RPS GROUP

Buyer's Guide

Dreaming of owning your own business? Buying a business can be a complicated procedure, from finding the right one to working out all the details necessary for a smooth transfer of ownership.

While there is no such thing as the "perfect" business, a business broker knows the importance of finding one that fits your needs, talents, skills and lifestyle. A business broker has many different types of businesses for you to consider and the knowledge and experience to guide you through the entire process.

Below you will find useful information to help you decide if buying a company is right for you.

Going into business for yourself is a big step, which can be fraught with apprehension and even fear. Nearly 90% of those who buy a small business have never owned a business. Most of them bought a business that was different from what they had been looking for. These buyers had the opportunity to explore the market and subsequently found a business more to their liking. In most cases, the seller financed the sale.

As you begin your search, keep in mind that running your own business is more than a job: it's a lifestyle change. In most cases, it's a major lifestyle change. Typically, you'll work longer hours, make all the decisions and, as they say, "be the chief cook and bottle washer." In other words, you will do all the work, from running the business to, in many cases, sweeping the floor and changing the light bulbs.

Most buyers look for the following when considering the purchase of a company:

- Pride in the service or product
- Flexibility
- Revenues
- Control of one's own destiny
- Recognition
- Security
- Privacy
- State
- Contact with customers and employees

What to look for?

Seniority of the company.

A business with a long history means that there are good reasons for it to work. It will be well known in the area and people will be used to frequenting it or using its services. Generally, the longer it has been in operation, the better the business.

2. How long the current owner has owned the company.

The longer the current owner has been in business, the more likely he or she has been successful. People don't stay in business if they don't make money.

3. Why is the current owner selling?

If the owner has been in business for six months, is 37 years old and wants to retire, you should be suspicious. The more valid the reason for the sale, the more realistic the seller will be in considering your offer. However, keep in mind that after five or six years or more, people get restless, "burn out" and look for new challenges. Knowing why the seller is selling is an important question.

4. Why are books and records important?

Financial records are a good indication of how well the business has done over the years. Keep in mind that tax records are not designed to show the business in the best light; no one likes to pay more taxes than they have to, and business owners are no different. Generally, tax returns are the worst-case scenario. You have to be able to look at expenses and figure out which ones are non-cash items, such as depreciation and business use of housing and vehicles. How important was that business trip to Las Vegas? A professional business broker can point you to these items.

Please note that financial records are history only. There is no guarantee that they can be duplicated or repeated. All of its benefits are future. Ultimately, the company's financial records are an indicator of what the company has done; what you do with its future is up to you.

5. How to determine whether the seller reports all income.

The answer is simple: you can't! Not declaring income is illegal. You should only take into account the income that the seller can prove to you. We all know, of course, especially in money type businesses, that there is a possibility that the seller may not declare all of his income for tax purposes. This "underground economy" is well documented and amounts to billions of dollars. Many sellers will tell you how much they are "skimming," but you should ignore their statements, as they have no way of proving these amounts. When determining whether a business is right for you, you should base your decision on the figures actually provided by the seller.

The bottom line

Being self-employed can be a daunting prospect. There are no guarantees. At some point, once all the research is completed, you will have to take that "leap of faith" necessary to proceed with the purchase of the business. You will have to work hard, perhaps even "tighten your belt" a bit, and perform many different tasks to succeed in your own business. But, if you are all about running your own business, making your own decisions, not having to worry about job security (remember, no one can fire you from your own business), and simply being on your own, then owning a business is for you. After taking this leap of faith, almost every entrepreneur will tell you that they would never go back to being an employee.

What should be taken into account when buying a company?

Unfortunately, too many prospective buyers want to know the asking price first and then ask how much money they can make. These are the wrong questions to ask. You have to know how much cash the seller needs as a down payment. No matter how good the numbers are, there is no point in studying a deal if the seller wants three times as much money as you are willing to invest. Remember that the actual amount of money a business makes is usually much higher than the bottom line. A smart approach is to learn more about the company, and even visit it, before dismissing it or looking too closely at the numbers. It's all part of the learning process.

One of the most frequently asked questions by those who have never bought a company (which, by the way, is about 90% of those who want to buy a company) is how to buy a company. There is no right or wrong way to buy a company. However, it is important that you get answers to all your questions and have all the information you need to make an informed decision. Here are the steps to buying a company that, over the years, have become the most effective and practical:

Know the basic data

Obtain preliminary information on price, terms, income, cash flow and general location. There is no point in proceeding with the purchase process if the amount of cash needed to buy the business is more than you are willing to invest. At this point, don't worry about the total price. It is important, but the key factor is the amount of cash needed to buy the business. There is very little outside financing available, such as banks, etc., for those buying businesses. The vast majority of business purchases are financed by the seller. Therefore, the amount you are willing to invest is a key issue.

In addition, the business has to be able to meet its basic financial needs. A business is always expected to improve under your ownership, but you have to be able to meet your living expenses as well as service the business debt. It is also important to remember that almost all purchase prices and down payments are negotiable. In fact, businesses often sell for 15% to 25% less than the original price. There is an old saying: "The more money you are willing to invest in buying a company, the lower the total price; the less money you can invest, the higher the total price.

Visit the company

Visit the company to see if you like its location and appearance, both inside and out. This is a visual inspection. Pretend you are a customer. It's not yet time to talk to the owner. If the business is one that doesn't lend itself to a visit, make an appointment with the seller to inspect it, or ask the seller's representative to schedule a visit. There is no point in moving forward if you don't like the physical location of the business or its appearance.

Get answers to your questions

If you like the business so far, it's time to answer their questions. For example: What is the rent? What is the length of the lease? What have the sales been for the last few years? Can the seller back up the figures you've been told? Now is not the time to completely review the seller's books and records. There will be plenty of time to do that and review other important questions during the due diligence phase. This is the time to get answers to questions that relate to your desire to own and operate this particular company, as well as to visit the seller to answer your questions about the company itself.

Make an offer

If you have your basic questions answered and you wish to proceed with the purchase of this business, it is time to make an offer, subject, of course, to verification of all the information you have received. The main purpose of making an offer is to see if the seller will accept your terms, price and structure of the sale itself. Remember that the offer will be subject to your verification of important information. There is no point in hiring outside advisors and spending the time and expense of due diligence unless you can reach a financial agreement with the seller.

Due Diligence

At this point, hopefully you have reached an agreement with the seller and are ready to begin eliminating contingencies by performing what is commonly referred to as due diligence.

*Insider Tip - (Insider Tip)

Unless you are completely familiar with the type of business purchased, it is beneficial to include as part of the agreement that the seller will stay with you (30 days is fair, with perhaps another 30 to 60 days of telephone consultation) long enough to show you the business, free of charge. If you want the seller to stay longer, it is best to offer some type of consulting fee.

Important Questions

The next step in buying your own business is to make sure it's the right decision for you and your family. Owning your own business is still "the great American dream," but it's not for everyone. Here are some questions you should ask yourself before taking the next step.

How long have you been thinking about buying a business?

Many people are interested in buying their own business, but are unwilling to make the commitment necessary to move forward. They keep looking just like those who keep looking at expensive new cars, but will never spend the money necessary to buy. One veteran observer has said that the longer you look, the less likely you are to buy.

What is your time frame for finding a company?

If you're thinking about buying a business in two years, it's good to start educating yourself. BizBuySell is a good place to start. Keep in mind that there really isn't much point in starting your search now, since any business you find now will have been sold by the time you're ready to buy. However, it is important to arm yourself with all the information and training available before you begin your search.

What is your main reason for buying a company?

If you are not motivated to buy a business, you will not do it. You should go into business for yourself for the right reasons. If you are tired of the corporate world, only have a "job-job," or maybe even a dead-end job, then owning a business may be right for you. Of course, if you are unemployed or being transferred to a place you don't want to go, buying your own business may be a viable solution.

Are you willing to invest most of your liquid assets in a company?

Owning your own business requires a significant financial investment. If you are risk averse, you may want to rethink owning your own business. It's not for everyone.

RPS GROUP

Are you independent enough to make your own decisions and be in control?

Running a small business requires continuous decision making. You are the boss and you are in control. All decisions are yours, right or wrong. And you will make a lot of wrong decisions. The question is, will you be able to recover and move forward? If you're worried about the wrong decisions or they're keeping you awake at night, owning your own business may not be for you.

Does your family support you in owning a business?

If your family, especially your spouse, is not 100 percent supportive, you should think twice before owning a business. It is very important that you have the support of your spouse. He or she needs to understand that running a business can be time consuming. On the plus side, however, many businesses allow flexibility so that you can attend the afternoon little league game.

Are you open to different opportunities or are you looking for a specific type of business?

It's best to keep an open mind, especially if you're a first-time buyer. There are many types of businesses available, and you don't want to limit your options. You should look for a business that provides the income you need (or the ability to do so), that you can afford, that has numbers that work and, most importantly, that you can see yourself running.

Do you have reasonable expectations?

Think you can buy a business with a lot of cash flow for $100? It's important to have realistic expectations about what you can buy with your money. Many sellers are willing to help finance the sale of your business, but remember that they are not going to give it away. Keep in mind that many business owners have spent years building their business, and it may represent the biggest financial asset they have. They're not just going to hand it over.

Can you take the "leap of faith" necessary to buy a company?

Many prospective business owners do their homework, do everything necessary to start the buying process and then back out of the transaction. They simply don't have the courage to move forward. There's nothing wrong with that; not everyone should buy and own their own business. However, if you don't think you can part with your money and take over running the business yourself, you may want to reconsider business ownership.

Do you need a warranty?

If you are looking for collateral or a sure thing, business ownership is not for you. You can and should examine all financial data, tax returns and all books and records. However, remember that they all represent the story. You cannot buy anyone's story. A new owner introduces changes, however subtle. Your management style is different and times change. You have to look at the company with the attitude of seeing how things can be improved. The company's financial history is certainly important, but it doesn't guarantee the company's future - you do.

Do you have any further questions?

Contact us for more information : info@rpsgrouprealestate.com