

10 CRITICAL STEPS TO BUYING THE RIGHT BUSINESS FOR YOU

In this guide for individuals interested in buying a business, we outline 10 key steps that will help you find and buy the business of your dreams.

1. Defining Your Target Business

The first key to identifying target businesses is to know what you are looking for. What industry would you like to work in? Where would you like to be located? How big or small a business are you comfortable with? What do you want to get out of owning a business? How much money do you have available? How much are you willing to pay?

- Your personal goals will be condensed into a list of target criteria that a business must match in order to get you interested.

2. Identifying Your Target Business

Now that you know what you are looking for, you are ready to go out and find it! Where do you look? We recommend searching online listings, maintaining contact with brokers, cold calling businesses, putting an ad in a newspaper, and telling all your friends what you are looking for.

- The data sources that are most relevant to you and your interests should be searched daily.

3. Making Initial Contact

Let's say you find a manufacturing business located in Orange County, with \$1.1 million in revenue, \$200K cash flow, and \$600K asking price. Hey, this sounds interesting! Get in contact with the broker right away and tell him or her you are interested in purchasing this business. You will almost certainly be asked to sign a non-disclosure agreement (NDA). Be sure that you fully understand what you are signing. Once you've signed the NDA, the broker should send you a description of the business, the market opportunity, and high-level financials.

- Many businesses do not make it past this stage; if the additional information doesn't match your target criteria, keep looking!

4. Starting the Relationship

Once you've reviewed the package, and you like what you see, it's time to set up a conference call with the owner and the broker, prior to even scheduling a visit to the facility. Based on what you hear, do you think the business is viable? Does it sound like the owner has a good handle on the business? Would it fall apart if the owner were to leave? Are there any red flags that came up in this conversation?

- Your goal is to establish a relationship with the owner and to confirm that this is still a business you are interested in.

5. On-Site Visit

If you liked what you heard in the conference call, you'll want to schedule an on-site visit sooner rather than later. At this point, you are continuing to build your relationship (critical!) with both the broker and the owner. Much of the on-site visit is about intuition – do this owner and business make you feel good? Could you see yourself working there?

- Do you get consistent answers? If not, probe more deeply until you understand the discrepancies.

6. Market Opportunity

If you're not used to marketing or fundraising, this may be unfamiliar to you. But don't skip this step; you'll need the information to make decisions about buying the business and to run it effectively later. If growth



is your objective, you will want to know what your marketing strategy will be for this business. If you can't identify one, this may not be the right company for you.

- Are there any gaps in what the company is doing that you can implement? If yes, this might be a growth opportunity for you. Are there any gaps in the market data? If yes, consider whether this is really a viable business!

7. Letter of Intent – Getting Engaged

There are several objectives in signing a non-binding letter of intent: It is a measure of your seriousness. It gives you and the seller an opportunity to agree on high-level terms of the negotiation. It may include the purchase price (contingent upon financials being verified). It may include whether or not the seller finances a portion of the sale and, if so, how much and on what terms. It may also include exactly what is and is not included in the deal, and any other conditions that are important to you (or to the seller).

- We **highly** recommend getting legal advice before signing any letters of intent or other contracts with a broker or seller!

8. Initial Due Diligence Phase and Contract Negotiation

If you cannot verify to your satisfaction that the business really does generate as much cash as the seller has claimed, **you may want to walk away at this stage**. Similarly, if the seller cannot adequately demonstrate his/her expenses to run the business, be warned! Once you agree on either the original or revised terms, it's time to get down to brass tacks and work out ALL the detailed conditions of a purchase agreement. We strongly advise using the services of an attorney that is familiar with business purchases and of a qualified accountant.

- The goal of the initial due diligence phase is to verify enough of the key company data to negotiate and sign a binding purchase agreement, with some remaining contingencies.

9. Final Due Diligence Phase and Closing

We like to build into the process a second due diligence phase that allows us to dig deeper into areas of concern and to waive the final contingencies in the purchase agreement. At this time, you may or may not wish to also obtain an audited statement of the company's finances. Whether or not this applies to you will depend on the size of the business, how "clean" the books seemed to date, your own (or your advisors') financial savvy, and other factors.

- We strongly recommend getting competent legal advice throughout this phase.

10. Transitioning Control of the Company

Transitioning control and management of the company is an important aspect of a successful company purchase. This is important for several reasons: you will learn from the owner; you will have someone to go to as you uncover those inevitable surprises in the first few months; the owner will be able to help you transition the employees' loyalty to following your lead; and the owner will be able to introduce you to key customers and vendors and other contacts (e.g., landlord), to maintain continuity of those relationships.

Author: Karin Hollerbach brings financial and transaction expertise as well as real-world management experience to work with companies to complete successful financings, mergers & acquisitions, and strategic partnerships. To us, deals are not just financial and legal transactions; they are relationships among organizations powered by humans.

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