Top 10 Tips for Buying the Right Business for the Right Price and Terms

Statistics show that owning your own business is the fastest way to financial independence, while also creating the lifestyle and liberty that go with successful business ownership.

And if you buy an existing successful business, there is a greater than 95 per cent chance that the business will still be in business after five years (provided, of course, that you buy it right).

To mark our 50th post and to help you "buy it right", we've pulled together a top 10 list of tips.

Top 10 tips for Buying the Right Business for the Right Price and Terms

1. **Purchase a business that you will enjoy** . To make that decision you need to realistically assess what you do enjoy, your personal goals for the coming years, your personal strengths and your weaknesses. Make sure that the day-to-day effort in your business will be fun for you. Getting up every morning and being excited about the coming day makes the work load seem light.

2. **Never confuse a business that doesn't show a profit for tax purposes with a business that isn't profitable.**

Private businesses prepare tax returns to minimize taxable income. Minimizing taxable income is part of the normal activities of private businesses. Small businesses don't have (or want) the level of detailed record keeping usually seen in larger companies. The taxable income reported on a small business tax return is rarely an indicator of the true earnings realized by the business owner.

3. Expect and respect confidentiality. Knowing that a business is for sale can set off alarms with employees, customers and suppliers and do permanent damage to an operation that might become yours. How so? For one thing, customers and skilled staff could go elsewhere, reducing sales and profits. Be aware of this if you see a business that's advertised publicly. If you're dealing with a business broker, you'll be asked to sign a non-disclosure agreement (NDA) protecting confidential and proprietary information about the business for sale and what might be your future prospects.

4. Be prepared. Timing is everything, so being prepared in advance to make a serious offer once you have found what you are looking for is critical. Get financial and credit facilities in order before you consider buying. Make sure that "soft" financial commitments from friends and family are firm before you start negotiating and include these people in the process as appropriate. Define and refine your interests, capabilities and budget in advance, so you'll recognize the right opportunity when it comes along – then act!

5. Be patient. Negotiating the right deal takes time and effort, typically some three to nine months. Commit the time to accomplish the many tasks. Don't get discouraged if the deal doesn't work out. You may need to find more than one business to pursue.

6. Don't over spend. Negotiate only for terms that you can realistically afford. Don't overstretch yourself to your financial capacity. Leave sufficient rainy day and transition capital to ensure a cushion of safety.

7. Insist on seller financing. Make sure that your seller is providing a reasonable portion of financing. This allows you to buy a more valuable business with less money down. It also keeps the seller honest regarding financial projections and business potential.

8. Choose the right professionals. Every buyer needs a good lawyer and accountant on their team. Choosing the right professionals means finding experts who have actual experience in buying and selling businesses and who understand their role in the process. Recognize that MOST lawyers and accountants are not entrepreneurs or business experts. Understand that because their job is to protect your interests against all conceivable risks, the safest recommendation they can make in every situation is to not take a risk. Remember that you are ultimately the one who makes the business decision based on your talents, expertise, instincts and entrepreneurial goals.

9. The terms of the deal are always more important than the actual purchase price. Negotiating the right deal can take a considerable amount of time and effort. Understanding your seller's objectives and reason for selling is a critical part of finding the right opportunity and structuring the right deal. Above all, do NOT take the negotiating tactics of the seller personally, or get caught up in the emotion of the situation. Rely on the professional expertise of your intermediary to negotiate well and create win-win terms that work for both parties.

10. Secure a non-compete/non-solicit agreement and a training and transition program. You want to keep the seller around long enough to train you and to ensure a smooth transition for clients, suppliers and staff. If seller training is critical to your success, protect yourself by putting life and critical illness insurance payable to the business in place for the required training and transition period or use the seller financing to self-insure.

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