Important Elements a Buyer Needs to Consider in a Business Sale

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Experienced entrepreneurs who have bought a business before will have an advantage over a business owner who is experiencing selling their business for the first time. That being said, most buyers have a very difficult task because of the due diligence portion of the transaction is typically an area that they have no prior experience with performing. The facts have to be uncovered through a comprehensive and thorough investigation. At VR, we will assist you in identifying items that should be scrutinized carefully.

Reviewing the Industry

When you consult with a VR business intermediary, we will review with you industries that closely match your interests and background through what is referred to as a SWOT (Strength, Weakness, Opportunity, and Threat) analysis. Here, you will review an industry's strengths, weaknesses, opportunities and threats. We will determine through the SWOT analysis the type of customers and vendors for an industry that you will find the most success.

Examining Profit Margin

Buying a business with a high profit is important. You should perform a thorough examination of the books to discover the reasons. For example, a business with a high profit margin may have a low overhead and employees who receive marginal compensation and no benefits.

You have to ask yourself whether there will be a need to:

- Increase employee pay
- Include medical insurance in employee benefits
- Make improvements to the business location
- Replacing machinery and equipment
- Change vendors

All of these elements will factor into the profit margin as well as whether there be an additional cost outside of the asking price for the business. Therefore, it's important to perform a complete due diligence to determine how and why the numbers are stacked the way they are, and whether there's an area that's not being explained.

Determining Whether the Business is Tightly Operated

Some businesses grow very quickly that they do not have time to determine whether working capital costs and expenditures are growing out of hand. The running of a business' operations is critical because it could be losing money if proper attention is not being given.
For example:

- Is inventory not being documented through a Point of Purchase (POP)?
- Are there discrepancies in revenue being generated and what's being recorded?

Many incidents have occurred where potential buyers have walked away from a deal because the financials were not audited and there was no control over the flow of inventory going in and out of the business. You should see how the business is operating to determine if you're going to get more than what you bargained for buying.

Cash Flow and Discretionary Costs

When you are looking to purchase a business, it is important to evaluate the business' cash flow statement to verify that it will continue to generate revenue after the transaction has been completed. You should determine if the seller's costs are realistic and validate such costs as advertising, research and development, expenses and maintenance. The seller maybe reducing costs to project an inflated profit margin. These will ultimately affect the long-term success of the business if these discretionary costs aren't evaluated.