



**"Partner" On-Call™**  
**NETWORK**  
STREET SMART ADVISORS  
SUPERIOR RESULTS

*Be cautious  
but not paranoid.*

## **Business Buyer Protection Report™**

Issue 1.4

## **Business Buying Don'ts**

Owning a business can be one of the most financially and emotionally rewarding experiences of your life or it can become your worst nightmare. When you buy the right company the right way you enjoy a wonderful lifestyle, one that is rarely available through working for somebody else.

Business buyers naturally proceed with a healthy dose of skepticism. They believe there is more than they are being told by business sellers, brokers, advisors, employees, customers, suppliers, landlords and sources of financing – and they are right.

**Don't die from buyer fever.** "Death" from business buyer fever occurs when a buyer wants a particular business so badly that common sense goes out the window. Even people who know what to do sometimes do the wrong thing, especially if they have a bad case of buyer fever.

**Don't proceed without a team.** Buying a business is a team effort. Your team provides you with essential information and connections that you lack. Your team starts with a *Business Buyer Advocate*™. Assemble your support team before you begin your search for a business to buy. Do not rely on the seller's or business broker's advisory team. A buyer who does not select the right team of advisors to promote a win-win deal will have one or more deal killers. This means you can lose opportunities that wiser buyers enjoy.

**Don't begin without acquisition criteria.** Criterion include business type, size, age, location, customer & product diversification, degree of competition, working hours & travel requirement, etc. A safe, profitable business acquisition pays the owner fair salary and benefits, earns enough profit for the business to pay for itself, provides a decent return on investment and sells for more than its purchase price.

**Don't buy a job.** Why assume all the risks and headaches of business ownership if you can't earn substantially more than you can from working for someone else? A good business acquisition pays you a salary and benefits at least equal to what the business would pay a manager. In addition, the business' net profit provides a good return on your investment. Anything less is a dumb deal.

**Don't say, "I'll know it when I see it."** If you're unsure, answer this: Would you start a vacation by going to the airport, buying a ticket and getting on the next plane out? Wouldn't you study travel brochures and get opinions from people who have been places? You can learn what they liked and what mistakes they made, so you can plan the best trip possible. It's wise to know the type and size of business you want because brokers show their best listings to buyers who specify what they want. Brokers and sellers screen out buyers who don't specify the type and size of business wanted as well as the features it should have. If you're not sure of the best business for you, a good *Business Buyer Advocate* can help you decide.

**Don't buy on "potential."** Buy an independent, mature, profitable business with a good future if you want to win bigger. You make money from day one. Just because a business has been profitable is not enough reason to buy it. Relying too much on historical performance is like looking into a rearview mirror to see what is ahead.

**Don't buy a business that can't pay for itself.** Profit should service debt, provide reasonable owner salary/benefits plus earn a reasonable return on *and* of your investment.

**Don't join the crowd.** Corporate downsizing creates a horde of unemployed, inexperienced business buyers, many of whom are desperate to buy themselves a job. They congregate around advertised and broker-listed businesses because these are the easiest ones to find. Few of these people know how to buy a company. They're a major threat to you because they naively bid up the price and down payment. They create a seller's market!

**Don't overlook the hidden market of sellers.** "Most small business deals are made without a go-between." *Changing Times*. Business brokers ultimately list some of these firms for sale. Meanwhile, you can buy for less if you access the hidden market of businesses quietly for sale by-owner. You will learn more about the industry you are shopping; you will discover more sellers; and you can make a smaller down payment on a lower purchase price for a company with comparable profit to a business broker listing.

*A little neglect may breed mischief ...for want of a nail, the shoe was lost; for want of a shoe, the horse was lost; and for want of a horse the rider was lost.*

Benjamin Franklin

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*Each Office Independently Owned & Operated*

**Don't waste time on a dumb deal.** Contender or pretender? Look for a better business to buy if the business does not match your acquisition criteria. You may not know this until you begin to verify the seller's representations. It pays to expedite the seller's production of documents for your review. A *Business Buyer Advocate* can show you how to quickly get relevant facts and screen out businesses that are not worth buying. Time is money.

**Don't be limited to financial analysis.** The truth about a business relates to the nonfinancial factors that influence value, such as the business' relationship with its employees, customers, suppliers, landlord and sources of financing.

**Don't forget to do a cash flow forecast.** Working with the seller, prepare a post-sale, after-tax monthly cash flow forecast for 24 months. This is the time during which you are most vulnerable. The owner may not be fully aware of the seasonality of his business, especially the negative monthly cash flow.

**Don't think asking price has anything to do with value.** The seller's asking price is not the benchmark from which a wise business buyer makes an offer to purchase. Successful business buyers make their initial offer from the perspective of an independent, competent business valuation.

**Don't think "discretionary" cash flow can pay debt.** Don't think "discretionary" cash flow is available to finance debt. Is owner's salary discretionary? Is health insurance? Is depreciation? Absolutely not. Treating these as though they are discretionary expenses is a big mistake. Doing so means you earn less than the business would spend to compensate a manager. It could cause the business to become insolvent and lead to a fraudulent conveyance, which puts your personal assets at greater risk. Use the business' net profit, after fair owner comp, to retire debt.

**Don't rely on only the good news.** All businesses have problems and face vulnerabilities. Most businesses can live with them until they solve or avoid them. When the seller finishes telling you about the bright future, ask him to illuminate the dark side.

**Don't omit "right of offset."** Ask your attorney to include a "right of offset" in your purchase contract. This can handle misunderstandings and undisclosed liabilities that become known to you after the business changes hands. The right of offset can be used to adjust the price and payments due on the business by crediting the cost of items such as undisclosed paid time off (vacation, sick days), unusable inventory or equipment, etc.

**Don't let money stop you.** Some buyers lose their opportunity because they do not have sufficient capital to purchase and operate a business, or they do not know how to use creative financing. Your lack of capital for the business you own or want to own is a hindrance you can overcome with street-smart knowledge of finance. Study our creative financing book so you don't have to use as much of your money or personal borrowing power to buy and operate your business: *How to Get All the Money You Want For Your Business Without Stealing It*.

**Don't forget the most important question.** What is the competitive advantage of this company? What are the dependable drivers that create customer demand for its product? From these questions will come many others. Follow the string until its end to discover the truth about the business. Do these things before you buy it.

**Don't ignore this truism.** You can pay too much for a good business, but you can't pay too little for a lousy one. These problems stem from defective acquisition techniques, *not* a lack of good businesses. Every year, thousands of business buyers buy the right business the right way.

**"The Street-Smart System to Buy a Business"** has been in use since 1974 by thousands of people throughout North America. It begins with this partial list of Don'ts. Many of the 400+ Don'ts are in our client reference guides: *Business-For-Sale Locating & Screening System*, *Business Acquisition System*, *How to Get ALL the Money You Want For Your Business Without Stealing It* and *Business Valuation Kit*.

What makes us different from other advisors is our niche. We invented the concept of *Business Buyer Advocacy*. We developed a *Street-Smart 22-Step Acquisition Sequence*™ to help you avoid pitfalls and keep you on track.

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