippers. They hold on to the money acting as escrow while they help you actually migrate that business over to you as the buyer. So if you bought an affiliate site, they would help migrate that site over to your hosting and would help you change all the affiliate links.

Using a broker you get what they call revenue verification, so that is a brief window or period, usually about two weeks, but it can be extended based off negotiations between the seller and the buyer. And that’s where they hold onto the money that the buyer has sent to them, and they hold onto the domain of the seller so that way they have a bit of leverage to make sure everyone’s doing what they said they were going to do. And it gives the buyer time to look at their traffic analytics, or their P&L, and their income dashboard with whatever monetization they have to make sure that yes, everything the seller has told you is true, you are seeing the traffic coming in, everything is correct, etc. And after that verification period, the buyer will tell them, “Go ahead, release the funds, everything is correct.” And they will release the funds to the seller, minus their commission, and that’s the whole process in a nutshell.

What is the Process for Selling an Online Business with Empire Flippers?

You submit your basic information, like date created, when was it first profitable, your contact information, etc. And you pay a $297.00 listing fee. Unless you are a repeat seller, then you only pay $97.00, and that covers the cost for their team to do the actual vetting part, making sure the business is legitimate. They will collect information, such as access to your analytics, profit and loss statement, and ask you any kind of questions. And verify your identity.

That usually takes a two week period. It can be a little bit longer depending on the complexity of the business. But content sites tend to be a little bit faster when it comes to vetting. They will tell you what they think it is worth, giving you a price point that they think it will sell on their marketplace, and then you will talk to your vetting specialist and say either, “Yes, I think this is the right price,” or, “No, I think this is wrong and here is why.”

Once that is all agreed on it goes live on their marketplace, they promote it out to their database of 80,000 buyers on their email list, and they start doing some Facebook ads and start syndicating it across different marketplaces. Potential buyers will start doing their due diligence on your business. You as the seller should be very hyper responsive during this period and answer any questions that come in. Empire Flippers sales team will take the most common questions that you’ve answered, and they’ll just start answering it for you and start prospecting their buyer database, doing criteria matching with them to bring them over to your business, and help you negotiate the deal for the highest offer.

Once you get an offer you accept from that same buyer-seller conference call, that is when the migration process begins, and it’s pretty similar to what it’s like when buying an online business, instead of them handing the business over to you though, they would help you hand the business over to the buyer.

For a Buyer, What Additional Vetting Should You Do?

The vetting that the broker does is just making sure that the business is a legitimate opportunity that is making money.

Due diligence is different. It can be very personalized. Gregory said:

> *My best tip when it comes to doing due diligence is write out a simple list of what kind of investment you want. Do you want something that’s hands off? Do you want something that you can really roll up your sleeves and get into, kind of like a rehab house, or fixer upper in real estate, if you will, or do you want something that has systems in place, has a team in place that you can scale, that just needs that*

> *little extra push because of some skill set that you bring to the table that the seller didn't have?*
>
> *Ask yourself those questions, what do you want first? And then when you have that list, when you're looking at the potential businesses to buy, you should look for ways to disqualify those businesses as quickly as possible. So if something almost meets the criteria that you're looking for, you should just X it out, because there's tons of other opportunities out there, you should keep looking for the one that matches all your criteria. And as you filter them down, say you start with 100 business, do good due diligence, you probably end up looking at 10, maybe 12 of those businesses. And maybe make an offer on two or three at the end of the day, and take one.*

At Empire Flippers, they usually sell within 10% of the list price. And they are paid using a tiered system with commission. So anything less than a million dollars, they do 15% commission, and a million to two million is 12%. Then two to five million is 10%, and anything five million and above is 8%.

What are the Biggest Mistakes Buyers and Sellers Make?

The biggest mistakes he see sellers making is trying to sell their business on potential:

> *So what I mean by that is you have a seller who's excited to sell his business, and you get this buyer that's interested in it. And the seller just keeps going on about how awesome his business is, like it's perfect, this thing is going to be worth a million dollars, a billion dollars. And that actually turns the buyer off from buying your business when you sell it on potential. That buyer will look at you and say, "Well, if it's so great, how about we do this, I'll give you $5,000.00 and the rest we can do this big earn out that's*

tied to the milestone of when that business hits this dreamy plateau you're talking about." So that I say is a big mistake that sellers make.

Instead focus on the mistakes you made in the business. They want to hear that, because a lot of times the mistakes, and what's wrong with the business, is actually the investment opportunity for the buyer.

On the buyer side, one of the big mistakes is not asking for seller financing.

I always recommend that the buyer should do seller financing. It doesn't hurt to ask even on a $100,000.00 deal you can ask, "Hey, I'll pay you this $100,000.00. I've give you $70,000.00 up front, and you seller finance me a $30,000.00 earn out over a period of so and so months." The great thing about doing that is a lot of times sellers are very open to that, and very rare do they ever charge you interest, so it's basically an interest free loan that you're getting from the seller, so that is definitely something I recommend to buyers.

Not understanding how deal structuring works is also a big mistake that buyers end up leaving money on the table.

Deal structuring is where, when you put in an offer on a business, say it's a million dollar offer, you put down $800,000.00 up front, and then $200,000.00 over a period of time, you want to attach milestones to those periods, and maybe those milestones are tied to revenue, or tied to net profit. If you're a buyer, I'd always recommend tying it to net profit. Most sellers will likely not go for that, they prefer you to tie it to net revenue, but if you can tie it to net profit, that's a really great way to mitigate your risk, even if you are paying full list price, you're starting to mitigate your risk by how you structure the deal.

This might sound much more complex than it really is. It actually is not as complicated as it sounds, it just takes a few skill sets that you need to learn, similar to buying real estate. If you want to learn more from Empire Flippers, they have both a blog and a podcast.

What do you think? Is this an asset class that you are interested in?

Full Transcription

Intro: This is the White Coat Investor Podcast, where we help those who wear the white coat get a fair shake on Wall Street. We've been helping doctors and other high income professionals stop doing dumb things with their money since 2011. Here's your host, Dr. Jim Dahle.
WCI: Welcome to the White Coat Investor Podcast, this is episode number 77, Investing in Online Businesses. This episode is sponsored by our friends at Zoe Financial. Finding a reputable financial advisor can be difficult. And even more difficult is finding an advisor you personally connect with that also specializes in the areas where you need help. Like taxes, diversifying investments, or just budgeting. That's where ZoeFin.com. They have developed an algorithm that matches you with an advisor based on your unique life stage and goals. All of the advisors in Zoe's network are independent, accredited, fee only fiduciaries, and amazingly this means that Zoe rejects 95% of the advisors they interview, so you don't have to waste time with sales people. Visit ZoeFin.com/whitecoat, take their quiz, and schedule your free call today. That's Z-O-E, F-I-N dot com, slash white coat.

WCI: Our quote of the day today comes from Morgan Housel, who said, "A big enough bonus can convince even honest, law abiding finance workers selling garbage products that they're doing good for their customers."

WCI: Thanks for what you do, I know the work you do each day is not always appreciated by those you do it for. And a lot of people don't appreciate the fact that you sacrificed a significant portion of your life and health to do it.

WCI: But it's pretty interesting work, I've got to admit, I had an interesting heart rhythm, an arrhythmia in a young person in the ER just the other day, they had isorhythmic atrioventricular dissociation, which I'd never seen before in all the years I've been practicing. And it was kind of fun, I put it up on Twitter and got a lot of responses, you know, I had the cardiology types who correctly identified it, and I had the orthopedic types who said, "It goes up, it goes down, looks like it'll move kephlex around the body." And then of course I had the finance people commenting on it, who said it looked like a stock chart for something they didn't really want to buy. But either way, it was pretty fun to see what people thought of that EKG.

WCI: But there's still lots of interesting stuff out there that you haven't seen yet in your career, and that is still intellectually stimulating and so it's awesome sometimes to have a job in clinical medicine.

WCI: We have a special treat today, we're going to be talking about investing in online businesses, which is kind of a personal interest of mine. But also I think something that most of you would like to at least learn a little bit more about as well. Let's get into it.

WCI: Today on the White Coat Investor Podcast we have a special guest, Gregory Elfrink, the director of marketing for Empire Flippers. And we're going to talk about something I don't think we've ever covered on the podcast at all. I discussed it once or twice over the years on the blog that we have at WhiteCoatInvestor.com, but not for years. It's probably been two years since I even mentioned it, and I never got into as much depth as I think we're going to do today.

WCI: So I'm excited to have you here, thanks for being on the show, Gregory.

Gregory Elfrink: Yeah, thanks Jim, thank you for having me, I'm really excited to be here.

WCI: Let's start with you just telling a little bit about yourself, before we started recording we had a great conversation about our lives, and some of the things we have in common, so tell us a little bit about yourself.

Gregory Elfrink: Yeah, well, for your podcast listeners, Jim and I grew up basically in the same neighborhood, so we're both from Alaska, pretty random. But yeah, outside of that, I used to work in the oil fields in Alaska in the Arctic Circle, and then I got pretty heavily into internet marketing, I love marketing in general, like marketing and literature are two of my big passions. And I found this company called Empire Flippers and became their content marketer, and now I'm their director of marketing, and what we do is help people buy and sell online businesses.

WCI: That's very cool. I always find it interesting to find people that are passionate about stuff that I have no passion for whatsoever. You know, I mean marketing's super important, don't get me wrong, I've got a business here, and I have to do lots of marketing, and we try to do it as best we can, but I'm not going to say I'm passionate about it. I'm not passionate about marketing, so I think it's awesome that somebody is.

Gregory Elfrink: I totally relate. On another part of that, like you know, I'm so passionate about literature I'll give someone a book, or whatever, and want to discuss the symbolism or whatever, and I'll ask them, "What do you think?" They're like, "Oh, I like it." Well, what else? Like, "That's it, man."

WCI: Yeah, it’s so true. You know, even within the house of medicine though, you know, most of our listeners are doctors, and it’s funny because I’m just so happy that there is somebody that’s interested in pediatric pulmonology, you know. Or some sub specialized field of medicine that I’m just not all that interested in, but it’s awesome to call somebody up. I mean, just the other day I called up the pediatrician on call to talk to him about this terrible eczema this kid had that I was seeing in the ER, and he walked me through it. You know, like it’s something he did all day long, which he does, but it was something I hadn’t seen in the ER, you know, a terrible case of eczema like that, for years if ever. And so it’s just wonderful to have people that know stuff about things that I’m not particularly knowledgeable about.

Gregory Elfrink: Yeah. I totally agree with you, I mean, that’s why I listen to a bunch of random podcasts. I’ll sometimes just browse random … like purely random podcasts and give it a spin, see what I can learn.

WCI: Yeah, it’s amazing how much information’s out there, you’re really only limited by your willingness to learn.

Gregory Elfrink: Yeah, absolutely.

WCI: Let’s talk a little bit about Empire Flippers before we get too far into this. Obviously you have a conflict of interest here, because you work for a company that buys and sells websites, you know.

Gregory Elfrink: Oh, we don’t buy and sell the websites, sorry, I probably should’ve been clear-

WCI: Oh, you broker for them.

Gregory Elfrink: Broker, yeah, yeah, yeah.

WCI: So tell us about Empire Flippers. I mean, how did it get started, what does it do, etc.

Gregory Elfrink: Yeah, so it's a pretty interesting story. So we've been around since 2011, we actually were originally an outsourcing company in the Philippines, and what ended up happening was one of our clients, this is long before I came into the picture, one of our clients kind of pulled out, and we had this whole team in the Philippines, we're like well, what are we going to do with them? And we started building our own AdSense sites, not making too much money, but we blogged about it, blogged about the journey in making these sites, and kind of like the system we had created. And eventually what we did is we started selling those sites on another platform, in what is, to me, kind of one of those accidental moments in entrepreneurship, our audience was like, "Hey, you guys have this reputation for selling your sites, I don't, I want to sell my site, would you sell my site and I'll give you a piece of the commission."

Gregory Elfrink: So we decided to try it out, and fast forward a few years … or less than a year later we realized wow, this is … we're selling way more of other peoples' online businesses than our own, why don't we just stop building our own sites and go into just full time broker. And fast forward to 2018, we've been on the Inc 5000 list three years in a row now, and one of the biggest, if the not the biggest curated marketplace in the online business space. And that's affiliate sites, e-commerce, SASS businesses, basically anything online, even some more esoteric ones like Kindle publishing businesses.

WCI: I looked at your website, which can be found, for those who are interested at EmpireFlippers.com, and you've got a rather large team there. A lot of people working there, and … but the site says you've only sold 50 million worth of websites. That just doesn't seem like very many to me for the number one, or close to it, curated marketplace. Is this industry really that tiny, that 50 million gets you to number one?

Gregory Elfrink: Yeah. So that’s a super good question. And the answer is yes. The reasoning why, the long answer to why that is a yes, is because online businesses are really not that new. Or I’m sorry, not that old. And so a lot of them are just kind of becoming an asset class in the last few years. For example, there’s a type of e-commerce called Amazon FDA, which is fulfilled by Amazon. It’s kind of redundant naming, but basically these people will create these products, put it up on Amazon, Amazon will fulfill. Well that business model in and of itself only really started existing like maybe three or four years ago. And it only really got hot about two years ago, and really was only a year and a half ago that any of those online businesses for that entire business model became … had enough history of profit, of growth, trajectory, that they started becoming interesting to investors to look into, and into buying.

Gregory Elfrink: So the oldest sites, or the oldest online models, an affiliate site, or an AdSense site, and those have only been around maybe for about 10 years, and really probably more like seven years when it comes to buying them as an asset. And so that kind of gives you like the backstory of why this is now just starting to happen, because now they’re that maturation point. But the other thing, why we are one of the biggest ones, while only have sold 50 million dollars, is because a lot of entrepreneurs out there just really don’t know they can do this. Which is pretty interesting. So we’re pretty big in what is called the digital nomad space, and we go to a lot of their events, we sponsor a lot of different stuff, put on things for the community. And even within that space where we’re relatively famous, there’s a lot of digital nomads out there building their own drop shipping store or their own affiliate site, that still never really has heard of us, or never even thought that they could sell their site, or buy a site for that matter.

WCI: So how many sites have been sold on Empire Flippers?

Gregory Elfrink: I don't have the number directly in front of me, but I think … I'm pretty sure it's over a thousand businesses. So for this quarter I think we will sell … or this year, I think we're on track to selling like 500 or something like that, I think. I would have to look at the numbers. But over a thousand.

Gregory Elfrink: And the last two years we've seen big growth, versus the years before.

WCI: Now you've mentioned several types of sites that you've put into categories, an AdSense site, or an affiliate marketing site. Can you talk about each of those categories, and which ones tend to be most commonly sold on Empire Flippers, and just tell our listeners what you mean when you say an AdSense site?

Gregory Elfrink: Yeah, sure. So for anyone interested, I actually wrote an e-book explaining the different popular online business models. I can shoot you the link if you want to put it in the show notes later. But basically, an affiliate site … there's really three main kinds of online business models, and then they're broken down into different segments. So like AdSense and affiliate sites, they would both fit into what I would call a content site. And that primary business model is basically you're producing content around a certain subject. Let's say you have a home and kitchen website, and you're doing recipes about food, and maybe about juicers, and you have the reviews of juicers, like the best five juicers for losing weight, or whatever is the name of the article. Someone reads that article, and it lists those five juicers, you click the link to one, it goes, sends you to Amazon, and if you buy anything off of Amazon.com in the next 24 hours, there's a cookie that Amazon has given that site owner that will give them a commission on anything that person buys, at no extra expense to the person buying off Amazon.

Gregory Elfrink: Amazon's the most famous one as far as affiliate programs go. One of the first ones, really. But almost any business website out there has an affiliate program if they're of any kind of large size. Usually local businesses don't, but if you're interested in like well what other people are selling an affiliate program, you can usually scroll down to like the footer of a business website, like WalMart.com, or any other big site, and they'll usually have like some kind of link in the footer that says affiliate program. So basically you sell their products, you don't have to keep any inventory yourself, so it's a really great way to bootstrap.

Gregory Elfrink: With AdSense sites it's a similar concept, it's a content site, usually informational driven articles, so maybe how to stop snoring, or something like that is the article. And someone clicks on that article, reads it, and there's a little ad, whether it's Google AdSense or another ad network, when someone clicks on that ad, you as the content publisher would get paid a little bit of money for that. So that's that business model.

Gregory Elfrink: And then there's another really big on, which is e-commerce, which I imagine more people are probably familiar with because it's a little bit more mainstream nowadays. And that would be something like creating a Shopify store, so you source your own product, like iPhone case covers, or whatever it is. And you sell those through your Shopify store, you source the product, you have your own warehouse, just like a traditional retail store, except for there's no offline component, it's all online. And there's several different schools of e-commerce, there's drop shipping, where similar to affiliate you don't hold the product yourself. Then there's sourcing the product yourself, which is where you would have that sitting in your warehouse. And then there's another type which is Amazon FBA, which is basically like a traditional e-commerce store, only all the sales are happening on your Amazon product listing. And Amazon takes care of a lot of the more tedious and oftentimes unpleasurable parts of running an e-commerce business for you. So that’s one of the benefits there.

Gregory Elfrink: That and then the other, the third category is software stuff, so like software as a service, if you’re familiar with like Mail Chimp, or HubSpot, those are both software as a service, so it’s software that you pay monthly for, that’s a very, very hot business model because the recurring revenue is obviously very attractive. Then there’s also things like apps, which is … we all know what an app is, with a lot of in game purchases or in app purchases, or maybe they monetize through ads, bunch of different models within there.

Gregory Elfrink: And then the other two which are less common, but they’re still pretty good businesses, is Merch by Amazon, which is basically like print on demand t-shirts that Amazon has created as a business model, which is interesting because that was originally created for game developers, but a lot of people have made that into a full blown business in and of itself. And then of course Kindle Publishing. Which you have a team of writers producing these books, whether fiction or nonfiction, and you sell them as kind of a publishing house.

Gregory Elfrink: In terms of what’s the most common, definitely e-commerce and affiliate sites. So content sites and e-commerce sites are by far and large the most common.

WCI: So make the case for investing in online businesses. Why should an investor do that?

Gregory Elfrink: Yeah, that’s a great question. And the reason why is you as an investor, let’s say you were really big into low index mutual funds, they’re low cost, you don’t have to do anything, that’s great, but let’s say you want to get into something like day trading, or something a little bit more risky. If you’re the average Joe, it’s unlikely that you would ever have the amount of money you would need to put into a certain stock to either make that price go up or that price go down. And if you do have that kind of money, you're probably operating on someone else's podcast, on some other level, you know? Like you might not be listening to me.

Gregory Elfrink: But the other investment thing is real estate, right? And real estate gives you a little bit more control, because it's a physical house, you can repair it, fix it up, and then hopefully sell it for more later. And an online business is very similar to real estate, only I would argue that while it can be more volatile, because things change all the time in the online business space, I would argue it gives you far more control over any other investment out there. For example, let's say you bought a content site for $40,000.00, which roughly will get you a site making 1500 to $2,000.00 cash flow on that profit every month. You would be hard pressed to do that same deal in real estate, and you'd be even more hard pressed to do a test, like a two week test that we call conversion rate optimization, that tests your affiliate links and different colors, different fonts, and different placements that could lift that income up by 20% within the first month, which isn't that uncommon with CRO, with using conversion rate optimization. So that's one of the huge advantages of investing in online businesses.

Gregory Elfrink: Of course one of the big disadvantages for someone who might be listening out there right now, is that you do need to have some kind of skillset, you do have to learn a little bit, what you're buying and what it is, like what are the different levers you can pull. So there is a learning curve there. But I wouldn't say it's a bigger learning curve than say, investing in real estate, and the cash on cash return can be really awesome.
WCI: Now what percentage of portfolio do you think would be appropriate for online businesses?

Gregory Elfrink: Well, I would always give the disclaimer out there, for anyone looking to invest in online businesses, it should never be like your emergency money, it should never be rainy day. It should be absolutely okay if you lost everything. So as a word of warning, like if you bought a content site with the main traffic source being Google, like Google organic traffic, and Google changes it’s algorithm, you might lose all that traffic overnight. Is that something that happens often, not really, but it can happen so you should always be okay with losing your money.

Gregory Elfrink: But outside of that, if you are young and you want aggressive growth, I would put a lot more in it, I’d probably like 40, 50% I would go towards online business, if you also have the willingness to learn some of the skill sets that can get you a leg up. If you’re looking more for hands off, something that can make you good money in say retirement or whatever, maybe more like 10, 20%, or like 10% of your portfolio. It really depends on your individual, you know, what you want. Like if you want to just play around though, if you have a good nest egg in other asset classes, I would say $100,000.00 is a pretty good starting point to really get your … sink your teeth into this kind of investment vehicle.

WCI: Now you keep mentioning a skill set. Are you really just buying a job here? Or is this an investment? I mean, how do you get it to be more passive investment like rather than job like?

Gregory Elfrink: Yeah, that’s a great question. So one thing I tell entrepreneurs on the sale side, because right, we’re marketing to both buyers and sellers, I always tell the sellers that you need to make sure your business is not a job, because that’s not what an investor is looking for, right, they’re looking to buy something that has some kind of leverage.

Gregory Elfrink: So one of the cool things about online businesses in general is a lot of the work is pretty front loaded. So let’s go back to a content site, I’m a content writer myself, so I’m very familiar with this business model. So you start a site, let’s say it’s about those juicers, you put in all that work, you get 50, 80 articles on there, it’s starting to rank in Google, you’re starting to make some money. And let’s say you get it up to that $2,000.00 per month or $5,000.00 per month selling juicers and other related products around that niche, then you stop working on it. You decide, eh, I’m going to go to Bali or go on a vacation or whatever, and that money still keeps coming in. Just because you stop working on it doesn’t mean Google isn’t sending traffic to it over and over again. So you could theoretically have this huge website with thousands of articles that are pulling in this organic traffic on a daily basis, making sales for you, more or less hands off.

Gregory Elfrink: Now there is some maintenance. You want to update the articles, if you see something weird happen with your traffic you should probably investigate that. But overall, there’s not that much to go into maintaining a content business, or even in some cases an e-commerce business, if you get the logistic side down.

Gregory Elfrink: So there’s a few skill sets you should know about, but overall if you’re looking at buying a business that seller’s probably going to tell you what those skill sets are. They usually have standard operating procedure, kind of like an operator’s manual that the investor can look at, and that allows the investor to say like, “Okay, well, am I willing to do this, or is this too much risk?” And the cool thing is, with this kind of investment it’s more or less like you don’t have to do too much, especially in the content site, once you buy the site, unless you want to grow, if you want to scale the business then yeah, there’s probably going to be a lot more work involved.

WCI: So what kind of multiples should you expect?

Gregory Elfrink: Yeah, so in the industry you’ll often hear like two to four X, or you'll hear 20 to 50 X. So why there's that huge difference is two to four X, they're talking about annual EBITA, so earnings before income and taxes … tax deductions I think that last one is. And when you hear 20 to 50, they're talking about monthly. So online businesses, depending on who you're talking to, can be valued on either. At Empire Flippers, we value it on a monthly multiple, because it's a big more granular, it lets our investors see a little bit better, and also lets us evaluate the business better.

Gregory Elfrink: But in terms of average multiples right now, what we're seeing across the board is between 25 and 35 … or 25 to 32 X of monthly net income. Those multiples have gone up significantly, so like just two years ago content sites … or two and a half years ago, content sites were doing about 20 X multiple, and Amazon FBA was doing right around 20 X, it was still just coming onto the scene. So those multiples have risen, so it's still somewhat of a seller's market, but I think the multiples will actually go higher. So, in some ways, it's more of a buyer's market, depending on which business you're looking at. But if you're looking to get into the online business game, I think now is a really good time, because there's not that much financing in our industry, and as financing becomes more and more of a thing, my prediction is the multiples will actually go up as well.

WCI: Yeah, I find it fascinating, regular readers of my blog know that I considered very seriously selling a couple of years ago, selling the website. And I was surprised just how low multiples were. I mean, we're talking about selling for basically what you'll make in profit in the next two years.

Gregory Elfrink: Yeah.

WCI: And I kind of came to the thought that well, shoot, if I'm selling it for that small amount of money, I can just hold onto it, make that money over the next two years and still own the thing. I mean, these are incredibly low multiples compared to a brick and mortar business, or compared to a real estate property, income property for instance.

WCI: And so I guess my question is, why does anybody sell with that kind of a multiple?

Gregory Elfrink: Yeah, so that’s a great question. Selling is really more of an art than a science. So it really depends on what someone is doing. So online entrepreneurs tend to have several different projects running at any given time, because again, so much of the work is front loaded on these businesses. So a great story is we have this one seller, he built up this kind of like factory system of building these Amazon affiliate sites, where you can just crank them out, he had a … not huge team, he had like a few VAs, and he knew his craft really well. And over a year and a half, he sold $700,000.00 worth of the sites on our platform, and then he used that $700,000.00 to guy buy a SaaS business. Also for a similar multiple, but he was able to use that money to leverage himself into a more lucrative market, right, so that’s the reason why he was selling.

Gregory Elfrink: And also because sense all of his sites had Google traffic going to it, organic traffic, he decided to take the two to three years of net monthly profit up front and mitigate his risk of a future Google update that might ruin his sites, whereas an investor came in, bought those, and decided I’m willing to take that risk because I see the cash on cash return, maybe they know a little bit about SEOs, or maybe they even know how to fix SEO penalties so it’s not really a big concern for them.

Gregory Elfrink: So there’s a bunch of different reasons why people sell, that’s just one business reason. But we’ve had people sell for other reasons too. One really cool story, oh actually I’ll give you two cool stories. This one guy, he sold a business with us to adopt a kid, which is pretty cool. Then other seller, who was not an American, he was actually a

Cambodian who spoke very little English, we actually sold this business when I first came aboard, it was … it sold for around $250,000.00, I believe, and that’s a lot of money for anyone, but that’s generational wealth income for this guy in Phnom Penh in Cambodia, right? So now he started teaching all these other Cambodians like how to create these affiliate sites and all this stuff, because he was selling it in the American market, so he had a very interesting angle that was really cool.

Gregory Elfrink: But yeah, so there’s a bunch of reasons why people will sell, and while the multiples are lower compared to like a traditional business, I would say the cash flows tend to be much, much stronger than a traditional brick and mortar business.

WCI: Do you think they’re that low just because there’s so much risk involved, or just because it’s new and people haven’t discovered it yet, or can’t really scale it up, or … ?

Gregory Elfrink: I think it’s a mix of both. Both that it’s pretty new, there’s not that many players out there helping people buy and sell online businesses. We’re kind of at the forefront when it comes to like educating the market, and we just started now reaching out to professionals like you in the investment space to start talking to investors about this idea. So it’s still a really new thing, which of course people, they want to see how it turns out before they invest in something that’s new, right?

Gregory Elfrink: And the other thing goes back to what I said earlier is just a lot of these businesses are just now getting to this point where enough of them have been created, there’s enough history, there’s enough track record, that they’re starting to become interesting to investors.

Gregory Elfrink: And one other reason why the multiples might be relatively low right now too, is I hinted at earlier, is there’s very little financing in this industry. So say you wanted to buy an Amazon FBA business for 500 or $600,000.00, it’d be very difficult for you to go to your local Wells Fargo and get a finance, get like a business loan. No SBA loans are starting to come into play, but even those are pretty rare still in our industry. So a lot of times financing is a real difficult thing, and that leads to people doing earn outs when they do buy a business, if they don’t buy it outright, just because a lot of people don’t have the liquid amount to buy it all up front. So that’s kind of an interesting thing right there, that I think is causing the multiples to be a little bit lower.

WCI: Are the multiples the same for all the different size businesses? I mean, if you’ve got a site bringing in $1,000.00 a month, or $10,000.00 a month, or $100,000.00 a month, are the multiples all still two to three X?

Gregory Elfrink: No, so every business is pretty different, that’s why I said across the board we’re seeing about 25 to 32, but we’ve sold as high as 58. So when a business comes into our marketplace, in particular, we actually vet the business, so I don’t want to put down like our industry, but there’s a lot of people out there who will sell things that aren’t … then they’re selling you something that isn’t necessarily true. So when a business comes to our marketplace, we make them pay a fee that vets them as saying like, “Yeah, yes, I’m willing to pay to sell my business.” And then we actually have a team that pours through their P&L, their profit and loss statement. We have people who log into their traffic and analytics, any affiliate programs they have, collect the screenshots and verify, or review as much as we humanely, possibly can, saying that this is a legitimate opportunity.

Gregory Elfrink: And while we’re doing that, making sure it is a legitimate opportunity, we’re also seeing, okay, well how has past businesses that we’ve sold, what multiples did they sell at? And we also have a internal tool that uses various calculations that we've used along with that real sales data to input to come up with the valuation range, and then we decide with one of our vetting specialists what that business will sell for on the market.

Gregory Elfrink: Of course, we're always working with the seller on this, so we don't put anything on our marketplace until the seller's agrees that that is an appropriate price for his business. But most of the time, we reject about two thirds of the businesses that do come our way.

WCI: So let's talk about the process. I mean, the process of buying an online business. So let's decide I want to invest $10,000.00 into an online business. What's the process of doing so?

Gregory Elfrink: Yeah, so I would say, and this sounds self serving, but I would say you should probably invest more than $10,000.00, and the reason why I say that is because most of the scams and illegitimate opportunities when it comes to buying an online business happen at the sub $40,000.00 range. And the reason why is just because it's much easier to fake traffic and sales at that level, because you're getting very … you're just getting handfuls of sales. So someone could theoretically go and get all of their cousins, and friends, and everyone on their Facebook go and inflate the numbers on the traffic analytics and on the sales dashboard, depending on what their business is.

Gregory Elfrink: So I'd recommend starting at 40k, you can obviously start much lower than that. There's nothing wrong with buying a sub $40,000.00 business, just if you're in that range, just be extra careful with your due diligence.

Gregory Elfrink: So but other than that, the process depends on if you decide to go with a broker, or if you decide to go with a private sale. So real quick on a private sale, that's where you like … you find the site yourself, and you reached out to that site owner, you asked them if they were interested in selling, and they say yes or no, and that process starts. Versus a broker, you come to a place like as at Empire Flippers, you can click on our marketplace, and we have all these online businesses that are for sale that we have vetted. And with us, we use a deposit system. So you put down a 5% refundable deposit, and for us that's just a way to weed out tire kickers, so that way we're only bringing potential buyers to our sellers who are actually interested in the business and actually have some skin in the game, even though we always refund the deposit, but it does weed out a lot of that.

Gregory Elfrink: And what happens from there is we give the more substantial private information about the business, such as the URL, we'll show the URL, the P&L, any other sensitive information that we kind of keep from the public eye, that depositor can get that so they can start their due diligence. They can start asking our salesmen questions, and our business analysts will respond with answers, they'll talk about what the seller might be willing to take. And eventually what happens is a potential buyer will get on what is called a buyers seller conference call, where one of our business analysts helps that buyer negotiate the deal with the seller, and answer any other outstanding questions, like what was this dip in traffic in August, or why did you stop this paid traffic campaign, and so on. So that's what those are.

Gregory Elfrink: Once you come to a price that you agreed on, you sign what's called a APA, asset purchase agreement, and that has like any other kind of contractual stuff you want in the deal, such as support or certain privileges, if they have a special deal with a manufacturer or things like that. And once that's all signed, the money is sent in to Empire Flippers if you're using a broker. We hold on the money acting as escrow while we help you actually migrate that business over to you as the buyer. So if you bought an affiliate site, we would help migrate that site over to your hosting, we would help you change all the affiliate links.

Gregory Elfrink: And then you’re given … of course you don’t get to have that if you go with private, and you also don’t get what we call revenue verification, so that’s a brief window or period, usually about two weeks, so it can be extended based off negotiations between the seller and the buyer. And that’s where we hold onto the money that the buyer has sent to us, and we hold onto the domain of the seller, if there is a domain involved, so that way we have like a bit of leverage to make sure everyone’s doing what they said they were going to do. And it gives the buyer time to look at their traffic analytics, or their P&L, and their income dashboard with whatever monetization they have to make sure that yes, everything the seller has told me is true, I’m seeing the traffic coming in, everything is correct.

Gregory Elfrink: And after that verification period, the buyer will tell us, “Go ahead, release the funds, everything is correct.” And we will release the funds to the seller, minus our commission, and that’s the whole process in a nutshell.

WCI: Now let’s talk a little bit on the selling side. Let’s say I’ve got a physician financial blog, where I just blog about financial topics for physicians and have display ads on it, and I make about $2,000.00 a month, and I decide I want to sell it. So I come to you, can you tell me about the process, what we’d go through to try to sell it through Empire Flippers?

Gregory Elfrink: Sure, yeah, no problem. So what you would do, you’d come to our website obviously, you submit your basic information, so that would be like date created, when was it first profitable, things like that, pretty basic information, and then your contact information, of course. And you’d pay a $297.00 listing fee, as I mentioned. Unless you are a repeat seller, then you only pay $97.00, and that covers our cost for our team to do the actual vetting part, which is what I was talking about earlier, about making sure it's legitimate. And what we'll do from there is we'll collect information, such as get access to your analytics, ask you any kind of questions like did you use a PDN, if you're doing a bunch of SEO, a bunch of other questions. We'd also verify that you are, in fact, you. So you'd send in your ID, like your license, driver's license usually works just fine, but we have to verify that it is really you that is reaching out to us to make sure you're not trying to scam one of our buyers or something like that.

Gregory Elfrink: And after we get all of that kind of … all of that information with your P&L and all that stuff, usually … well, with a content site, it's not usually a big deal, but say you were e-commerce, we will usually help you with your profit and loss statement, just because a lot of e-commerce entrepreneurs, while they're fantastic entrepreneurs, they're not exactly the best bookkeepers. We often help them create like a better P&L that's more attractive, and help them figure out how to like transfer everything into a accrual account and all that kind of stuff.

Gregory Elfrink: But for content sites, that's usually not a big deal, because you can see in their AdSense account dashboard or their affiliate dashboard what they're making and all that kind of stuff.

Gregory Elfrink: So once that is done, that's usually like a two week period. It can be a little bit longer depending on the complexity of the business. But content sites tend to be a little bit faster when it comes to vetting. We will tell you what we think it is worth, we'll give you a price point that we think that it will sell on our marketplace, and then you will talk to your vetting specialist and say either, "Yes, I think this is the right price," or, "No, I think this is wrong and here is why." Now a lot of sellers, they obviously want to have more value for their business, so usually they'll say, "This is wrong," and not to be … to put them down, but often they are wrong when it comes to that.

Gregory Elfrink: And so we'll talk to them, and tell them, "Well, this is what we see," but every now and then they are correct, and so we might bump it up a little bit more from what we initially gave. And once that is all agreed on, again, that's about a two week period, it goes live on our marketplace, we promote it out to our database of 80,000 buyers on our email list, and we start doing some Facebook ads, we start syndicating it across different marketplaces. And overall, just starting to promote the listing. Depositors will start depositing onto your business so they can start doing the due diligence. You as the seller should be very hyper responsive during this period. I'm always amazed at how many deals are killed by a seller just going dark. They suddenly take off for a week vacation, or something like that, and don't answer any of the emails, when they have possibly a two, three million dollar business that they're selling with us, which is insane, really crazy to me.

Gregory Elfrink: But that kills a lot of deals, as you might imagine, so I always recommend being hyper responsive during this phase, and answer any questions that come in. Our sales team will take the most common questions that you've answered, and they'll just start answering it for you so that we start doing the heavy lifting on that end. Our sales team will also start prospecting our buyer database, doing criteria matching with them to bring them over to your business, and help you negotiate the deal for the highest offer.

Gregory Elfrink: Once you get an offer you accept from that same thing as the buyer, seller conference call, that is when the migration process begins, and it's pretty similar to what it's like when buying an online business, instead of us handing the business over to you though, we would help you hand the business over to the buyer.

WCI: So for a buyer, what additional vetting do you think they should do above and beyond what your company has done?

Gregory Elfrink: Yeah, that’s a great question actually. So a lot of people confuse these two terms when it comes to investing in online businesses, and it is extremely important that a potential investor listening to this does not confuse these two. So, vetting is just us making sure that the business is legitimate. So that doesn’t meant that the business is good, that doesn’t mean the business is bad, it just means this is a legitimate opportunity that is making money.

Gregory Elfrink: So due diligence is different in due diligence scout all sorts of crazy criteria based off what you’re looking for as an investor. So if you’re looking, let’s go back to the SEO expert who knows how to remove Google penalties. That person’s due diligence might be including, looking for a business that actually is hurt in Google. So Google has penalized this site, but that is what they want, so that’s part of their due diligence.

Gregory Elfrink: For most buyers, that’s probably not what they want. So due diligence can be very personalized. My best tip when it comes to doing due diligence is write out a simple list of what kind of investment do you want, do you want something that’s hands off, do you want something that you can really roll up your sleeves and get into, kind of like a rehab house, or fixer upper in real estate, if you will, or do you want something that is … has systems in place, has a team in place that you can scale that just needs that little extra push because of some skill set that you bring to the table that the seller didn’t have.

Gregory Elfrink: So I would ask yourself those questions, what do you want first? And then when you have that list, when you’re looking at the potential businesses to buy, you should look for ways to disqualify those businesses as quickly as possible. So if something almost doesn't meet … or almost meets the criteria that you're looking for, you should just X it out, because there's tons of other opportunities out there, you should keep looking for the one that matches all your criteria. And as you filter them down, say you start with 100 business, you do good due diligence systems, you probably end up looking at 10, maybe 12 of those businesses. And maybe make an offer on two or three at the end of the day, and take one.

WCI: And are offers typically dramatically less than what they're posted for on the site, about what they're posted for, I mean, are there bidding wars? How does that usually stack up?

Gregory Elfrink: Yeah, so I can't really say for other brokerages, because they often don't post their sales numbers, but for us at Empire Flippers, we usually sell within 10% of the list price. So if it was a $100,000.00 business, we usually sell it for like 90 to $100,000.00. And usually if it's underneath the $300,000.00 range, it's pretty rare for us not to give full list price for it.

Gregory Elfrink: Now as you get bigger, so as you get into say like a four million dollar business that we had on our marketplace, that is where the ability to negotiate the price becomes a much more realistic thing, where you can negotiate down possibly significantly, several hundreds of thousands of dollars on that business, because there's room to work in, versus lower end businesses, or lower priced businesses tend to have less wiggle room on that.

Gregory Elfrink: But even on the lower end, you can still do deal structuring. So for a buyer looking to invest, since there is very little financing in this industry, I always recommend, which isn't great for us at Empire Flippers, but I always recommend that the buyer should do seller financing. So it doesn't hurt to ask even on a $100,000.00 deal you can ask, like, "Hey, I'll pay you this $100,000.00, I've give you

$70,000.00 up front, and you seller finance me a $30,000.00 earn out over a period of so and so months." And the great thing about doing that is a lot of times sellers are very open to that, and very rare do they ever charge you interest, so it's basically an interest free loan that you're getting from the seller, so that is definitely something I recommend to buyers.

WCI: Wow, that's … I'm surprised that so many sellers are willing to do that. So-

Gregory Elfrink: Yeah, yeah, definitely is a very good tip.

WCI: What are the commissions?

Gregory Elfrink: Yes-

WCI: You sell $100,000.00 website, what do we pay?

Gregory Elfrink: Yeah, so Empire Flippers, we have a tiered system with commission. So anything less than a million dollars, we do 15% commission, and a million to two million is 12%. Then two to five million is 10%, and anything five million and above is 8%.

WCI: Okay, so technically when you buy a home, the seller's paying all the commissions.
Gregory Elfrink: Yeah, that is correct. So the seller is the person who ultimately is paying us. So our fiduciary responsibility is to the seller, but with that said, we … like while we do represent the seller from a fiduciary perspective, we like to think we represent both sides pretty well because we have a lot of repeat customers, so at the end of the day, we want the buyer and the seller to get the best possible deal for everyone, so, win, win, win. Ideally, it doesn't always happen, but that is what we shoot for.

WCI: So what are the other options for buying and selling websites, and online businesses, besides Empire Flippers?

Presumably you've got some brokers out there that are competing with you, and you mentioned a few things about private sales. What are the other options?

Gregory Elfrink: Yeah, so private sales is the first one that comes to mind. And again, that's just you going out there and finding the deal yourself, without any kind of broker to help you out. Which is definitely a very cool option to do, you can often get much better deals, because sellers don't quite understand what they have, so they don't know how to value it. So if you're a savvy buyer, and you understand how to do good outreach, and what to look for, that's often a really good path to go and find deals that no one else is looking. So that's a nice route.

Gregory Elfrink: There are others syndication channels too, so there's … syndication is what most of the brokers use to put up their new business listing. So a really big one is BizzBuySell.com, you can go check that out, and you can see a bunch of different online businesses, and offline businesses that are being sold by various brokers.

Gregory Elfrink: The majority of actual brokers in our industry in particular tend to be one man shows. So there's one guy that might only need to sell one or two businesses a year to have a pretty good year, for the most part, maybe they're doing the digital nomad thing and all that kind of stuff. So, and they can't really handle the volume, so they restrict themselves to just a few deals a year.

Gregory Elfrink: And then there are some bigger players, probably the most famous is probably Flippa, which was very early on in the business. They are more of a do it yourself marketplace, they don't really curate their listings like how we do, though they've started working with brokers a little bit more, so they're becoming sort of a syndication channel in their own right. So they're not necessarily a broker, but they're a cool marketplace.

Gregory Elfrink: And there is another one, Quiet Light Brokerage, which they sell … they tend to sell pretty big e-commerce businesses, and they're really reputable people, really nice guys. They have a great podcast, and we have a great podcast, and I love those guys, they're really cool people.

Gregory Elfrink: But yeah, so Quite Light and Empire Flippers are like the two really big brokers in the space.

WCI: So what are the biggest mistakes you see buyers and sellers making?

Gregory Elfrink: Yeah, so the biggest mistakes I see sellers making is trying to sell their business on potential. So what I mean by that is you have a seller who's excited to sell his business, and you get this buyer that's interested in it. And the seller just keeps going on about how awesome his business is, like it's perfect, this thing is going to be worth a million dollars, a billion dollars. And what that does, is it actually turns the buyer off from buying your business when you sell it on potential. That buyer will look at you and say, "Well, if it's so great, how about we do this, I'll give you $5,000.00 and the rest we can do this big earn out that's tied to the milestone of when that business hits this dreamy plateau you're talking about." So that I say is a big mistake that sellers make.

Gregory Elfrink: If you want to counter react that as the seller, I really suggest, and this sounds counterintuitive, but focus on the mistakes you made in the business. If you realize that like, hey, my content isn't the greatest, or maybe my SEO is not the greatest, or I really messed up on this paid traffic campaign, and you tell that to the buyer, that might be the opportunity the buyer is looking for. They want to hear that, because a lot of times the mistakes, and what's wrong with the business is actually the opportunity, the investment opportunity for the buyer.

Gregory Elfrink: On the buyer side, one of the big mistakes, I already kind of mentioned it, is not asking for seller financing. I think that's a great way to leverage OPM in this industry, so I definitely … a lot of buyers don't even ask for that, which is crazy to me. I think not understanding how deal structuring works is also a big mistake that buyers end up leaving money on the table. So deal structuring is where, when you put in an offer on a business, say it's a million dollar offer, you put down $800,000.00 up front, and then $200,000.00 over a period of time, you want to attach milestones to those periods, and maybe those milestones are tied to revenue, or tied to net profit. If you're a buyer, I'd always recommend tying it to net profit. Most sellers will likely not go for that, they prefer you to tie it to net revenue, but if you can tie it to net profit, that's a really great way to mitigate your risk, even if you are paying full list price, you're starting to mitigate your risk by how you structure the deal.

Gregory Elfrink: So not doing a deep dive into how deal structuring works I think is a huge mistake on a buyer's part, because that's really one of their big tool sets.

WCI: Anything else our readers should know that we haven't covered so far?

Gregory Elfrink: Yeah, this might sound much more complex than it really is, so if your readers or listeners out there are like, "Wow, this sounds insane," I just want them to know it's actually not as complicated as it sounds, it just takes a few … takes a few skill sets that you need to learn, similar to buying real estate, which I know when I got started in real estate, that was super complicated to me and now it's fairly straightforward for me. So that's definitely something that I would like to leave with your audience.

WCI: Very cool, well thank you so much for being on the White Coat Investor Podcast, Gregory, we really appreciate you being on here. And interesting fact that we haven't talked about, at least since we started recording, is that you're doing this call from Vietnam. You've actually been living over there for a couple of years, and I think that's pretty fascinating to a lot of people. My audience is mostly high income professionals, physicians, dentists, attorneys, etc. And the idea of being location independent is pretty foreign to most of them, but it's pretty awesome that you're able to live basically anywhere you want in the world, and continue to work your job because it's all basically online.

Gregory Elfrink: Yeah. I love it out here, I love traveling the world, and that is a big reason why people buy these online businesses from us. We get people all the time, high income professionals, maybe a mid level executive will come in and buy a few e-commerce businesses from us, quit that nine to five, go travel the world with their family, or just stay at home and hang out with their family. So that's one of the really cool things that this industry can give you.

WCI: Well thank you so much for being on. Those who are interested in learning more, they can learn more from Empire Flippers, they have both a blog and a podcast. Both are accessible at EmpireFlippers.com. And thank you so much for being on the show.

Gregory Elfrink: Yeah, thank you for having me, Jim, it was a pleasure.

WCI: Well that was fun, wasn't it? Obviously I have a lot of interest in this subject, given that I own part of a couple other websites in the WCI network, as well as a profitable website myself. And so I find that subject endlessly interesting, although I haven't just bought a few random sites from people I didn't know first. I've considered it in the past, and I think it may become an up and coming asset class out there.

WCI: Obviously when I asked him about the percentage of your portfolio you should put into online businesses, I think 50% is ridiculous, so please don't do that. And I say that as someone who has 50% of his net worth tied up in an online business. Luckily, that one I have obviously complete control over, and it's in a little bit different situation when it's a business you're working in every day.

WCI: But, I think it's something that those who are interested in getting into this stuff ought to consider.

WCI: Be sure to check out the forums we've got out there for those who are interested in talking about personal finance and investing with other high income professionals. You can find the main one, the White Coat Investor forum at WhiteCoatInvestor.com. However, we also have a sub Reddit, White Coat Investor sub Reddit, for those who are into Reddit. And the private Facebook group, White Coat Investors, that one is for high income professionals that aren't financial professionals only. But a lot of great discussions going on there as well.

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WCI: Head up, shoulders back, you've got this, we can help.

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