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8 important steps to buying a business

You never know when it's going to happen. For some, it hits at an early age; others experience it later in life. No matter how old you are, at some point, you'll be bitten by the entrepreneurial bug: "What if I owned my own business?"

More and more, people are asking themselves that question, and many are making the decision to take action by buying an existing business.

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The process of buying a company is more complex than buying a house or an automobile. Those who have been successful in finding the right business opportunity typically have been thoughtful and organized in their search. The following eight steps will help all buyers through the difficult process of acquiring a company.

Getting started

1. Determine your acquisition criteria

Instead of trying to look at every opportunity you can find, think quality over quantity. Narrow your search by first determining what factors are most important to you. Among other characteristics, specifying your desired location, company size, type of industry, and transaction size will help maintain your focus. Don't waste your time on transactions you won't or can't complete.

2. Get your finances in order

Having an updated personal financial statement will not only lend credibility to any offer you make (and be required by any lending source), but it will also help determine the size of transaction you're capable of handling. Secure firm commitments from family and friends offering financial assistance. Keep in mind that you'll need to have funds available to purchase the business as well as to pay for acquisition expenses, such as closing costs and professional fees — legal, accounting, appraisals, etc. Also, after the purchase you'll need working capital to keep the business running.

3. Develop your advisory team

Bankers, attorneys, CPAs, and business brokers can be valuable resources for you in finding companies for sale and reviewing transactions. Be sure to find those active in the market you're entering and experienced in business acquisitions. Most likely, they will be happy to shepherd you through the process because you likely will continue to use their services for many years after the deal is consummated.

Looking at the company

4. Research before meeting

Do your homework to learn as much as you can about the business before you meet the owner. Educate yourself about the industry, competition and the company's products and services so that you'll have a good basis for discussions with the seller. A well-educated buyer is able to get to important details sooner and move ahead more quickly.

5. Gather information from seller

Once a confidentiality agreement has been signed, a seller will typically provide financial data and other pertinent company information. Some information, such as corporate tax returns, employee data, and customer lists may not be provided until a formal offer is accepted, but that's OK. You can always make your offer contingent upon a satisfactory review of any withheld information.

6. Establish a relationship with seller.

In many ways similar to dating, a good relationship with the seller from first impressions through closing of a transaction can go a long way in helping negotiations. Make every effort to show a seller that you are the type of person he wants to sell to, and strive to convince him that you will be successful with the business. A positive working relationship is also important for the post-sale transition period when the seller will assist you in retaining key employees, customers and vendors.

Making an offer

7. Write a formal Letter of Intent (LOI)

This document is an agreement that outlines the most important aspects of the transaction. The LOI often serves as the starting point for the Purchase Agreement. It's often a good idea to sit down with the seller to go over the critical points, including the purchase price, deal structure, and any contingencies that are to be confirmed during due diligence period. Along with a target closing date, set a deadline for the seller to respond to the offer. Once an offer has been agreed to by both parties, the business should go "off the market" to allow both sides to work in good faith toward a successful closing.

8. Move to closing as soon as possible

The longer a deal drags, the more likely it will fall apart, so it's important for the parties to keep things moving. The due diligence period should last 30-60 days — plenty of time to mobilize your advisory team to verify all information, secure bank financing, and complete the Purchase Agreement. While either side's attorney can write the Purchase Agreement, there are advantages to being the one taking charge of the process. It's common during the due diligence period to encounter a few problems needing to be resolved, but if the parties work to find solutions, the deal can be completed to the satisfaction of all.

Hollywood glamorizes the cutthroat nature of public company "hostile takeovers" and corporate raiders. However, the transfer of ownership for most private businesses is typically a cordial transaction with both sides working to find a mutually acceptable outcome. Once such an outcome is achieved, the question for many buyers is no longer "What if I owned my own business?" but rather, "Why didn't I do this sooner?"

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