



taylorcocks

**A GUIDE TO BUYING A BUSINESS**

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# ADVANTAGES OF BUYING A BUSINESS

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One of the main reasons for buying an existing business is the partial elimination of the time and stress in establishing and growing a business.

While the initial outlay may be greater this is almost certain to be represented by underlying assets. Any deficiency in asset value is normally represented by what is known as 'goodwill' - the difference between the price of the business and the underlying value of the net assets.

That is the price of being able to operate an existing business and generate cash flow and profits. It may also be easier to secure financing for an existing business, provided there is a positive track record and the purchaser is considered a suitable person or company for running the business successfully.

A new business may be acquired through a franchise. Other business types include internet or mail order businesses.

# DISADVANTAGES OF BUYING A BUSINESS

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Often the biggest hurdle to buying a small business outright is the initial purchasing cost. As the business concept, customer base, brands and other fundamental work are already established the financial costs of acquiring an existing business are usually greater than starting one from nothing.

Other disadvantages of buying an existing business include:

- Customers may associate the goodwill to the previous owner and leave when a new owner takes over the business.
- Staffing problems/issues
- Some staff may leave when the new owner takes over
- Some staff may be unsuitable for the job they are doing
- Some staff may not approve of the new owner
- You will inherit statutory obligations with regard to their employment
- Plant, equipment, technology may be obsolete or faulty
- The business may not have a good image or reputation
- The cost of acquiring goodwill may be unrealistically high



# QUESTIONS TO ASK YOURSELF BEFORE BUYING

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- What professional advice is required?
- Do you know what type of business you wish to acquire?
- What are your qualifications for running the business successfully?
- Do you have the temperament to deal with all types of customers, demanding creditors, and difficult employees?
- Do you have the necessary business acumen?
- Can you deal with all the administrative demands of the business including book keeping and the demands of business regulation?
- Are you prepared for the business to take greater prominence in your life than when you were previously employed?
- Can you address problems without losing your cool?
- Can you deal with uncertainty without losing sleep?
- Are you satisfied that your relationships will not be too adversely affected by the acquisition of a business?
- Can you accept the potential significant financial loss that investing in the business exposes you to?

# BUSINESS ACQUISITION CHECKLIST

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- Find out why the business is for sale
- Are profits falling? What forecasts are available?
- What is the likely market potential over the next one to five years?
- Decide whether the type and size of the business fits with your needs, skills and experience, financial capacity and future plans
- Check the operations of the business, including sales, costs, profits and assets. It is important to seek our advice when reviewing the financial records
- Discuss with us our due diligence services - the larger the business the more essential this becomes. Larger businesses will normally require a due diligence service which may include specialist due diligence services such as legal, patent, technology reports.
- How will the cost of acquisition be funded?
- How will external funding be structured?
- What restrictive covenants may apply?





# THE PURCHASE AGREEMENT

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It is possible that before both parties proceed to a purchase agreement the intention to proceed and contract together may be evidenced in a draft agreement sometimes referred to as an MOU (Memorandum of Understanding) or HOT (Heads of Terms). This normally precedes the work on due diligence. Closely review the draft purchase agreement with us and your lawyers in particular the non compete, warranty and guarantee clauses.

- Details of the assets to be acquired
- States when the business is to be taken over
- details any warranties
- Covenants
- Representations
- Guarantees
- Obligations
- Non compete clauses

## HOW TAYLORCOCKS CAN HELP

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There are many decisions to take along the path to acquiring a business regardless of whether this is your first business or the decision to expand existing business operations.

We would welcome the opportunity of advising you while you are acquiring your business. In particular we can advise in regards to all of the areas mentioned in this guide.

Taylorcocks Chartered Accountants & Chartered Tax Advisers

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