The Buying 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 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 willing to invest in a business purchase, the lower the full price; and 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.*

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.

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!