

## Buy Your Future Now

By: Eve Gumpel | 09/14/2009

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It's a good time to buy a business--but only if the business you're buying is profitable, even in these recessionary times.

So says Ted Leverette, president of [Partner On-Call Network LLC](#), a franchise that helps buyers purchase small and midsize businesses that owners quietly put up for sale.

Leverette advises against buying a mediocre business at a bargain price with the intent of fixing whatever's wrong with it and making a killing. "The only businesses worthwhile are the ones that have been profitable--and I say for a minimum of five years, including right up till now." About 20 percent of businesses fit that description, Leverette says.

Leverette lists three reasons a profitable business would be on the block right now: the owner is dead, dying or disabled; in debt; or has to sell the business because of a divorce.

Leverette acknowledges that many buyers are willing to settle for mediocre businesses or even losers. "They think they're buying cheap and therefore they'll make a better return once they fix the business." But even turnaround experts have an 85 percent failure rate, Leverette says, adding, "If the pros fail 85 percent of the time, good luck to the typical person."

The best buyers are people who've worked in a career for 10, 20 or even 30 years and want to buy a business that fits right into their resume. They know the players and the customers; they understand the culture.

"They understand the field and, once they get in, they're back in their environment," he says.

Buyers also benefit from the fact that sellers typically stay around and train the buyer for a period from three months to a year. "The seller has a big incentive since that seller is financing part of the deal," Leverette says. "You've got an owner willing to tell you everything necessary, because that's how he gets paid the rest of the purchase price."

Even better than an industry insider, says Leverette, is a small or midsize business that opts to purchase a competitor. "That's where the opportunity is today," Leverette says. "Banks as well as investors will pony up money when a business is buying another business in its industry." When two businesses combine, he explains, they can reduce duplication of overhead, purchase goods at lower prices, hire and keep better employees and sell to larger customers.

"We say to small midsize businesses, 'If you've been doing well, especially in this economy, now's a good time to feast. Go pick off at least one competitor.' Banks and investors like this. It's not some former employee looking to buy a job. It's another business in motion that's already profitable, so the probability of the transition going smoothly and there being a bigger, more profitable company is much higher."

Typically, small and midsize businesses sell for two to five times their annual adjusted net cash flow, Leverette says. That's the business profit plus the owner's salary.

If you do plan to buy a business, you'll have to have some cash on hand. Leverette says you need enough to make a down payment of no less than a third of the purchase price. According to Leverette, tax law allows people to take money out of their 401(k) tax-free to purchase a small or midsize business.

Financing options are limited for business buyers in 2009, Leverette says. Today, banks expect sellers to finance up to 50 percent of the purchase price. In the past, sellers might finance up to a third of the purchase price or--if it was a really great business--the buyer would make a down payment and the bank would pick up the rest.

Leverette also notes that the price of a business goes up--typically about a third--if the seller is going to finance. On the other hand, he points out, sellers of mediocre businesses are reluctant to provide financing. "The seller is thinking, 'If the business I'm running is already in trouble and I can't fix it--now I'm going to hand it to some stranger. And if he can't fix it, I don't get paid and I don't have a business.'"

"In real estate if somebody doesn't pay, there's something to get back," Leverette says. "In business, it's not like a piece of real estate. There's nothing to repossess."

Another type of financing is called an "earn out." In an earn out, the seller negotiates for a share of any increase in profit after the buyer purchases the business. If the profit doesn't materialize, the seller doesn't get the contingent payment.

Who should buy a business? There are three criteria, says Leverette:

- You know how to manage employees.
- You can make a down payment of about a third of the purchase price.

- You're either unemployed or underemployed--that is, you won't be able to accumulate enough money to retire.

Among those who qualify are unemployed executives, Leverette says. "What if you used to be a \$150,000 executive and you're unemployed? You're not going to get a \$150,000 job in the next year. That person can go buy a business," Leverette suggests.

If you do plan to buy a business, don't waste time--seal the deal as quickly as possible. "This is the best lesson I've learned in my business career making deals: If a buyer finds a business worth buying, do not [mess] around with the seller negotiating nitpicky items that really aren't significant, and don't think the seller is going to have unlimited patience," Leverette says. "Move as fast as you can with reasonable advice from expert advisors."

Otherwise, Leverette says, another buyer will swoop in while you're dragging your feet.

He offers the same advice to sellers who put off a sale, thinking they'll get a better price down the line. "Don't [mess] around thinking, 'what better deal might exist?' Sell to the right buyer or buy the right business, and move on."