

Title:

Don't Let Passions Rule When Buying A Business

Word Count:

730

Summary:

For many, the American dream of owning a business is in queue right behind owning a home. I was a teenager when I owned my first business. Since then I have bought or started many businesses and helped others do the same. Here are some common mistakes I have witnessed or committed myself.

Paying too much

This results from the combination of all other mistakes. Many new business owners set themselves up for failure by paying too much, which results in higher loan payment...

Keywords:

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Article Body:

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Paying too much

This results from the combination of all other mistakes. Many new business owners set themselves up for failure by paying too much, which results in higher loan payments, lower operating funds, and reduced borrowing capacity.

Letting your emotions rule

If you have always dreamed of owning a business, it is very easy to get caught up in the strong emotions invoked by seeing those dreams coming true. To counteract your emotions, take your time, do your homework, and enlist the help of objective advisors.

Paying for potential

You should only pay for the business as it stands at the date of purchase, not what it could be in the future. You will have to spend time, effort, and money to develop its potential. The seller chose not to invest these things, so he does not deserve to be paid for them.

Not evaluating yourself

Do you have what it takes to run this business? Try to match your strengths to the important duties you will be required to perform. Running a small business requires the owner to do many things. No one can be good at them all, so make provisions for those areas in which you are the weakest. Some tasks like payroll and bookkeeping can easily be contracted to outside vendors. Possibly your spouse, other family member, or a partner could do things that you cannot or do not want to do.

Not building a team of experts

At a bare minimum, you should enlist the aid of an attorney and a CPA. The attorney can prepare and review documents, help structure the deal, and make you aware of legal and liability issues. The CPA can provide a financial analysis of the business, and advise you about tax and accounting matters. You should consider adding a business valuation professional. His valuation report can be used to determine the reasonableness of the asking price, negotiate a lower price, and provide valuable information about the business, the industry, the competition, and the economic conditions.

Relying on bad information

You should verify all important information about the business. Your CPA can check financial information like receivables, payables, and inventory. Your attorney can review loan documents, leases, and contracts. Your business valuation professional can analyze the competition, the industry, and the economic conditions. Use independent appraisers to value real estate and equipment. Get a credit report on the business through your CPA or banker. You can do some of the investigating yourself to save money, but do not cut too many corners - it may cost you in the long run.

Changing too much, too fast

Once you own the business, you will be tempted to start making wholesale changes from day one. You risk alienating long-time employees and customers. Unless the business is in bad financial condition and needs immediate action, its better to

take some time to get to know the business, your employees, and your customers before making changes. This is a perfect time to solicit suggestions from employees and customers.

Buying a business because you like to do what the business does

One reason restaurants have a high failure rate is people buy or start them because they like to cook. Very few restaurant owners spend time cooking. Their time is spent managing staff, ordering supplies, doing paperwork, and handling daily crises. A small business owner must wear many hats - including that of manager.

Not being interested in the business's product or service

I made the mistake of thinking that because I am a CPA and smart that I could own and operate any business. I bought a business that sold high-performance auto parts to young men who drove jacked-up, four-wheel drive pickup trucks and went to the drag races every weekend. I did not do either and never understood why anyone would. I could not relate to my customers and went out of business in about a year.

Conclusion

Buying a business is a complicated, emotional process. By avoiding these costly mistakes, you can prevent turning your dream into a nightmare.