



Buying Basics

Going into business for your self is a big step, one that can be full of apprehension and even fear. Almost 90 percent of all those who purchase a small business have never owned a business. Most of them bought a business that was different than what they had been looking for. These business buyers had the opportunity to explore the marketplace and subsequently found a business more to their liking.

As you begin your search for a business, keep in mind that running your own business is more than a job; it is a lifestyle change. In most cases, it is a very big lifestyle change. Usually, you will be working longer hours, making all of the decisions and doing all of the work from running the business to, in many cases, sweeping the floor and changing the light bulbs.

Most buyers are looking for many of the following in the purchase of a business:

- Pride in the service or the product
- Flexibility
- Income
- Control of your own destiny
- Recognition
- Security
- Privacy
- Status
- Customer and employee contact

One of the most common questions asked by those who have never purchased a business is how you do actually buy a business? It is important that you get answers to all of your questions to make an informed decision.

Here are the steps to buying a business that over the years have become the most efficient and practical:

Evaluate Your Position:

There is no point in continuing the buying processes if the amount of cash necessary to buy the business is more than you are willing to invest. At this point, don't worry about the full price. It's important, but the key factor is the amount of cash that is necessary to buy the business. There is very little outside financing available such as banks, etc., for those who are purchasing businesses. The great majority of business purchases are through home equity loans, with some businesses financed by the seller. This is why the amount you are willing to invest is a key issue.

Also, the business has to be able to meet your basic financial needs. You always expect a business to improve under your ownership, but you have to be able to meet your living expenses as well as meet the debt service of the business.

Visit the Business

Visit the business to see if you like the location and the looks of the business itself - both inside and outside. This is a visual inspection. Pretend you are a customer. *It's not time yet to talk to the owner.* There is no point in going any further if you don't like the physical location of the business or the appearance of it.

Get Your Questions Answered

If you like the business so far, it's time to get your questions answered. For example: What is the rent? How long is the lease? What have been the sales for the past few years? Can the seller support the figures you have been told? Now is not the time to have the seller's books and records completely checked. There will be plenty of time to do that and review other important issues during the due diligence phase. This is the time to get those questions answered that have a bearing on whether you may want to own and operate this particular business. It is time to visit with the seller to get your questions answered about the business itself.

1. How long the business has been in business?

A business with a long track record means there are good reasons for that business to be operating. It is well known in the area, and people will be used to patronizing the business or using its services. The longer it has been in operation, generally, the better the business.

2. How long the present owner has owned the business?

The longer the present owner has been in business, the more likely he or she has been successful. People don't stay in business if they are not making money.

3. Why the present owner is selling?

If the owner of a business has been in business for six months, is 37 years old and wants to retire, you should be suspicious. The more valid the reason for sale, the more realistic the seller will be in considering your offer. However, keep in mind that after five or six years or more, people do get restless or "burn-out" sets in, or people look for new challenges. Why the seller is selling is an important question - get the answer.

Make an Offer

If you now have your basic questions answered and you want to proceed with purchasing this business, it is time to make an offer, subject, of course, to verification of all the information you have received. The main purpose in making an offer is to see if the seller will accept your terms, price, and structure of the sale itself. Remember, you will have the offer subject to your verification of the important information. It doesn't make sense to employ outside advisors and go through the time and expense of due diligence unless you can come to financial terms with the seller.

Due Diligence

At this point, you hopefully have arrived at a meeting of minds with the seller, and you are ready to begin removing the contingencies, performing what is commonly called due diligence.

1. Evaluate the Books and Records.

The financial records of the business are a good indication of how well the business has been doing over the years. Keep in mind that tax records are not designed to show the business in the best light: no one likes to pay more taxes than they have to, and owners of businesses are no different. Generally, tax returns are a worst case scenario. You

need to be able to look at the expenses and discover which ones are non-cash items, such as depreciation, and business use of home and vehicles. How important was the business trip to Las Vegas? A professional business broker can point these items out to you. When in doubt, however, seek outside assistance.

Keep in mind that financial records are only history. There are no guarantees that they will or can be duplicated or repeated. All of your profits are future. In the final analysis, the financial records of the business are an indicator of what the business has done; what you do with its future is up to you.

2. Determine true income.

In determining whether a business is the right one for you, you should base the decision on the figures actually supplied to you by the seller.

Bring In Outside Advisors

Now is the time to bring in any advisors you may want to use to verify the information about the business. You should know most of the information, but you may want to have an accountant review the figures to verify them. You will want a lawyer to assist you with the legal paperwork and to look out for your interests. Keep in mind that outside advisors will most likely not tell you to go ahead with the purchase. They don't want the responsibility of telling you everything is just fine. And, in fairness, it is a business decision. The accountant can tell you that the numbers are what you thought they were. The lawyer can tell you that the paperwork is fine. If you're convinced that the business is right, you should instruct the attorney to put the deal together unless there is something illegal or unethical about it.

The Bottom Line

Being in business for yourself can be a daunting prospect. There are no guarantees. At some point, after all of your investigation is completed, you will still have to make that "leap of faith" that is necessary to proceed with the purchase of the business. You will have to work hard, perhaps even "tighten your belt" a little and perform many different jobs to be successful in your own business. But, if running your own show, making your own decisions, not having to worry about job security (remember, no one can fire you from your own business), and just being on your own are important - then owning a business is for you. After taking this leap of faith, almost all business owners will tell you that they would never go back to being an employee.

Once all the purchase conditions have been eliminated and the closing papers drawn and approved, it is time for the closing. Now the business is yours - congratulations!