

Buying Tutorial

Do you dream of owning your own business? Buying a business can be a complicated procedure, from finding the right one to working out all the details required for a smooth transfer of ownership.

While there is no such thing as the “perfect” business, a business broker knows the importance of finding one that fits your needs, talents, skills and lifestyle. A business broker has many different types of businesses for you to consider and the knowledge and experience to walk you through the entire process.

Below you will find some helpful information as you consider whether buying a business is right for you.

For Business Buyers

Going into business for yourself 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 buyers had the opportunity to explore the marketplace and subsequently found a business more to their liking. In most cases, the seller financed the sale.

As you begin your search, 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, as the expression goes, “you will be the chief cook and bottle washer.” In other words, you will be doing all of the work from running the business to, in many cases, sweeping the floor and changing the light bulbs.

Most buyers are seeking to obtain the following when considering the purchase of a business:

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

What To Look For

1. How long the business has been in business.

A business with a long track record means there are good reasons to be operating. It will be 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 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, "burn-out" sets in, and people look for new challenges. Why the seller is selling is an important question – get the answer.

4. Why books and records are important.

The financial records 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 business owners 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 that business trip to Las Vegas? A professional business broker can point these items out to you.

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.

5. How to determine if the seller is reporting all income.

The simple answer is – you can't! Not reporting income is against the law. You should consider only the income that the seller can show you. We all know, of course, especially in cash type businesses, that there is the possibility that the seller is not reporting all of his or her income for tax purposes. This "underground economy" has been well-documented and is in the billions of dollars. Many sellers will tell you about how much they are "skimming," but you should ignore their statements, since they have no way of proving these amounts. 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.

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.

What should you look for when considering a business to purchase?

Unfortunately, too many prospective buyers want to know the asking price first and then ask how much money they can make. These are the wrong questions to ask initially. You need to know how much cash the seller requires as a down payment. No matter how good the numbers are, there is no point in looking at a business if the seller wants three times as much cash as you are willing to invest. Remember, the actual amount of money a business earns is usually much more than just the bottom line. A smart approach is to get more information on the business, and even make a visit, before ruling it out or getting too involved in the numbers. It’s all part of the learning process.

One of the most common questions asked by those who have never purchased a business (which is incidentally about 90 percent of those looking to buy a business) is how do you actually buy a business. There is no right or wrong way to buy a business. However, it is important that you get answers to all of your questions and that you have all the information necessary to make an informed decision. Here are the steps to buying a business that over the years have become the most efficient and practical:

Get the Basic Facts

Get preliminary information on price, terms, income, cash flow, and general location. There is no point in continuing the buying process 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 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. It is also important to remember that almost all purchase prices and down payments are negotiable. In fact, businesses generally sell for about 15 percent to 25 percent less than the original asking price. There is an old adage that says, “the more cash you are willing to invest in a business purchase, the lower the full price; the less cash you are able to invest, the higher the full price.

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. If the business is the type that does not lend itself to a visit, make an appointment with the seller to inspect the business, or have the seller's representative schedule a visit. 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 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 also the time to visit with the seller to get your questions answered about the business itself.

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.

**Insider*

Tip

Unless you are completely familiar with the type of business purchased, it is beneficial to include as part of the agreement that the seller will stay with you (30 days is fair, with perhaps another 30 to 60 days of telephone consultation) a sufficient length of time to teach you the business – at no charge. If you want the seller to stay longer, it may be best to offer to pay him or her a consulting fee of some type.

For Business Buyers

The next step to buying your own business is to make sure it is the right move for you and your family. Owning one's own business is still very much "the great American dream," but it's not for everybody. Here are some questions that you should ask yourself before taking the next step.

How long have you been thinking about buying a business?

Many people are interested in buying their own business, but are not willing to make the commitment necessary to move forward. They continue to look just like those who continue to look at new and expensive automobiles, but will never spend the money necessary to buy. One veteran observer has said that the longer you look, the less likely you are to buy.

What is your time frame to find a business?

If you're thinking of buying a business in two years, it's good to start your education. BizBuySell is a good place to start. Keep in mind that it really doesn't make much sense to start your search now, since any business you find now will have been sold by the time you are ready to buy. It's important, however, to arm yourself with all of the information and education available before you begin the search.

What is your primary reason for buying a business?

If you are not motivated to buy a business, you won't. You must go into business for yourself for the right reasons. If you're tired of the corporate world, just have a "job-job," or perhaps even a dead-end job, then business ownership may be right for you. Certainly if you're unemployed or being transferred to a place where you don't want to go – buying your own business can be a viable solution.

Are you willing to invest a majority of your liquid assets in a business?

Buying your own business requires a serious financial investment. If you're the type who does not want risk, you might want to rethink owning your own business. It is not for the faint-hearted.

Are you independent enough to make your own decisions and be in control?

Operating a small business requires continual decision making. You're the boss, and you are in control. All of the decisions are yours – right or wrong. And, you will make a lot of wrong ones. The question is, can you recover and keep going forward? If you brood about poor decisions or they keep you awake at night, owning your own business may not be for you.

Is your family supportive of your owning a business?

If your family, especially a spouse, is not behind you 100 percent, then you should think twice about business ownership. It's very important that you have the support of your spouse. He or she has to understand that running a business can be time-consuming. On the plus side, however, many businesses do allow for flexibility so you can attend the afternoon little league game.

Are you open-minded about different opportunities, or are you looking for a specific type or business?

It's best if you are open-minded, especially if you are a first-time buyer. There are many types of businesses available, and you don't want to limit your choices. You should be looking for a business that will provide the income you need (or ability to do so), that you can afford, that has numbers that work, and, most importantly, that you can see yourself running.

Do you have reasonable expectations?

Do you think that you can buy a business with lots of cash flow for \$100? It's important that you have realistic expectations about what your money will buy. Many sellers are willing to assist in financing the sale of their business, but remember, they're not going to give it away. Keep in mind that many business owners have spent years building their business, and it may represent the biggest financial asset they have. They're not going to just hand it over to you.

Can you make the "leap of faith" necessary to buy a business?

Many prospective business owners do their homework, do everything necessary to begin the purchase process, and then back out of the transaction. They just don't have the courage to go forward. There is nothing wrong with that; not everyone should buy and own their own business. However, if you don't think you can part with your money and take over operating the business on your own, you may want to take a second look at business ownership.

Do you need a guarantee?

If you are looking for a guarantee or a sure thing, then business ownership is not for you. You can and should look at all of the financials, tax returns, and all of the books and records. Remember, however, that they all represent history. You can't buy anyone else's history. A new owner makes changes, no matter how subtle. Their management style is different, and times change. You have to look at the business with the attitude of how you can improve things. The financial history of the business is certainly important, but it does not guarantee the future of the business – you do.

Do You Have More Questions?

Be sure to visit [Buyer FAQ](#) for answers to the following questions:

- Why should I buy a business rather than start one?
- What is the real reason people go into business for themselves?
- How are businesses priced?
- What should I Look for?
- What does it take to be successful?
- What happens when I find a business I want to buy?
- Why should I go to a business broker?
- Do I need an attorney?