# OFFICIAL BUSINESS BUYER'S GUIDE

## Introduction

So, you want to be your own boss? Or perhaps expand your current business or portfolio?

Whichever it is, there are certainly pros and cons to buying a business. And the aim of this guide is to help you understand the process of buying a business by giving you a wealth of useful information.

We'll arm you with everything from understanding what type of businesses to focus on, how to organise a viewing and negotiate a deal, to what happens when your offer is accepted. We also want to answer the many questions we know will be running around inside your head right now.

However, if there is a specific question that's niggling away at you that isn't inside this guide, simply drop us an email at: info@channelislandbusinessbrokers.com.

## Why Are More & More People Buying Businesses?

Choosing to buy an existing business instead of starting your own is often considered a faster and much safer alternative.

By doing so, not only are you purchasing a ready-made customer base, you're also inheriting cash flow – two of the most important components to any business. These are things you'd have to start from scratch with a start-up.

Of course, starting your own business can pay great dividends, but the risks are significant. Most start-ups falter and eventually die.

In fact, statistics show that 40% of new businesses fail in the first 12 months, and 80% fail inside of five years.

Here are seven reasons to consider buying an existing business rather that starting one:

1. **Proof of Concept.** Buying an established business is less risky – because you already know the process or concept works. It also enables you to finance the purchase more easily because the business has a track record.

2. **Established Brand.** The brand name you're acquiring may be recognisable locally, regionally, nationally or even internationally. Therefore, the on-going benefits of any marketing or networking the prior owner has done will transfer to you.

3. **Relationships.** By purchasing an existing business, you will also have an existing customer and supplier base in place that likely took years to build. It's also common for the vendor to stay on and help transition the business into its new ownership for a short period of time, which can be beneficial when it comes to retaining those established relationships.

4. **Traction.** When you buy a business, you immediately get to work on improving and growing the business. The foundations have already been laid and the time-consuming, tedious start-up work has been taken care of. You can focus on activities that directly generate and enhance cash flow.

5. **People.** One of the most valuable and important assets you're acquiring in a business acquisition is its staff. Think about how long it took the owner to find and recruit them, train and develop them, and assimilate them into the company's culture.

6. **Cash Flow.** When you structure your purchase, you'll want to ensure you have sufficient cash flow to cover any debts, take a reasonable salary, and also have some left over to take the business to the next level. As a start-up owner, you often don't have the luxury of even receiving the level of salary you want.

7. **Risk-Reward.** Becoming your own boss always entails an element of risk. However, when you buy an existing business, you're taking more of a calculated risk that eliminates many of the pitfalls and obstacles that you encounter with a start-up.

People buy businesses for different reasons. Some work in an industry for many years and decide they want to be the captain of their own ship. Others want a better return on their investment than the banks can offer.

Having an income from the outset is an attractive proposition to many as it often takes months for a start-up to generate a consistent profit. Buying an already established business alleviates the need for investing money in systems, equipment, etc – you can just take over and continue where the previous owner left off.

Of course, buying a business isn't all plain-sailing. For the privilege of acquiring an established brand and existing customer base, you'll have to pay for it. Then there's the challenges associated with handling existing staff, suppliers and customers.

It's often better to make gradual changes over time, rather than rapid, wholesale changes. But each situation is different, and you can learn a lot once you meet and speak to all employees, vendors and clients.

Whilst less risky than launching your own start-up, there are of course no guarantees associated with buying an existing business. However, by following the steps in this guide, you will maximise your chances of identifying and finding the right type of business, approaching them in an appropriate manner and negotiating the best deal.

**How To Identify The Right Business For YOU**

You've made the decision that you want to buy a business. That's great! But tempting as it may be to dive straight in, you should spend some time analysing opportunities that fit your skill set, interests, personal needs and goals – and that have good market. conditions.


It's often a good idea to target business that are aligned to your skills, talent and experience, because you'll be able to hit the ground running and not waste valuable months learning the ropes.

Ideally, the type(s) of businesses you're looking at should also fit your goals and future lifestyle you. Do you want to be involved in the business on a day-to-day basis? Or would you prefer to hold a more strategic role and leave the daily operations to a capable management team that requires minimal input from you?

When you are looking to buy a business, having a clear understanding of your potential markets is crucial. Is the market in a growth stage, is it a mature market or is it entering a challenging period?

It's certainly much easier to swim with the tide in a thriving sector. However, even in markets that are showing signs of slowing down a little, an innovative approach or new idea could pay dividends.

But beware of entering markets where the technology or solution is becoming obsolete – you don't want to become the next Blockbuster or Woolworths.

Doing thorough research and not rushing into things will ensure you give yourself the best opportunity to purchase the right type of business in the right sector.

## The Devil Is In The Detail

It's crucial to do your homework and due diligence prior to committing to buying a business. You don't need to do it alone however, and a team of experts will help ensure i's are dotted and t's are crossed.

Your team should comprise of:

- ◊ A business transfer agent to oversee and facilitate the entire process
- ◊ An accountant to verify company accounts and financial data
- ◊ A lawyer to prepare all necessary contracts
- ◊ An accountant or law firm to undertake due diligence
- ◊ A financier, whether a bank, private equity firm, investor, etc.

You can also do your own homework to assess if the business is the right fit for you

Why not travel to the business and see what it looks like from the outside. You could also pop in and see what sort of greeting you receive and take a sneak peek at the inside of the premises.

Does it look well presented? A mess? Is the receptionist friendly? Do staff look happy?

You get the idea.

You could also speak to customers and suppliers. Forming a picture of how external people see the business can help you gain a deeper understanding of its reputation.

## Questions To Ask

There are a number of key questions you should ask the seller of a business before furthering your interest in it. Here's our top seven:

1. Why are you selling the business?
2. How did you arrive at the asking price?
3. What outcome(s) are you looking for?
4. Are you happy to agree to a non-compete clause?
5. What area(s) would you focus on to grow the company?
6. Who are your key employees, clients and suppliers?
7. Would you be willing to stay on for a transition period?

## Budgeting For Your Business Purchase

As you embark on your journey of buying a business – and having decided upon a sector, you want to be clear on how much you can afford to pay. You need to ensure you do not overcommit yourself, so that you have sufficient capital available for the purchase itself, as well as when you actually start running the business.

Typically, our buyers buy businesses using anything from £10,000 to £250,000 of their own money. But of course, it very much depends on the type of business, it's size, location and current (and future potential) revenues.

We recommend that – even before searching for businesses – you calculate the maximum amount you're able to pay – much as you would do if you were buying a house.

This will help avoid wasted time pursuing a business that is clearly outside of your price range.

If you're looking to secure finance, such as a bank loan, you'll be required to produce financial projections showing how you will manage cash flow and repay the loan.

Depending on the industry, your experience and anyone else involved in the purchase, banks may require a minimum of 10% to 50% of the business purchase price as a down payment from you.

## Growing The Business

You then need to make sure you've budgeted sufficiently to execute your strategy for running the business. If your plan involves expanding the business, you may need cash for new equipment, staff or a marketing and PR campaign.

We recommend you put aside around 10% of their investment for the purchase for working capital. It will ensure you're able to cover any growth or unforeseen circumstances, whether in the business or personally.

It's also very easy to get caught up in the excitement of buying a business, that you omit to check everything is in order and meets all your requirements.

But when buying a business, it's essential that you conduct thorough research and have professionals help you so that you avoid uncovering any nasty surprises when you finally sign on the dotted line.

The process of due diligence is essentially an evaluation of a business's legal, financial and commercial standing. It involves verifying that the information the seller has provided is satisfactory and that the business is as advertised.


Think of it as looking under the bonnet or hood of a car before purchasing it – you want to ensure everything is in good working order.

Due diligence is performed by accountants and lawyers who are experienced in this specialist area. Your objective is to ensure that you enter the final stages of negotiations with full disclosure on every aspect of the business.

That way you can make an informed decision on whether to buy the business and if so, how much you should pay to ensure you're getting value for your money.

One of the first areas due diligence will consider is the company's financial situation. Evaluating revenue, assets and outgoings, together with any future projections, will paint a clearer picture of the business' financial wellbeing.

It's wise to request to see a minimum of three years' worth of management accounts, tax returns, balance sheets and cash flow statements. Often prior to receiving these, you'll be asked to sign a non-disclosure agreement (NDA).

You'll also want to check that bills are being settled on time, payments are being received – regularly and on time – and that profit margins and cash flow are healthy. Are there any bad debts in the business? Any director's loans? Anything else?

Sales data can be invaluable – and will show any peaks and troughs that may correspond to seasonal patterns. Ask your seller to provide figures and details on the company's largest and most important clients, so you can explore buyer behaviour more accurately.

## Legal Loopholes

Imagine agreeing to buy a business without ensuring the lease on the premises it occupied was transferable. Where would that leave you?!

This is why an experienced lawyer with expertise in business transactions and contracts is invaluable when conducting due diligence. They will check copies of all contracts and legal documents, including leases, loan agreements and purchase agreements.

It is also prudent to check that the business has adequate insurance cover and that any required licences and permits are correct and valid. Given that you are likely to be inheriting staff as part of the purchase, it also makes sense to find out everything you can about the terms and conditions of their contracts.

Be sure to analyse business operations thoroughly. Studying sector-specific and economic data will allow you to ascertain whether sales are likely to grow, decline or plateau. And if your offer includes equipment and/or stock/inventory, make sure their valuation reflects condition, age and market conditions.

## The Art Of Negotiating When Buying A Business

You've conducted your research, know your budget and believe you've found the right type of business. But before you get to take over at the wheel and become the new owner, you need to enter the minefield that is negotiating, to ensure you get the best deal?

A good place to start is by asking the vendor why they're selling. Are they planning to retire? Emigrate?

Perhaps their health is forcing them to bow out?

If there is a more complex set of circumstances driving the sale – things might be a little more complicated.

What if the business is struggling because of a downturn in the market? Or a competitor has taken many of their key clients? Or worse still, their products or services are becoming obsolete.

It's important to remember that you may not always get entirely truthful answers to your questions. If you believe you're not being told the whole picture, you may want to reconsider the purchase.

Whilst knowing how to value a business accurately is more of an art than a science, ultimately it's determined by how much someone is prepared to pay for it. Therefore an asking price – similar to buying a house – is just that, a starting point for negotiations.

You can get a greater understanding of whether you believe it's priced appropriately by looking at what other similar businesses have sold for recently. You should also check the company's financials and get professional advice before making an offer.

Make sure you've seen the last three year's management accounts, balance sheets, income and cash flow statements. And remember, whatever offer you submit will need to be backed up with sound business justifications.

### What Exactly Are You Buying?

Every business purchase is different. You may be looking to buy the bare essentials – brand name, clients, staff and suppliers. Alternatively, you may want the complete package, including premises, stock and equipment.

Whatever your position, you must ensure your offer includes everything you want - and excludes everything you don't want. For example, if you're interested in the business but not the building, your offer should reflect this.

If you want to include equipment in the deal, be sure to check its age and condition – or you may end up paying for a white elephant.

What about the company's location, market presence and reputation? Are you able to quickly increase margins by raising prices or cutting costs? Are there additional products or services your customers want to buy?

## The Key To ALL Negotiations

Negotiations are often viewed as a battle of wills or a tug of war. But the end goal is to reach an agreement that both parties are happy with, and so it's important to build rapport at the start and maintain it throughout the process. It's also vital to avoid being unnecessarily critical and to stay professional.

The process of creating rapport isn't just something you do just at the beginning to get your foot in the door. It should be ever-present in the relationship.

In addition, listening is a crucial, yet underrated and often forgotten aspect of effective negotiation. In order to understand what's important to the business seller, especially at an emotional level where many decisions are made, you must listen for more than the facts they give you.

Make sure you understand what really matters to them. And what do they *actually* want out of this deal? It's not always clear what the seller wants, so find out what their concerns and questions are.

They may also be looking for assurances from you, such as do you have sufficient industry experience, will you look after their staff and are you able to preserve the reputation of the business. But by asking the right questions and listening, you'll be able to probe away and find out what their real concerns are.

And once you do, this leads to another important milestone – creating a win-win outcome.

Once you understand what both you and the seller really want, you have the ammunition to create an offer that works for both of you. A win-win negotiation can enable both parties to feel that they both have achieved a satisfactory deal, and that neither is the "loser."

## Have Questions

You now have the foundation of knowledge to start researching, identifying, approaching and negotiating with businesses you'd like to buy. However, if you have any questions about the business buying process, you can contact us at info@channelislandbusinessbrokers.com.