

BUYING A BUSINESS

This guide has been compiled to assist you through the process of evaluating a potential business purchase.

However, actions taken as a result of this document are at the discretion of the reader and not the Hawkes Bay Chamber of Commerce

POINTS TO CONSIDER

1. Don't be pressured to buy the business by anyone.
 - it is a big decision no matter the size of the business - so take your time.
2. Work in the business before you commit yourself (if possible).
 - this allows you to evaluate the day to day running of the business, and assess the number of customers, relationships with contractors, suppliers, etc.
3. Seek professional advice.
 - from those without monetary interest in the business to gain an unbiased opinion.
4. Plan!
 - consider whether you are ready to be self-employed.
 - decide what you want.
 - check out the following:

Reason for sale

Find out what the real reason is for selling the business.

- Check with the owner, solicitor, accountant and customers.
- Try to gain a good understanding of how you think the business is running.

The sales agreement

- Terms of sale.
- Assets sold with the business (stock, plant, goodwill) - obtain an independent valuation of plant (machinery, fixtures and fitting, etc.).
- Aged or useless machinery included in the price – if you don't want it, don't buy it.
- Price for goodwill if so, is it realistic?
- Conditions and terms of lease (if applicable).

Profit and loss accounts and balance sheets

- Obtaining the business accounts for at least the three previous years if possible.
- Is the business viable enough to support the lifestyle you and your family require?
- What is current working capital of the business?
- Forward project turnover and cash flow for the next couple of years.
- Check for bad debtors
- Ensure there are no liabilities, such as any unpaid bills, leases on equipment, outstanding payments (eg. Leave entitlements, superannuation to employees).

The market

Carry out a SWOT analysis - strengths, weaknesses, opportunities and threats:

- Identify your market, customer profile, market structure and trends.
- Look at both the long and short term profitability:

- is the business still growing?
- is there potential to grow further?

- Evaluate the location - in respect to both short and long term.
- Evaluate your competition:
 - what do they charge and offer?
 - where are they based?
 - what are the points of difference between you and your competitors?
- What level of risk can you afford?
- What do your customers think of the business and service?
- Do you need any expertise that you do not have access to?
- How many staff members are there?
- Will the employees of the business work under new management?

The worth of the business

- Get professional help.
- Check:
 - recent profits.
 - the condition of the business (e.g. premises, assets, fittings, staff, goodwill, etc.).
 - whether a demand exists for the products or services.
- Do your sums!

Professional assistance

- Accountant - for advice on the viability of the business, its value, the accounts.
- Lawyer - for the sales agreement, negotiation process, signing, etc.
- Bank or financial institution - ensure you have a business plan and some equity.
- Mortgage broker - check that they have expertise in commercial finance, if using one.
- An independent valuer – may save you a substantial amount of money in the long run.
- Marketing and business development consultants to aid you with your marketing planning and general business development.

Business plan

- The best way to set out your goals and objectives for the short and long term.
- Allows examination of various strategies and resources required to launch or expand.
- May indicate areas of concern, such as staff, sourcing of materials, product range.
- Develops the marketing strategy.
- Will show any financial assistance that may be required.
- Refer to our Business Planning Guide. For further assistance call 0800 CHAMBER (0800 242 623).

Remember - if it doesn't work on paper, it won't work in reality!

If you have any questions, please call 0800 CHAMBER (0800 242 623).

DATE: MAY 2015 The Hawkes Bay Chamber of Commerce and the provider of this resource make all reasonable efforts to ensure that the information published in this resource is accurate and up-to-date. However the matters covered are subject to regular review and no warranty or representation can be provided regarding the accuracy of such information. The Hawkes Bay Chamber of Commerce and the provider do not accept liability for any losses or damage arising directly or indirectly from reliance on the information. www.hawkesbaychamber.co.nz