

HOW TO BUY or SELL a business

The decision to buy or sell a business requires careful consideration of the many factors involved. If you are a seller, these factors include preparing your business for sale and finding buyers. If you are a buyer, they include pricing and financing your purchase.

Business owners choose to sell for a variety of reasons, including retirement, partnership disputes, boredom, illness or death, or a negative cash flow. Selling a business can be difficult because it is not only an income earning asset, but a lifestyle as well. Your decision to buy or sell a business should be a planned one. Planning the process gives both buyer and seller an advantage. Planning puts you in the leadership role.

Information that the seller should make available to the potential buyer include:

- Financial statements for the last three to five years including profit & loss statements, balance sheet, and tax returns.
- Accounts payable and receivable listing.
- Itemized list of assets being purchased with depreciation schedules.
- Recently taken physical inventory with obsolete items segregated.
- List of recent suppliers.
- List of customers and their major purchases.
- Written assurance that any zoning permits, business licenses and other items critical to business success can be assigned to the new owner.
- Copies of all current advertising brochures, flyers, price lists, commercials and other advertising materials.

The Seller:

As a seller, plans to sell a business should "ideally" be made three years prior to the actual sale. This will permit the time required to make necessary changes in accounting practices that demonstrate a record of maximum profits. Remember that audited financial statements are best because they are the most easily verified by the proposed buyer. Make sure your business is presentable. A business that is clean, with a current inventory and with equipment that is in good working order sells well.

Next, develop a comprehensive business presentation package for your business. This package is the business's resume and should include a current valuation report, business history, description of how the business operates, description of the facilities and review of market practices. The seller should also provide a comprehensive but brief description of owners, other personnel, existing insurance coverage, pending legal matters and three to five years' financial statements. The valuation report should contain a professionally prepared appraisal, which will help eliminate the guesswork and painful trial and error method of pricing your business.

Finding a qualified buyer can be as easy as advertising in the local newspaper, discussing the sale of your business with trade sources or suppliers or utilizing an intermediary source. These intermediary sources include business brokers and real estate agents. For other professional assistance contact your attorney and accountant.

It is imperative that a potential business buyer carefully considers such things as experience, both vocational and avocational, interests, and what you're good at. If the product or service is outside of your expertise, then make certain that key employees will stay on after the change of ownership or that similar expertise will be hired.

Determine up front the amount of money you are willing to invest in the new business. Should you purchase an existing firm, invest in a start-up or consider franchise opportunities? Know what size business you can handle (e.g. sales level, profits and the number of employees you wish to acquire).

continued

The Buyer:

To evaluate a business that is for sale review its history and the way it operates. Ask questions like: what is its market penetration and what is the public's perception of that particular business? Not all businesses are transferable. Firms such as restaurants are tied to their owners' personalities or customer loyalty. If there is a franchise, make sure the franchise is transferable to you.

Review the financial statements of the business, especially the schedules of accounts payable and receivable. Is the inventory obsolete or damaged? Is the real estate over appraised or in poor condition? Does the existing business have accrued liabilities such as unpaid wages, vacation pay, sick leave or payroll taxes? Review all notes payable and mortgages payable to determine long-term liabilities of the firm.

Analyze the income statement to determine profitability and to highlight red flags that show a business in distress. Analyze financial ratios, leases, patents, legal issues and insurance requirements.

Determining the accurate price of a business can be difficult and frustrating. For the transaction to be successfully completed, both parties must be satisfied with the price and

how it was determined. Fair market value is determined by a number of factors. Special circumstances of the particular buyer and seller often have more influence on the transaction than any definition of market value.

Prior to making an offer, investigate your proposed business and demand a current appraisal. As a buyer, you should have full access to all records and financial statements. If you decide to purchase, the agreement should include such things as total price offered, components of the price (down payment, etc.), list of all liabilities and assets that will be purchased or assumed, a provision that the business will be able to pass all necessary inspections, and a clear marketable title to the property.

A covenant not to compete is found in most purchase agreements, whereby the seller agrees not to compete with the business being sold. To enforce non-compete clauses, courts have demanded that they be specific in activity, place and time. Buyers often seek to allocate a portion of the purchase price to a "covenant not to compete," especially in circumstances where they are paying more than the net worth of a company's assets.

Savvy sellers and buyers consult professionals like an attorney, accountant or financial advisor for help in structuring the sale or purchase of a business.