Successful strategies when buying a business

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Owning a business and being your own boss can be personally and financially rewarding. Taking a strategic approach to acquiring a business will increase the probability to success.

1) Finding a company to purchase

Set clear objectives and write an acquisition plan. Why do you want to buy a business? What type of business do you want to buy? What do you know about the type of business you want to buy? What skills do you bring to the business? What are your financial goals? How will you grow and leverage the business to enter new markets or purchase other businesses? How can you take that business beyond its current size and profitability?

Put together your "due diligence" team that will include an investment banker or business broker, financial adviser, accountant, attorney and lending sources.

2) Researching your target business

Determine why this business is for sale. Are the current owners looking to retire, or is there another motivation? Has the business continued to grow, or has it reached a plateau? Are sales and profits trending upward? Does the business have a strong management team who will stay in place after the purchase, or is the current success of the business solely dependent on the current owners?

Review and analyze the current record and operations:

- Financial records
- Sales records
- Marketing strategies and advertising costs
- Contracts and legal documents

3) Making an offer and negotiating the deal

Work with your professionals to determine the company's current value. Determine if the sale must include associated land or buildings used in the operation. Is there a reason to buy the stock of the company vs. buying the operating assets of the business?

Compare your valuation with the seller's asking price. How far apart are the two values? Will the seller consider any contingent component based on future performance in your offer? Such contingencies are often used to bridge the gap between an offer and the higher asking price.

4) Arranging financing

Will the seller consider financing a portion of the purchase price — i.e., taking a note for some of the purchase price? This can become a tax advantage for the seller by deferring some of the tax on the sale gain.

Alternatively, how much bank financing can you obtain for the sale, and how much money do you have to invest from your own funds? What additional funds might you need to fund the transition after your purchase? For example, will you need to upgrade equipment or facilities, or make significant repairs?

5) Consider your exit plan before you buy

Owning a successful business means meeting your financial goals and being able to exit the business. How will you exit the business? Sell it in five years? Pass it to your children? Sell it to employees? Cash out and retire?

When developing your acquisition plan, consider how best to exit. That will guide how much you are willing to pay for and to expand the business.

Buying a business can be most satisfying. Making it successful requires hard work and strategic thinking. MichaelSilver's Management Consulting Team can help you successfully manage this process: from evaluating and buying the business to growing and expanding the business and exiting the business.