BUSINESS CENTRAL
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Sold!

If you're thinking about buying a business, here are a few things you should know and do before you sign on the dotted line.

By Barb Umberger

Always wanted to own your own business? Wondering if today's economy means bargains can be found? Ready to jump in and follow your heart?

Whoa. Not so fast.

Owning a business can bring tremendous satisfaction and financial reward. But it also comes with risks, especially if you don't do your homework.

"Owning a business is very demanding, especially when you're just starting it up," said Don Schiffler, chapter chair, Central Minnesota SCORE. "There is so much to learn. Many new businesses struggle."

Know your strengths

Before you get too far down the road to business ownership, consider analyzing both your strengths and your reasons for buying a business.

"Some people see glamour in owning a coffee shop or bookstore that they spend about one hour in a week," said Chris Shorba, C.P.A., KDV, Ltd. "It's not the same fun when you're getting up at 5 a.m. every day to make coffee and spending 12 hours a day there, especially in this economy."

Business ownership has so many facets, he said, even with a smaller company. "A lot of people have one area of expertise," Shorba said. "You need to know your strengths and weaknesses." Someone may be good at sales, for example, but have no experience on the product side.

Questions to ask yourself

Schiffler and Barry Kirchoff, director of the Small Business Development Center, have advised many people looking to buy a business. They offer some questions potential buyers should ask themselves:

- Is this right for you? Are you used to working 12 to 14 hours a day?
- Do you have the necessary leadership qualities?
- Do you enjoy working with people?
- Do you have the needed skill set, such as accounting skills, or will you pay for that expertise?
- Are you a natural salesperson?
- Who will make calls to vendors on past-due accounts?
- If this is your first time buying a business, do you have a mentor who has done it before?

Do due diligence

Once you have a business in your line of sight, perhaps the most important step is the process of due diligence – conducting thorough research about the business in question. Becoming better informed will aid your decisions moving forward and help you avoid misunderstandings about the condition of the business and other issues, such as whether the purchase price is fair.

A critical part of due diligence is reviewing the business' financial statements and tax returns. Consider hiring a CPA to review them, too.

Craig Hanson, attorney with Gray Plant Mooty, outlined important components of due diligence:

- Cash flow – know the business' operational costs. Besides purchase price, you'll need funds for operating the business -- paying employees, paying vendors and covering other operating expenses – until you have sufficient revenue
- Employees – what is their expertise? How many are likely to stay? Are they quality employees?
- Customers – how diverse is the customer base? If one customer represents 20 percent of the business, losing that customer would have a significant impact on revenue.
- Industry – what is the status of the industry? Well established, growing? How is this business doing relative to the industry? If worse (or much better), why?
- Continuation of contracts and business – how long have customers been with this company? What is their history?
- Intellectual property – make sure names and other intellectual property are included in the purchase.
- Potential liabilities – be aware of any lawsuits and warranty claims

Other considerations

Perhaps ask the seller if you can interview some of the employees to gain their perspective on the business and to evaluate what they can contribute over time. Understand the company's business cycle. If closing falls at a slow time of year, you may want that reflected in the purchase price.

Also, know when to say when. Sometimes people get so emotionally invested in buying a particular business that they don't stop the process even when they learn information that should dissuade them.

Kirchoff and Schiffler posed other valuable food for thought for potential business owners, including:

- Are you familiar with the industry? Is your experience a good fit?
- How thorough was your due diligence?
- Is the price fair? How will you finance the purchase?
- Why is the seller selling the business?
- Is it better to lease or buy any facilities?
- If business starts slowly, what will you do differently to make it better? What will you bring that's new?
- Do you have business and marketing plans?

Don't forget the plan

Many Americans tend to spend more time planning for vacations than for their retirement, according to Shorba. The same might be true of writing a business plan. "You need to create a business plan and a cash flow forecast," he said. "I have coached people on what they need to include in a business plan, but they don't always do it. Make sure you spend enough time doing research." This is important if for no other reason than lenders want to see a business plan before they lend money.

When it comes to purchase price there are lots of ways to determine valuation, said Kirchoff, such as looking at comparables, location, value of real estate, sales, etc. "There's no one good formula."

The transaction itself can be a purchase of assets or a purchase of stock. An attorney or CPA can help advise you on the tax advantages of each option.

And check around to make sure you get the best interest rate, Hanson said.

Ask for help

"No one person can know it all," Kirchoff said. "You need to know what you're getting into. Look for other resources for information," many of which are free or low cost. One option is the services provided by his organization or by SCORE.

"We spend a lot of time going over the negatives and the positives," Kirchoff said, presenting possible obstacles in order for the potential buyer to think them through. "You need to get more than one opinion – legal advice, people in the same or a similar industry, etc." He also is a fan of doing research at the James J. Hill Reference Library (www.jjhill.org) in downtown St. Paul, one of the most comprehensive business libraries in the nation.

Another option that works in some cases is having the owner stay on as a consultant for a period of time, Kirchoff said. "But know that every situation is unique."

To learn more

Accountants, attorneys and business owners are great sources of information as you consider buying a business. Information and education are vital, Shorba said. "Besides consulting with an attorney or CPA, you can attend classes given by professionals. There are a lot of inexpensive resources."

Barb Umberger is a St. Paul-based freelance writer.

Resources

Anderson Center
Management and Business Development
(formerly Anderson Entrepreneurial Center)
www.acmbd.org
(320) 251-5420

Central Minnesota SCORE
www.stcloudscore.org
(320) 240-1332

Small Business Development Centers
www.mnsbdc.com/AreaStCloud.htm
(Click on "Resource Center" and "Workshops/Seminars")
(320) 308-4842