

Things a buyer should know

Introduction

The decision to run their own business presents for most people a radical change in their way of living. It means abandoning the relative security of employment for the "amazing" but insecure world of entrepreneurship. There can be significant benefits in such a move. But have you ever thought that there are many risks involved in such a decision as well?

Before you make such a decision, you must have thought or even better have found the answers to the following questions:

- ⇒ Why should I buy a business instead of establishing one?
- ⇒ Am I prepared for acquiring a business?
- ⇒ What is the acquisition process like?
- ⇒ What are the tax and legal issues that arise when acquiring a business?
- ⇒ How much money am I willing to invest for the acquisition of a business?
- ⇒ How can my business acquisition decision be financed?
- ⇒ How can I know what I am buying?
- ⇒ Why is a business being sold?
- ⇒ How will the seller or the business broker going to evaluate me?
- ⇒ How can a business broker assist me?



It is worth knowing:

- Irrespective of the qualifications (professional, academic) that a potential buyer may possess, he should embark on the acquisition procedure well-informed and prepared.
- The acquisition of freedom that is accomplished with the transition from employment to personal business ownership does not imply lack of responsibilities or risks!
- You should not accept to pay any price for a business, unless you conduct, through specialized consultants, a legal and financial due diligence on the business.
- Most often business brokers do not have contractual obligations towards buyers.
- During the acquisition process it is not only yourself who is performing an evaluation (of the business). The seller-business owner is also conducting an appraisal of you.
- **The decision** regarding the purchase of the "right" – according to your standards – business **is yours** and nobody else's.
- Do not proceed with drastic changes in the business just after its acquisition.



Why buy an existing business instead of starting it from scratch?

The purchase of an existing profitable business significantly reduces the risk compared to starting a business from scratch.

Not only does an existing business have in place the operational infrastructure, the customer base and the relationships with suppliers, it also has a proven track record of profits that will most likely continue after the business sale or even improve, as you – the new owner – will apply your energy and renewed dynamics to the business. In the meantime, in your transition to entrepreneurship, the acquired business will offer immediate cash flow.

On the other hand, the vast majority of start-ups start making profits - in the best cases - during the second year of operation and till then the owner has to finance it through his own funds.

How do I get prepared to enter the world of entrepreneurship?

The process of acquiring a business requires planning.

Before evaluating potential businesses – targets, you must have made your decisions on the following issues:

1. Acquisition criteria:
 - Funds available to finance the acquisition
 - Required level of income from the business
 - The business type and sector
 - The size of the business
 - Your role in management and your participation in the business.
2. Alternative means of business search
3. The team of legal and financial advisors that you are going to use for evaluating the

business opportunities and for the closing of the transaction.



How do I evaluate a business opportunity?

Your research on a business opportunity should definitely cover the following issues: the owner's reason of selling, the history and reputation of the business, the financial and legal standing of the business, the existence of any pending legal, tax or other matters that may be "transferred" along with the ownership, the opportunities, the threats, the weaknesses and the strengths of both the business and the sector it operates in.

Your accounting and legal advisors should assist you with this information. The business broker will coordinate this team of advisors and will guide it through all steps of the transaction, from the very beginning.

However note that a lot of the above data will be withheld from the seller and will not be disclosed to you unless **you make a binding offer subject to certain conditions being satisfied**. Moreover, your research must be conducted in such a manner that it does not risk the violation of the confidential nature of the fact that the business is for sale and you should be prepared to commit yourself to this respect.

How can the acquisition of a business be financed?

If you do not have the required funds to finance the acquisition of a business, you should examine whether the seller is willing to finance the transaction.

Alternatively, you should examine the possibility of getting granted a loan from a financial institution. The amount and terms of the loan will depend on your personal credit standing and on the prospects of the business to be acquired, although such information cannot be disclosed to the bank unless you have the seller's written consent.

You should be aware that apart from the funds that will be required to pay for the acquisition, it is likely that you will need additional funds for working capital. If you cannot obtain financing from the bank, then you should be prepared to finance the operation of the business through personal funds.

What services can a business broker offer me?

Business brokers bring together prospective sellers and buyers of small and medium-sized businesses and assist them in compromising, becoming partners rather than adversaries. Clients benefit from the fact that business brokers know what worries both parties.

But as business brokers normally represent the seller how can the buyer benefit from the provision of their services?

Business brokers invest money and time for the promotion of the businesses they have undertaken to sell and their fee depends on the closing of the transaction. So it serves their interests to:

- facilitate your business search
- assist in reducing the risk of encountering unpleasant surprises
- guide you throughout the transaction procedure.

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