Business Tips
Buying a Business

Buying a business can be both an exciting and apprehensive task. On the exciting side, an existing business usually has a solid customer base and can provide immediate cash flow. Systems and procedures are mostly developed. Employees are trained and have good knowledge of their customers and how the business operates. These are things already in place that someone starting a new business would have to create. As exciting as this seems, there may be some unanswered questions. Some of these are: Is this business right for you? Why is the owner selling? Are the financials as presented accurate? Will there be hidden land mines that you as the new owner will have to face? Most of these questions can be answered by doing what is called due diligence, or looking into and understanding important areas before you buy the business. Below is a discussion of some areas of due diligence.

Find the Right Business. It is important to find a business where you have knowledge of the industry and an understanding of its critical success factors. It is rare when a small business can be purchased and turned over to a hired manager and operated successfully. It takes the daily involvement of the owner who knows the business to make it successful. Also, try to understand if the business is right for your personal circumstances. How many hours are necessary? Will it involve physical work? Will I have the support of my family? These are examples of some of the questions you should be asking to see if there is a personal fit.

Analyze the seller's numbers. Secure financials for the past few years such as profit and loss statements and balance sheets, along with business tax returns in order to accurately assess the numbers, especially revenues and expenses. Ask the seller questions and have a CPA or other consultant help you review the numbers. This analysis will help determine if you are comfortable with the asking price or if you should negotiate it further. In most cases the asking price is a combination of the value of the assets being purchased and an amount of goodwill over the value of the assets. This "goodwill" is what the seller feels entitled to by selling you that customer base, trained employees, and stream of cash flows we discussed earlier. Another area you may look into is the reason the seller wants to sell. Looking into the past financials may indicate the industry is struggling or the seller has lost interest and the business is declining as a result.

Are there any claims on the business? Doing your due diligence also means making sure there are no claims on the business. Check with the State Comptroller's office to see if the business owes back sales or franchise taxes. Check with the appropriate office to determine if there are liens on any assets such as the equipment you are purchasing. Ask to see any employment contracts. Visit with the landlord if you will be assuming a lease to make sure that will be possible. If the lease will be up soon, consider asking that a new lease be negotiated so you will know what your rent will be in the foreseeable future.

Doing your due diligence when purchasing a business will ensure your excitement with purchasing the business will not be dampened by unforeseen problems. There are many professionals you can use to help in this process such as brokers, CPA's and attorneys. Advisors at the Small Business Development Center can assist in many areas of purchasing a business, including help with preparation of a loan proposal to take to a lender if financing is needed.

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