Buying A Business.

Many people see the purchase of a business as the fulfillment of a latent dream and the start of a new life for them and their families.

The cause is good and the rewards can be quite satisfying but before you jump into the pond make sure that you have tested the waters.

This article presents the basics in selecting, purchasing and financing a business.

What to Buy

Most people are lured by the excitement of certain kind of businesses without really knowing the nature of the operation or having the experience necessary to running a firm.

First evaluate you particular skills including previous hands on experience in managing, supervising, operations and finances. You must be familiar with these. Being a waiter at a restaurant does not make you a restaurateur!

Secondly, Are you going into business alone or with someone else that also has the desire and the skills needed to make it work. Don't expect to buy a place and have the existing supervisors do you job or teach you.

Finally, is you family (spouse and children) ready to make the sacrifice that certain businesses require (i.e. restaurants, convenience stores, mall retail shops…)

Where to Find It

There are at least five sources of information abut businesses for sale that are very accessible. These include:

Attorneys
CPA's and Accountants
Business Brokers
Realtors
The Media

While any of these can provide you with leads and telephone numbers it is important to realize that any of them is likely to be representing the buyer in the transaction, thus serving the main purpose of serving as intermediaries.

Be careful in situations like these and under no circumstances assume that they work for you. You must hire your own team to help you analyze opportunities and help you through the process.

How To Buy It

Once you have selected a few businesses the next logical step is to evaluate which ones are accessible and to evaluate if the price is right. This can be done by financial professionals like accountants, consultants and attorneys with a financial background.

Purchasing a business can include all assets and rights including shares or simply consist of the sale of assets. If everything is being sold your attorney must confirm all information about the company, its debt, its legal past its credit and if there are any claims, liens or lawsuits in place.

Also make sure that the business and its premises are in compliance with local, state and federal regulations.

Once the terms are accepted a buy-sell agreement between the interested parties wil be prepared. Many people use a standard Real Estate or mortgage broker contract to set up the terms and conditions of the

contract. Others use an attorney to prepare a document stating the relevant information but in a customized fashion.

Although both forms are acceptable it is important to understand the meaning of the words and what they imply in terms of your responsibilities as a buyer.

If the seller prepares the contract DO NOT SIGN IT until you have met with an attorney to evaluate it and edit it as needed. Be careful about deposits, unreasonable closing terms and the clauses.

The following items must be addressed:

~ Expect to put down a deposit but make sure that it is reasonable, and refundable under specific circumstances including:

Failure to obtain financing under reasonable terms and within a reasonable amount of time.

Unsatisfactory financial date or poor operational conditions.

~ You must have a chance to analyze the tax returns of the firm and retire from the deal if these do not demonstrate the capacity to pay back the loan (never use company generated financial statements as your only source of information.)

~ The closing date should be governed by the lender since the closing of a business loan bank may require appraisals, additional information and verification of all documentation including the seller's tax returns.

~ Always include a provision to extend the term of the final approval of the loan specially on real estate deals. A two week to one month option is suggested.

How To Pay For IT

In most business purchases there are at least two parties involved including the bank, the seller and the buyer. Depending on the type of business and your experience and capital, expect to put down anywhere between 20% to 30% of you own money in the project.

If the seller is holding a note, the bank may consider it as part of the contribution but will not allow the seller to receive any principal payment for at least a year to insure that the business is working properly and capable to pay back the loan.

The bank of course will provide most of the funding under terms and conditions dependent on your credit, the type of business and the type of purchase – i.e. real estate, assets….

The bank will ask for financial information about you and the business that you are buying and will ask you to prepare a business plan with projections to show the feasibility of the purchase.

Conclusion

Buying an existing business has many benefits including an established clientele, established operation, policy and procedures and an existing cash flow, which are attractive to any investor.

However, the firm that you are buying could be facing problems with employees, customers and suppliers that are not usually easy to evaluate.

Ask the owner, ask employees, ask suppliers ask competitors. Make sure to take these into consideration when analyzing the purchase.

Finally, do not go at it alone and never sign any documents that you do not understand. Get your team together to get the best possible deal for you.