

# Buying a Business



The authority on selling businesses

# Frequently Asked Questions

If purchasing a business is new to you, for your assistance we have compiled a series of answers to the most frequently asked questions from first time buyers. This information will give you a general overview of the process of buying a business. More specific answers can be sought from one of our team of specialist business brokers.

## How much money do I need?

Before you begin looking at buying a business the first step is to work out your finances.

There is no point in looking at businesses that are beyond what you can afford. Calculate how much cash you have available and what other assets, such as property, you could borrow against.

When dealing with a business broker tell them how much you have to invest, then they will direct you to suitable businesses within your price range. The business broker will also know which businesses are more suitable to finance, or if the current owner is prepared to finance some of the purchase price. If the broker knows what cash you have available this will help them to help you.

With some types of businesses it can be difficult to borrow money using just the business as security, due to the difficulty a bank may have in securing the loan, e.g. low asset base service industry etc. If you have a house or investment property you may be able to use this as security for a mortgage to buy the business, thereby requiring less cash. We can refer you to lenders familiar with financing business acquisitions.

## What initial information do I need to gather?

Gathering all the information you need to make an informed decision should start with the basics first.

**Price** - is the business within your budget and can you fund the purchase?

**Location** - is the business suitable to you and is it a good area for this type of business? (demographics)

**Lease** - how long is the lease?

**Rent** - how much is the rent and other associated outgoings?

**Staff** - how many employees?

**Income** - how much money will I earn?

**Tenure** - how long has the business been operating?

What are the "barriers to entry", in other words how difficult would it be for a competitor to set up a similar business.

## How are businesses priced?

Businesses are valued on the basis of the amount of money they earn combined with the desirability of the industry and the risk factor. Higher prices will be paid for businesses in more desirable industries that are operating in a market perceived as low risk. These types of businesses are in strong demand. Therefore the value of the business will be greater than for one in a less sought after industry and perceived to have a higher risk factor attached to it, despite the fact that both businesses may make the same amount of money.

When you have your first meeting with one of our business brokers they will give you an overview of values of businesses within the industry sectors of interest to you.

## What is the ideal business?

Often we are asked "what is the perfect business"? There is no perfect business, as each business and industry has its own unique set of challenges for the owner. It is important to buy a business in an industry that you relate to and in which you can learn and be comfortable. We have sold businesses where the owners have moved into an industry with no past experience but they could relate well to that industry. Look for a business with an eye towards what you can do with it, how you can improve it, how can you use your ideas and enthusiasm to make it more profitable and productive.

## Why should I use a business broker?

An experienced specialist business broker has industry knowledge that can assist you when considering a business and will normally have a selection of businesses for you to compare. Our brokers have prepared the necessary information, gathered financial documentation and compiled it in an information memorandum for you to review.

There is no cost to you in buying through a business broker; our fee is paid by the seller. In some instances we can work for you as a buyer if you have a target industry or business and would like us to negotiate the purchase for you.

## Why should I pay someone to buy a business when I could start one up?

There are three main reasons:

There is a large failure rate in new business start ups whereas an existing business has a statistically higher chance of continuing to be successful.

Financial records on the business are available so you can see if it is making a profit and what working capital is needed for your financial commitments.

It may be easier to borrow money as the business has an established track record to cover debt servicing costs.



*Registering with LINK is the most efficient way of recognising business opportunities.*

## How do I find out about businesses of interest?

If you are serious about buying a business you should make an appointment with one of our specialist business brokers who is knowledgeable in the industry sector that interests you. Our business brokers specialise in the sale of businesses where they have prior industry experience thus giving you access to industry specific knowledge.

You will be asked to sign a Confidentiality Agreement before receiving confidential information on any business you are contemplating buying. This protects the owner of the business by ensuring information you receive will be treated as confidential and not passed on to other parties. Business owners want to be assured that the information given out to a pre-qualified buyer will be treated in absolute confidence.

## When can I inspect the business?

Once again, confidentiality is paramount and your business broker will arrange a time with the business owner, for you to inspect the business.

A physical inspection of the business should come at a time when you have considered the financial information given to you, are satisfied with this and wish to proceed further. Remember that the owner of a business will be very sensitive about your visit, on the one hand wanting to provide you with all the information you require, yet on the other hand not wanting staff to know why you are really there. Please respect this sensitivity and have the courtesy not to embarrass him or her.

## What happens when I find a business I wish to buy?

Once again, buying a business through a broker will help you in this process. The broker will explain the process to you and guide you through it.

The business broker will prepare the sale and purchase agreement for you. This is the document used for making an offer to purchase the business and needs to include special conditions to protect you throughout the process. Likewise, the owner of the business will want to know that the confidentiality of his business is protected through this process.

Before signing the agreement it may be advisable to have your lawyer review the agreement. When choosing a lawyer it is



important to use one who is familiar with the process of buying a business. Business brokers are not qualified to give legal advice and likewise lawyers are not qualified to give business advice. Your lawyer will be looking out for your interests just as the lawyer for the seller will be doing the same for their client, and the agreement must be workable for both parties. Ultimately the lawyer works for you and you must have a say in everything that is done.

## How do I know that what I have been told about the business is true?

When you initially look at a business certain information will be supplied. However, in some cases the owner of the business will be reluctant to reveal too much about the business until an offer is made. Many aspects in the operation of a business are commercially sensitive and confidential, thus a business owner would not be wise in disclosing all until a prospective purchaser has indicated a serious intention to purchase by making a conditional offer.

An offer is normally subject to the purchaser performing due diligence, a process whereby the purchaser requests specific information on the operation of the business. The owner will supply this under due diligence. The buyer must maintain the strictest of confidentiality through this process and must not disclose any information to other parties with the exception of any professional advisors they are using in the process.

The due diligence process is for the benefit of the purchaser giving them time to complete the verification process. If satisfied with the

end result the agreement proceeds and you become the proud owner of your new business. If however you are genuinely not satisfied with the results of the due diligence, then the owner is advised accordingly and the agreement comes to an end. The deposit money held in trust is refunded in full.

## How can I be advised of any new businesses available as soon as they are listed?

Many of the businesses we list are sold before they are advertised. By registering to buy a business on [linkbusiness.co.nz](http://linkbusiness.co.nz) you will receive priority notification on all appropriate new listings from any one of our team of brokers, not just from the broker who you initially met.

## What type of business broker should I use?

It is important to have a business broker who is knowledgeable in the industry you want to buy into and with whom you feel comfortable. Our brokers specialise in business categories that they have experience in, thus giving you a business broker knowledgeable in that industry and experienced in the process of buying and selling a business.

When you make contact with our company, ask for the broker who specialises in the type of business you are seeking to buy.

Good luck with your search for a business; it is an exciting and rewarding process. Call us today and get started!





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