

FOR BUYERS:

15 Tips On How To Succeed In Your Quest For Business Ownership!

Provided by:



Stuart Neal
Certified Business Intermediary
(CBI) BA Hons., Dip IDM
Tel: 780-416-9595
Fax: 780-416-5248

www.WesternBusinessBrokers.com



Member



Member



15 Tips On How To Succeed In Your Quest For Business Ownership!

Buying a business is a major decision. Not only will it affect you financially, but perhaps more importantly, it will affect your life.

Business ownership is a commitment to a major lifestyle change. If you are seriously considering moving into entrepreneurship, working with a business intermediary can provide you with valuable assistance and peace of mind to help you successfully find and purchase a business that is right for you.

Here are some of buyers' commonly asked questions, along with responses based on our professional experience and knowledge.

If you have questions about purchasing a business, or on any topic not covered here, please don't hesitate to ask us.



Contents

1. What kind of business should I buy?	4
2. Why should I sign a 'Confidentiality Agreement' and complete the 'Buyer Questionnaire?'	5
3. Why should I buy a business rather than just start one up?	6
4. Why should I go to a business intermediary?	8
5. From where will I get the money?	8
6. What happens after I review a business for sale?	9
7. What is the business purchase process?.....	9
8. Who pays the business intermediaries fee?	10
9. Who does the business intermediary work for?	10
10. What happens when I find a business I want to buy?.....	11
11. What is the real reason people buy a business?.....	12
12. How are should I determine businesses value?.....	12
13. Why are some businesses marketed as 'un-priced'?	13
14. Do I need a lawyer?	14
15. Should I talk to an accountant?.....	15
16. Glossary of Terms	16
17. Conclusion.....	18

1. What kind of business should I buy?

Ultimately, only *YOU* can answer this question. You must know thyself!

We suggest you draw up a list of your own strengths and weaknesses. Take some time to analyze your current skills and experiences.

What experience of running a business do you have already? Make sure the business intermediary knows.

Ask yourself what you want your business to do for you and understand what you do not want. How much money can you invest? What are your income expectations?

Is your spouse or partner on board with the idea? Only once you have gone through this exercise are you in a position to start your search.

The better you can articulate your fit to a particular business, the better from a seller's and the business intermediary's perspective.

Hot Tip: If you don't know what you want, how can anyone else? A business intermediary is likely to give you much more attention, if you have a well defined idea as to what kind of business you are in the market for, a specific time-line to buy and you can show from where you will be getting your down payment etc.

2. Why should I sign a 'Confidentiality Agreement' and complete the 'Buyer Questionnaire?'

The business intermediary is under instructions to protect the business seller from time wasters.

Business intermediaries receive literally hundreds of requests for information on their listings every month.

Did you know (based on industry statistics) that over 90% of individuals that enquire about buying a business NEVER BUY?

By completing the documents as requested, you are demonstrating to the business intermediary that you are serious.

Providing information about your experiences may help the business intermediary to steer you toward other businesses that are just coming into the market.

Sellers also insist that business intermediaries make sure that persons who enquire have sufficient funds or access to enough money to actually buy.

Hot Tip: The more complete the documentation submitted, the more seriously the business intermediary will take your application.

3. Why should I buy a business rather than just start one up?

It will probably take you *twice as long and cost twice as much to start a business* up from scratch.

Buying someone else's business provides excellent benefits including:

- Immediate cash flow** – In many cases you will be getting paid right after closing or within 30 days if customers are invoiced. Instead of chewing up mountains of working capital generating customers, they will be buying from you right away.
- Existing customers** – It can take years and thousands if not millions of dollars to create awareness, interest and desire for customers to use a company's products or services. As a buyer of an existing business, you won't face that problem.
- Access to credit** – Many banks are more comfortable lending to an existing business than to a start up.
- Known market position** – You will be buying a business that has proved its value and place in the market. You will know that people value the businesses products and services.
- Working systems** – Don't underestimate the value of a working system. Some new business owners struggle for years perfecting their operating systems. You may be able to improve it, but at least there will be a process you can adopt from day one including: mechanical, computer and administrative systems.

15 Tips On How To Succeed In Your Quest For Business Ownership!

Trained staff –

It can take months or years to find and train even one employee. There is, possibly, an unrealistic fear from buyers that staff will abandon them after they purchase. The reality is that employees often respond with enthusiasm to a new owner's arrival. They may be eager to tell a new owner their ideas for improvement that were perhaps ignored by a previous owner that was 'stuck in his or her ways'. Good staff may see a new owner as an exciting opportunity for a fresh start and growth.

Seller assistance –

Rarely will the previous owner wish to just walk away. Many owners have their entire working life wrapped up in the business they have sold to you. They will be there to ensure that the business continues as a matter of pride, and will be a fountain of wisdom and advice (even though you may reject some of it).

They will know the answers to questions you forgot to ask during the due diligence period, as well as ones you would only formulate after years of starting and running a start up.

Utilize the former owner. It will be to your distinct advantage.

In summary, buying an existing business is a shrewd move!

4. Why should I go to a business intermediary?

You don't have to.

However, it is likely that the business intermediary has already coached the sellers in terms of value and possible deal structure.

Most of the information required to assess the opportunity will likely have been assembled and therefore the process is likely to be much smoother, than if you were to try and purchase direct.

A competent business intermediary can also assist the buyer with securing finance, including preparation of a business plan (in exchange for a fee).

The business intermediary will handle all of the details of the business sale and will do everything possible to guide you in the right direction, including, if necessary, introducing you to other professionals who may be able to assist you.

5. From where will I get the money?

Many smaller transactions require funding from a variety of sources.

Typical sources include:

- I. Buyer's Own Funds, i.e. cash or a secured line of credit;
- II. The Seller – Owners will often consider part financing a transaction over time, especially for a strong candidate;
- III. Bank Loans - Banks will in some circumstances provide finance, subject to the type and size of the business being purchased, (ask the business intermediary for details)

6. What happens after I review a business for sale?

The business intermediary will expect some feedback.

After you have received information on a business for sale, whether it is the location or a more formal information package, you MUST let the business intermediary know how you feel about the opportunity.

This information will help the business intermediary to understand your situation and enable them to make suggestions concerning other businesses for sale.

Feedback also tells the business intermediary that you are serious. Not providing this feedback when requested may mean that the business intermediary will be reluctant to share information on other listings later.

7. What is the business purchase process?

1. Complete the Confidentiality Agreement and Buyer Questionnaire
2. Business intermediary conducts a review of documentation with prospective buyer
3. Review the Offering Memorandum
4. Set up meeting with sellers
5. Get additional information and financial data
6. Make an offer to purchase 'subject to due diligence'
7. Reach agreement on price and terms

8. Complete due diligence
9. Approve and remove contingencies
10. Closing and possession of business

8. Who pays the business intermediaries fee?

Usually the seller pays the fee. The seller signs an exclusive listing agreement with the business intermediary in order to market the business to potential buyers.

There are no fees paid by the buyer, unless the buyer asks the business intermediary to instigate a bespoke search on their behalf.

In this case, the buyer would compensate the business intermediary for the search cost.

9. Who does the business intermediary work for?

The business intermediary is representing the seller unless a different arrangement is agreed in writing.

10. What happens when I find a business I want to buy?

You will ask the business intermediary to prepare an offer based on the price and terms you feel are appropriate. This offer will generally be subject to your approval of the financial records, plus any other considerations - for example agreement by the landlord to assignment of the lease etc.

The purpose of the offer is to see if you and the seller can agree on basic price and terms. If you and the seller reach an agreement, the next step is for you to do your “due diligence”.

Due diligence may be performed by the buyer or with the assistance of outside professional advisors (e.g. accountant and or lawyer).

Once you have completed the due diligence and are satisfied with the answers to any concerns that may have arisen, you will sign a waiver document removing any contingencies to the sale.

The business intermediary will then forward the necessary paperwork to your lawyer for preparation of the final closing documents.

11. What is the real reason people buy a business?

There have been many industry surveys taken in an attempt to answer this question. Most surveys reveal the same responses, in almost the same identical order of priority. Here are the results of a typical survey, listed in order of importance:

1. To do my own thing, control my own destiny.
2. Don't want to work for someone else.
3. To better utilize my skills and abilities.
4. To make money.

It is interesting to note that money is not at the top of the list, but comes in fourth.

12. How should I determine a business's value?

In general, businesses are valued in four ways:

Firstly, by the value of their tangible assets.

Secondly, as a multiple of its '*normalized*' annual cash flow, or in some cases, a percentage of annual sales. This is dependent upon many factors, including but not limited to the length of time left on the lease, the history of the business, the perceived risk to the buyer and an estimate of 'certain performance' in the future (the tangible assets will be included).

Thirdly, as a return on investment. Many buyers will consider what kind of return they will derive as a percentage of their own money or total amount invested.

Finally, synergistic or competitive issues are sometimes considered.

For example, a plumbing company might find a good fit with an electrical or HVAC contractor. Some businesses are purchased just so no one else can buy it.

Inventory is usually valued separately.

In most cases, an individual buyer will ask themselves the following questions when determining value:

- i) Will it pay me a reasonable wage for my effort (or a manager)?
- ii) Will the business pay for itself over a reasonable period of time?
- iii) Can I expect a reasonable return on my upfront capital relative to the risks?

13. Why are some businesses marketed as 'un-priced'?

Synergistic, competitive and financial buyers will attach such wide parameters on value 'to them' that as business intermediaries representing the sellers, we prefer to allow the market to determine value based on not just dollars, but also deal terms.

Buyers considering any of our 'un-priced' engagements must consult with their own professionals to determine value based on their own circumstances.

Under no circumstances will the business intermediary discuss the seller's expectations for price or 'value parameters' until such time that the prospective buyer has submitted their own 'deal terms'.

14. Do I need a lawyer?

As business intermediaries will not give legal advice, it is advisable to have a lawyer review the paperwork if you wish.

Be careful to ensure that the lawyer you hire is familiar with the business buying process and is available to handle the paperwork on a timely basis. Lawyers experienced in the buying and selling of businesses can make sure that all of the details are handled properly.

Business intermediaries are not qualified to give legal advice. Alternatively, lawyers may not be qualified to provide business advice.

Ultimately, your lawyer will be and should be looking after your interests; however, you need to remember that the seller's interests must also be considered.

If the lawyer goes too far in trying to protect your interests, the seller's lawyer may instruct his or her client not to proceed. The transaction must be fair for all parties.

The lawyer works for you, and ultimately you are in control of his/her actions.

You have to make the final decision. That "leap of faith" between looking and actually being in business for yourself is a step that only you can make!

The business intermediary can put you in touch with an experienced transaction lawyer to represent you.

15. Should I talk to an accountant?

If you need help in reviewing the financial documents, then a good accountant can be a vital member of your team.

They may also help you put together cash-flow projections and handle some of the 'number crunching' for your business plan and loan applications.

Remember, though, that your accountant will not be running the business on a day to day basis - you will.

Please don't expect any professional you engage to take 'ownership' of your decision to purchase or not. You and only you can make that decision.

The business intermediary can put you in touch with an experienced and competent accountant.

16. Glossary of Terms

Add-Backs – Allowable expenses, i.e. amortization, cost of debt service, or unusual or one-off costs that are typically added back to the net profit in order to demonstrate the ‘real cash flow’ of the business; sometimes called ‘perquisites’ (perks).

Allocation of Purchase Price – In some asset sale situations, value is attached to particular items that come with the business. The balance is Goodwill.

Asset Approach to Value – An estimate is produced to show the value of the ‘hard’ or tangible assets if the company was simply wound up and the asset sold at wholesale.

Asset Sale – Purchase of certain assets and in some cases liabilities. The seller retains the corporate entity. A buyer’s accountant will in many cases advise their client to purchase using this method (see Share sale).

Comparable Approach to Value – Where similar business transaction details are used to predict likely buyer behavior with respect to the subject business (sometimes called the Market Approach).

Contingencies to Sale – Most offers to purchase will be subject to certain contingencies, i.e. obtaining financing, interviewing with key customers or suppliers, in-depth interrogation of financials and lease, etc.

Earnings Before Interest, Tax and Amortization – (EBITDA) Often used to show cash flow in a larger business. Many valuation models use this within an industry multiple approach; it can also be used to calculate a Return on Investment for a buyer.

Earn Out – Process by which a business is paid for from the income of the company over time. This is very common where the revenue is uncertain, shows fluctuation or where the business is service based and does not have a base of hard assets.

Hard Assets – Usually items that can be touched, i.e. machinery, vehicles and computers.

15 Tips On How To Succeed In Your Quest For Business Ownership!

Intangible Assets – Items that may not be physical, i.e. licenses, trademarks, franchise agreements, leases, customer lists and unpatented technology.

Intermediary – A professional who assists vendors (sometimes buyers) with the preparation, marketing and closing of a business transaction; sometimes called a 'Merger and Acquisition Intermediary' or 'Business intermediary'.

Letter Of Intent – Many share transactions are triggered by the submission of a non-binding letter of intent from the buyer to vendor. This letter will outline the basis on which the shares might be purchased, value, timing, etc.

Off Balance Sheet Items – Unrecorded obligations such as repurchase agreements, renovation clauses or pending lawsuits.

Offer to Purchase – A formal document used to steer the purchase of a business on an 'asset' basis. This document will most likely contain contingencies and representations and warranties, etc.

Recast Financials – See SDE and EBITDA. The financials are reconstructed to reflect what the income statement would be without excessive salaries, perks and allowable expenses.

Representations and Warranties – The buyer will be expecting the vendor to provide certain guarantees and assurances to mitigate risk.

ROI (ROE) – Return on Investment and Return on Equity must be greater than the cost of capital to create shareholder value.

ROI Approach to Value – The actual cash flow is used with a valuation model to act as 'sanity check' on other valuation approaches, i.e., would this make sense for a buyer?

Seller Financing – The vendor will extend a note to the buyer in lieu of all cash at closing, or other debt financing that may not be available through banks.

Seller's Discretionary Earnings – (SDE) the term used to describe cash flow prior to an owner's compensation. Often used when marketing a smaller business.

Share Sale – Purchase of the company's stock incorporates the assumption of all the assets and liabilities. Most sellers' accountants will advise their client to go this route. (see Asset Sale).

Term Loan – Often provided by the vendor. A process by which the buyer will make level payments over an agreed period of time with interest, etc.

Vendor Financing – Often the only way for some businesses to achieve a sale. See Term Loan and Earn Out.

Working Capital – The difference when current liabilities are subtracted from current assets. Shows the amount of money available to grow the business in the short term.

17. Conclusion

We do hope that you find the information contained herein useful. We have tried to be objective and, perhaps, to raise some issues that you had not considered so far.

Please call our Principal should you have any questions or if you wish to make some comments about the issues raised here.

Thank you for your time.

Stuart Neal, B.A. (Hon.) Dip. IDM, Member IBBA

Direct Line: 780-416-9595

Fax: 780-416-5248

www.WesternBusinessBrokers.com