

Buying a Business

1.1 Introduction

Welcome to SBA's online training course: Buying a Business

SBA's Office of Entrepreneurship Education provides this self-paced training exercise as overview of how to buy a business and the resources to help you buy a business. You will find this course easy to follow and the subject matter indexed for quick reference and easy access. It will take about 30 minutes to complete the course. Additional time will be needed to review included resource materials and to complete the suggested next steps at the end of the course.

As audio is used throughout the training, please adjust your speakers accordingly. A transcript and keyboard shortcuts are available to further assist with user accessibility.

When you complete the course, you will have the option of receiving a completion confirmation from the SBA.

1.2 Course Objectives

The course has three key objectives:

One, identify the advantages and disadvantages of buying a business.

Two, describe the steps involved in buying a business.

Three, identify the resources to assist in buying a business.

1.3 Course Topics

This course covers areas such as:

- How and what to research about a business that you are interested in purchasing,
- How to determine the value of a business, and
- How to transfer ownership of a business.

Numerous additional resources are identified to assist you. Visit the resource icon in the course player or locate additional tools, templates, and mentors on SBA.gov when you complete the course.

Let's get started!

1.4 Buying an Existing Business

Buying an existing business is less risky when compared to starting a new business from scratch because the business is already generating cash flow and has established customers, reputation, and employees. However, it is important that you ensure you are making the right choice in your new venture.

Even though there are steps you can take to help make the best decision, only you can determine the right business for your needs.

1.5 Deciding to Buy a Business

The first step is to decide if buying a business is the best option for you.

Let's look at the advantages and disadvantages of buying a business. It helps you choose the best option that works for you.

One of the advantages is that you will be able to acquire possible legal rights to patents and trademarks, which may increase profitability. In addition, buying a business involves reduced startup costs and immediate cash flow and inventory.

However, the downside is that the purchasing cost may be considerably higher than the cost of starting a new business. This could be because of the initial business concept, customer base, brand, and other fundamental work that have already been completed.

There could also be hidden problems associated with the business, like hidden debts that you may inherit.

1.6 Steps to Starting

Here are the steps to start with when you decide to buy a business.

The first step is to pick an industry that you are familiar with and understand.

Next, consider your interests, skills, and experience to help you eliminate unrealistic business ventures.

The third step is to list conditions of your purchase, such as location, size, and time commitment. It is also important that you find answers to questions like "Are you willing to buy a business with multiple locations?"

After you have considered these factors, look for businesses in your preferred location that meet your requirements.

Finally, hire a business broker who finds buyers and helps you negotiate deals, prescreens businesses for you, helps you pinpoint your interest, and assists with paperwork.

1.7 Due Diligence

The next step in buying a business is to put together an Acquisition team consisting of lawyers, bankers, and accountants. The Acquisition team will be able to advise and help you address specific items before you enter into a business agreement or transaction. This process is called due diligence.

After due diligence is completed, you will know what you are buying and from whom.

1.8 Due Diligence—Initial Research

Due diligence begins with an initial research of the business that you are interested in buying.

Your Acquisition team would be able to help you find answers to questions like:

- Why is the business for sale?
- How is the business perceived?
- What is the future of the business?
- Will the business stay profitable?
- And, how has the company evolved over time?

Then, reach out to business associations and organizations to ensure that there are no complaints filed against the business you are buying.

You should also speak to customers and suppliers about their relationship with the company.

If you are satisfied with the results of your initial research, then the next step would be for your acquisition team to inquire about an asking price.

1.9 Determining the Value of a Business

You should refer back to your initial research while determining the value of a business. Take into consideration factors like inventory, office equipment and property, liabilities, debts, accounts receivable, market history and reputation, and location.

There are a number of different methods that help you determine a fair and equitable price for the purchase of a business.

Some of these methods are asset-based approach, market-based approach, and income approach.

In asset-based approach, the value of business is determined based on the costs to replace the tangible assets. If the earnings will not support a value greater than the assets, then at best, the value of a business is the value of its tangible assets.

The Market-based approach forms an indication of value using ratios or factors. These ratios or factors are derived from the earnings, sales, and/or assets of past transactions of similar businesses. They are then applied to the subject company's sales, earnings, and/or assets to derive an indication of value.

The third method, Income-based approach, derives indications of value by converting some level of earnings into a value using a capitalization rate, discount rate, or a multiple thereof.

For more information, refer to SCORE's article on [How to Value Your Business](#).

1.10 Purchasing Options

Business owners have several options when it comes to transferring ownership rights to another person or entity. These options are outright sale, gradual sale and lease agreement.

Click each option to learn more.

Outright Sale

Outright sale involves buying a business in full.

In outright sale:

- The ownership is transferred immediately
- Payment is expected right away

Gradual sale

Gradual sale is a flexible option in transferring a business which often benefits individuals who cannot afford an outright sale, but instead, are able to finance a long-term payment plan.

Lease Agreement

When you agree to a business ownership through a lease, you will commit to a contract that details the conditions and payments you will make for the temporary rights to the business.

1.11 Sales Agreement

To buy a business officially, you need to prepare a sales agreement.

The sales agreement is the key document in buying the business assets or finalizing the purchase of the business. This agreement defines everything that you intend to purchase, including

business assets, customer lists, intellectual property, and goodwill. It is important that you have a lawyer who can help you draft the terms of the sales agreement and review it before you sign it.

1.12 Checklist for Closing on a Business

The final step to buying a business is the closing.

You need to follow a checklist for closing on a business. It is important that you address all of the items listed on the checklist at the time of closing.

Click the button view the details of the items listed on the checklist.

Checklist for Closing

Adjusted Purchase Price: This will include prorated items such as rent, utilities, and inventory up to the time of closing.

Review of Required Documents: The documents that you need to review includes a corporate resolution approving the sale, evidence that the corporation is in good standing, or any tax releases that may have been promised by the seller. You may check with your local department of corporations, state corporation commission, or Secretary of State for more information.

Signing Promissory Note: In cases where the seller has back financing, have an attorney to review any note documentation.

Security Agreements: This lists the assets that will be used for security as a promise for payment of the loan.

UCC Financing Statements (UCC): Uniform Commercial Code documents are recorded with the Secretary of State, in the state in which you will be purchasing your business.

Lease: If you agree to take over the lease, make sure that you have the owner's concurrence. If you are negotiating a new lease with the owner, make sure both parties are in agreement about the terms of the new lease.

Vehicles: If the purchase of the business includes vehicles, complete the transfer of documents for the vehicles. Check with your local department of motor vehicles to determine the correct procedure and necessary forms.

Bill of Sale: The bill of sale proves the sale of business. It also explicitly transfers ownership of tangible business assets.

Patents, Trademarks, and Copyrights: If there are any patents, trademarks, and copyrights associated with the business, complete the necessary forms to acquire them as part of the transaction.

Franchise: If the business is a franchise, you may need to complete franchise documents. See the [Consumer Guide to Buying a Franchise](#) for more information.

Closing or Settlement Sheet: The closing or settlement sheet will list all financial aspects of the transaction. Everything listed on the settlement should have been negotiated prior to the closing.

Covenant Not To Compete: It is a good idea to have the seller sign an agreement not to compete against the business. This will help prevent any interference from the previous owner.

Consultation/Employment Agreement: If the seller is agreeing to remain on for a specified amount of time, this documentation is necessary for legal reasons.

Complete IRS Form 8594(Asset Acquisition Statement): This document will indicate how the purchase is allocated and the amount of assets, which are important for your tax returns.

Bulk Sale Laws: Make sure that you comply with bulk sale laws, which govern the sale of business inventory.

1.13 Transitioning

The transition process starts before the deal is complete.

At this stage, you should make sure the owner feels good about what is going to happen to the business after he or she leaves.

You may talk to key employees, customers, and suppliers before you take over the business. Inform them of your future plans and goals for the business and in turn, make the transition easier by getting them involved.

Finally, ensure that the seller provides business operations training. It is important to include a training plan in your contract and confirm whether the seller is open to consultations on “as- needed” bases.

1.14 Summary

We are at the end of this course. Here are some key points to remember:

- Before you buy a business, the first step is to decide if buying a business is the best option for you.
- Pick an industry that you are familiar with and understand.
- Put together an Acquisition team to advise and help you address specific items before you enter into a business agreement or transaction.

Start the transition process before the deal is made by ensuring that the owner feels good about what is going to happen to the business after he or she leaves

Next Steps

Now what should you do? Follow these steps to begin applying your knowledge of buying an existing business to actual practice.

Step one—identify the industry in which you would like to purchase a business,

Step two—consult with a business mentor, coach, or other seasoned business advisor, and

Step three—use the gathered information to begin the process of buying a business.

1.15 Resources

The SBA has a broad network of skilled counselors or business development specialists.

SBDC

Small Business Development Centers (SBDCs) are associated with institutions of higher education – universities, colleges and community colleges. More than 900 SBDCs offer no cost, extensive, one-on-one, long-term professional business advising, low-cost training and other specialized services such as procurement, manufacturing, and technology assistance, which are critical to small business growth.

SCORE

SCORE offers free, confidential small business advice from successful entrepreneurs. SCORE is a nationwide program and boasts more than 12,000 volunteers to give you guidance to grow your business.

Women’s Business Centers

Women’s Business Centers (WBCs) provide free management and technical assistance to help women and men start and grow small businesses. There are over 100 WBCs located throughout the US and Puerto Rico.

SBA District Offices

SBA’s 84 District and Branch offices connect entrepreneurs to resources, products, and services that can help them start, manage, and grow their business. These offices are located in all 50 states, Puerto Rico, the US Virgin Islands, and Guam.

SBA Learning Center

The **SBA Learning Center** is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats and more to help small business owners explore and learn about the many aspects of business ownership. Content is filtered by topic, so no matter the stage of your business, or the kind of insight you need, you can quickly get answers.

Find your local resource using our handy zip-code tool: www.sba.gov/local-assistance

1.16 Have a Question?

Have a Question?

- Call SBA at 1-800 U ASK SBA (1-800 827-5722)
- E-mail SBA at answerdesk@sba.gov
- Locate a SCORE counselor, SBA district office near you, or an SBDC office near you at www.sba.gov/local-assistance

To provide feedback, comments or suggestions for other SBA online content, please email: learning@sba.gov

1.17 Certificate

Congratulations on completing this course. We hope it was helpful and provided a good working knowledge on how to buy a business. Click the certificate to receive a course completion confirmation from the U.S. Small Business Administration.

2. Recommendations

A.C.T. NOW!

The Article, Course and the Tools below are related to the course you just completed. They are provided to help you take action on your path to entrepreneurial success. You can also get in-person assistance for all of your business needs through a local resource center. And if you liked the course, please help spread the word by sharing it with your friends!

[Click here to share on Twitter](#)

[Click here to share on LinkedIn](#)

[Click here to share on Google Plus](#)

[Click here to share on Facebook](#)

Read an SBA Article.

For some entrepreneurs, buying an existing business represents less of a risk than starting a new business from scratch. Read this SBA Article for the Steps to Buying an Existing Business.

LINK: <http://1.usa.gov/1godf9k>

Take Another Course.

The Introduction to Franchise Course presents an overview of franchising, as well as how to determine if franchising is right for you, and how to choose the right one.

LINK: <http://1.usa.gov/OVkdvX>

Try a Tool.

SBA's partner, SCORE, created the Business Acquisition Questionnaire to help give you insight into the kinds of questions to ask to get the information you need before buying a business.

LINK: <http://bit.ly/RRwfSd>

Find local assistance!

SBA has a broad network of skilled counselors and business development specialists.

LINK: <http://1.usa.gov/1kihdhJ>