

# 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 Auckland 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 (eg. 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).

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