

Buying a Business

Small Business Development Corporation

Buying an established business is a big commitment. The following points will help you to research and assess the business opportunity, and assist you to make an informed decision.

If you are considering buying a business, your first consideration should be whether that type of business is suitable for you and your lifestyle. Are you suited, physically, psychologically and financially to that business? Do you have the skills, experience, time, resources, vision and commitment to make this type of business a success? Do your personal circumstances make this a good opportunity for you?

Your second consideration is to obtain all the relevant information available to enable you to assess the business. Will the business continue to generate the level of profits that the business is said to be earning?

Is the goodwill component of the purchase price realistic? Goodwill generally relates to profitability.

A diligent buyer will carry out a thorough check of the business and in so doing will identify whether it is likely to succeed in the future.

A SWOT (strengths, weaknesses, opportunities and threats) analysis of the business will help you assess the proposed purchase. Strengths could include contracts that will be sold with the business, ownership of intellectual property, an exceptional location and a secure client base with little or no competition. Threats could include a new or potential competitor.

A feasibility study or business plan should be prepared for the proposed business. The financial projections should include adequate allowance for the purchase of the business, costs of acquisition such as legal fees and stamp duty, any additional expenditure required, borrowing costs and working capital requirements. Make sure you use current costings and quotes, especially for insurance and labour costs.

Caution

Not all businesses for sale are good businesses. Some are run down, some badly managed, others poorly located or perhaps suffering from recently introduced competition.

A well run, established business with a solid client base, suitably equipped premises and a good lease, with a good turnover and net profit may provide a safe income. Such businesses are often placed in the hands of a broker or accountant who has a list of clients waiting for good businesses, and they may not be advertised.

Information you need about the business for sale

To evaluate a business you need at least the following information:

- A trading and profit and loss statement for the most recent two years in which the vendor has owned the business and a balance sheet to identify assets and liabilities.
- A list of plant, equipment, fixtures and fittings, which the owner intends to sell and a current valuation. (Proof of ownership will need to be established if you decide to buy).
- Details of any stock which the owner wishes to sell and how the stock will be counted and valued at settlement.
- If the premises are leased, a copy of the lease agreement.
- Ascertain your obligations for employees transferring with the business.
- If considering becoming a franchisee or a franchisor, obtain the Small Business Development Corporation (SBDC) information sheets on franchising. If you are buying an existing franchise from a franchisee, ask the vendor for a copy of the franchisor's disclosure statement. If you are being granted a new franchise, the franchisor must give you a disclosure document, as required by the Franchising Code of Conduct.

Do not sign any offers or pay any monies until you have been provided with all of the above, you have assessed the business and taken independent professional advice.

Note

Ask the vendor to certify that the financial statements provided are correct and that they properly represent the trading figures of the business being sold and do not include income from other businesses owned by the same vendor. Figures provided under a disclaimer indicate that the vendor or the person preparing them is either unwilling or unable to vouch for their accuracy.

Establish that any plant and equipment is in good working order. You may need to consult a qualified tradesperson. Have motor vehicles and machinery mechanically inspected. Do not assume equipment is in good condition, as it can be very costly if you have to make major repairs, or even worse, replace an essential piece of equipment. Check that vehicles are licensed, and when licences expire.

Encumbrances on motor vehicles, motorbikes, boats and farm machinery are kept on the Register of Encumbered Vehicles (REVS) at the Department of Commerce. Check that no money is owing by calling 1300 30 40 24.

An independent valuation on plant and equipment may be advisable.

For some businesses a stocktaker may also be advisable. The stocktaker can advise what is or is not of merchantable quality and on the value of any item where the sale price has not been agreed.

If staff will be transferred with the business, visit the Department of Commerce website www.commerce.wa.gov.au under Publications, under Labour Relations for information on buying and selling a business. If you are trading as a company you will be covered under the Federal Government "Fair Work" system, check out their website www.fairwork.gov.au phone 13 13 94. If you are a sole trader or a partnership, you will be covered under the Western Australian legislation, check out their website www.commerce.wa.gov.au/wageline or phone 1300 655 266.

Make sure that GST on the sale has been properly considered. GST will generally be payable unless the business is sold as a going concern and the Australian Taxation Office (ATO) criteria are met. Requirements include an agreement in writing that the supply is of a going concern. Professional advice is recommended on this issue.

A licensed business valuer will be able to advise you on the current market value of the business that you are considering buying.

Your accountant will be able to advise you on the vendor's financial statements, the market value of the business, the GST, CGT and other tax issues, and appropriate business structure options, and to assist with the budgets, cashflow forecasts, and projected financial statements for your feasibility study.

Your lawyer can provide legal advice on both the lease for the business premises and the offer to purchase, and recommend appropriate conditions to be written into an offer, which if not fulfilled, will enable you to withdraw your offer without penalty.

Publications

Publications available from the SBDC Business Information Centre at Level 2, 140 William Street Perth, or online at www.smallbusiness.wa.gov.au include the following titles:

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| <i>A Guide for operating a small business</i> | |
| PLU 407..... | \$25.00 |
| <i>A Guide to buying a small business</i> | |
| PLU 303..... | \$10.95 |
| <i>Buying a small business</i> | |
| PLU 304..... | \$24.95 |
| <i>Common questions about the Commercial Tenancy Act for leases entered into on or after 1 July 1999 : advice for landlords and tenants</i> | |
| PLU 420..... | \$9.90 |
| <i>How to negotiate your way to a better retail lease</i> | |
| PLU 419..... | \$5.00 |

Other contacts:

Lawyers

Law Society of Western Australia
(08) 9322 7877
www.lawsocietywa.asn.au

Accountants

CPA Australia
(08) 9481 5944
www.cpaustralia.com.au

Institute of Chartered Accountants in Australia
(08) 9420 0400
www.charteredaccountants.com.au

National Institute of Accountants
(08) 9474 1755
www.nia.com.au

Business Brokers

Business Brokers Association (WA) Inc
(08) 9470 6408
www.bbawa.com

Valuers

Australian Property Institute (Inc)
(08) 9474 2784
www.propertyinstitute-wa.com

For further information and guidance contact:

Small Business Development Corporation
Gordon Stephenson House
Level 2, 140 William Street
PERTH WA 6000
Tel: 13 12 49
Fax: (08) 6552 3399
Email: info@smallbusiness.wa.gov.au
Website: www.smallbusiness.wa.gov.au

This publication is also available upon request in alternative formats such as large print, electronic format, audio, or braille.

Disclaimer

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