

CONSIDERATIONS WHEN BUYING A BUSINESS

Buying an operating business is one of the best ways for a beginner to get into business. Before signing an agreement with a seller and their business broker, you need to evaluate all aspects of the business purchase to ensure your dream does not lead to a financial and emotional nightmare. Here are some key factors for consideration:

Business Valuation – There are many methods to value a business. Experience and knowledge in the field are necessary for a proper valuation. The business is only worth as much as its ability to generate profits for you based upon how much money must be put into it. In addition to generating profits, the business should be able to support your fair work wages.

Unreported Cash Sales – Some sellers claim they are taking large sums of unreported cash out of the business and that leads them to a higher asking price for a business than can be supported by the reported profits. You should ignore all claims of unreported cash income. If the seller has cheated the IRS, the seller is likely to be dishonest to you. If the asking price for the business is unreasonable and cannot be substantiated by sales and profits, move on to another business to buy.

Hidden Factors – Watch out for hidden problems that may be motivating the business to sell. Here are some factors you will need to uncover:

- Federal / State Law Violations
- Unpaid Taxes
- Zoning Variance Violations
- Impending / Actual Zoning Change
- Environmental / Safety Requirements Compliance
- New Competition (i.e. New Shopping Center / New Discount Store)
- Recent Bad Publicity
- Legal Claims, Encumbrances, & Liens Against The Business
- Pending Litigation
- Recent Suspension of Licenses
- Expiring of Patents & Licenses
- Changing Franchise Terms
- Bank / Supplier Credit Problems
- Supply Chain Difficulties
- Loss of Major Sales Account
- Product Obsolescence
- Historic Downward Business Trends
- Overvalued Inventory
- Poor Machinery / Capital Assets
- Labor Union / Employee Related Problems
- Loss of Key Salesperson
- Significant Rent / Lease Increases
- Non-Assignable / Non-Renewable Leases
- Partner / Shareholder Disagreements
- Personal Affairs of the Seller Affecting Sale

While buying a business is filled with many potential pitfalls, by properly evaluating all the aspects of the business, you too can become your own boss and be in charge of your financial future.