



*Professional Information
Packet for Buyers*

INFORMATION FOR BUYERS

Buying a business is a major decision. It will not only affect you financially, but it is also, and, perhaps more importantly, a lifestyle decision. How you live your life is shaped and influenced by what you do for a living. If you have decided that now may be an opportune time to consider going into business for yourself, working with a business broker can provide you with the professional assistance necessary for a smooth and successful transaction.

Here are some commonly asked questions by buyers along with responses based on our professional experience and knowledge. If you have questions on any topics that we have not covered, please don't hesitate to ask us. Or, if you have any questions about the purchase of a business, we are always happy to try to answer them.

Why Should I Go To Sunbelt Business Advisors?

Sunbelt Business Advisors can be helpful in many ways. We can provide you with a selection of different and, in many cases, unique businesses, including many that you would not be able to find on your own. Approximately 90 percent of those who buy businesses end up with something completely different from the business that they first inquired about. **Sunbelt Business Advisors** can offer you a wide variety of businesses to look at and consider.

Sunbelt Business Advisors is also an excellent source of information about small business and the business buying process. We are familiar with the market and can advise you about trends, pricing and what is happening locally. **Sunbelt Business Advisors** will handle all of the details of the business sale and will do everything possible to guide you in the right direction, including, if necessary, consulting other professionals whom may be able to assist you. Your local professional business broker is the best person to talk to about your business needs and requirements.

Why Should I Buy A Business Rather Than Start One?

An existing business has a track record. The failure rate in small business is largely in the startup phase. The existing business has demonstrated that there is a need for that product or service in a particular locale. Financial records are available along with other information on the business. Most sellers will stay and train a new owner and most will also supply financing. These last two are important considerations. Finding someone who will teach you the intricacies of running a business and who is also willing to finance the sale can make all the difference.

What Is the Real Reason People Go Into Business for Themselves?

There have been many surveys taken in an attempt to answer this question. Most surveys reveal the same responses, in almost the same identical order of priority. Here are the results of a typical survey, listed in order of importance:

1. To do my own thing, control my own destiny.
2. Don't want to work for someone else.
3. To better utilize my skills and abilities.
4. To make money.

It is interesting to note that money is not at the top of the list, but comes in fourth.

How Are Businesses Priced?

Generally, at the outset, a prospective seller will ask **Sunbelt Business Advisors** what he or she thinks the business will sell for. The business broker usually explains that a review of the financial information will be necessary before a price or a range of prices can be suggested for the business. Most sellers have some idea about what they feel their business should sell for and this is certainly taken into consideration. However, **Sunbelt Business Advisors** is familiar with market considerations and, by reviewing the financial records of the business, can make a recommendation of what he or she feels is what the market will dictate. A range is normally set with a low and high price. The more cash demanded by the seller, the lower the selling price; the smaller the cash requirements of the seller, the higher the price.

Since some business sales are seller-financed, the down payment and terms of the sale are very important. In many cases, how the sale of the business is structured is more important than the actual selling price of the business. Too many buyers make the mistake of being overly concerned about the full price when the terms of the sale can make the difference between success and failure. An oft-quoted anecdote may better illustrate this point. If you could buy a business that would provide you with more net profit than you thought possible even after subtracting the debt service to the seller, and you could purchase this business with a very small down payment, would you really care what the full price of the business was?

What Should I Look For?

Obviously, you want to consider only those businesses that you would feel comfortable owning and operating. "Pride of Ownership" is an important ingredient for success. You also want to consider only those businesses that you can afford with the cash you have available. In addition the business you buy must be able to supply you with enough income after making payments on it to pay your bills. However, you should look at a business with an eye toward what you can do with it how you can improve it and make it more productive and profitable. There is an old adage advising that you shouldn't buy a business unless you feel you can do better than the present owner. Everyone has seen examples of a business that needs improvement in order to thrive, and a new owner comes in and does just that. Conversely, there are also cases where a new owner takes over a very successful business and not soon after, it either closes or is sold. It all depends on you!

What Does It Take To Be Successful?

Certainly, you need adequate capital to buy the business and to make the improvements you want, along with maintaining some reserves in case things start off slowly. You need to be willing to work hard and, in many cases, to put in long hours. Unfortunately, many of today's buyers are not willing to do what it takes to be successful in owning a business. A business owner has to, as they say, be the janitor, errand boy, employee, bookkeeper and "chief bottle washer!" Too many people think they can buy a business and then just sit behind a desk and work on their business plans. Owners of small businesses must be "doers."

What Happens When I Find A Business I Want To Buy?

When you find a business, **Sunbelt Business Advisors** will be able to answer many of your questions immediately or will research them for you. Once you get your preliminary questions answered, the typical next step is for the broker to prepare an offer based on the price and terms that you feel are appropriate. This offer will generally be subject to your approval of the actual books and records supporting the figures that have been supplied to you. The main purpose of the offer is to see if the seller is willing to accept the price and terms you offered. There isn't much point in continuing if you and the seller can't get together on price and terms. The offer is then presented to the seller, who can approve it, reject it, or counter it with his or her own offer. You, obviously, have the decision of accepting the counter proposal from the seller or rejecting it and going on to consider other businesses.

If you and the seller agree on the price and terms, the next step is for you to do your "due diligence." The burden is on you the buyer no one else. You may choose to bring in other outside advisors or to do it on your own the choice is yours. Once you have checked and approved those areas of concern, the closing documents can be prepared, and your purchase of the business can be successfully closed. You will now join many others who, like you, have chosen to become self-employed!

Do I Need An Attorney?

Sunbelt Business Advisors utilizes a closing attorney to prepare the closing documents of the business sale. These documents include all aspects of the business sale and are given to both the buyer and seller for their review, prior to closing. The cost of the closing is split 50/50 between the buyer and seller.

It may be advisable to have an attorney review the legal documents. It is important, however, that the attorney you hire is familiar with the business buying process and has the time available to handle the paperwork on a timely basis. If the attorney does not have experience in handling business sales, you may be paying for the attorney's education.

Sunbelt Business Advisors is not qualified to give legal advice. However, keep in mind the fact that many attorneys are not qualified to give business advice. Your attorney will be, and should be, looking after your interests; however, you need to remember that the seller's interests must also be considered. If the attorney goes too far in trying to protect your interests, the seller's attorney will instruct his or her client not to proceed. The transaction must be fair for all parties. The attorney works for you, and you must have a say in how everything is done.

If you know someone who has owned their own business for a period of time, he or she may also be a valuable resource in answering your questions about how small business really works. You have to make the final decision. That "leap of faith" between looking and actually being in business for yourself is a decision that only you can make!

WHY BUY AN EXISTING BUSINESS?

The Market

There are many different estimates of the number of businesses in America, ranging from 11 million to over 21 million. These numbers include small businesses, with one employee, to large publicly traded companies. For this discussion, we are focusing on privately owned businesses with sales of less than \$1,000,000. The techniques discussed here, for the most part, apply to larger businesses, but our emphasis is on the smaller privately owned businesses.

As in the case of the total number of businesses, there are various numbers bandied about regarding the number of privately owned businesses. Dun & Bradstreet's database contains over 5.5 million privately owned businesses with annual sales of less than \$1,000,000. This total excludes agriculture, railroads, real estate, banks and credit unions, city, state and federal government operations and membership organizations.

The business brokerage profession generally holds that 20% of businesses are for sale at any one time and of those, 20% will eventually sell. Applying that to D&B's numbers would indicate 20% of 5.5 million or 1.1 million businesses are for sale at any time and 220,000 will sell. With this many businesses for sale, there must be a right business for you!

Why buy an existing business to provide for you and your family? You are reading this information packet, so you must have had, or are about to have, a change in your employment status. Maybe you are ready to try something new. You have three choices. You can:

- Get another job.
- Start a business.
- Buy an existing business.

Obviously, we think the third alternative is the best. Let's consider each alternative.

Get Another Job

If you have the necessary skills, and you are not too old (not politically correct, but true), you might be able to get another job. You might even find one that will provide an income sufficient for your family. However, there seems to be no end to the downsizing trend. Even if you find a job, you may very well be back in your current situation in a very short time. Job security is definitely a thing of the past!

Start a Business

This is scary, and it should be! Once again, there are many different statistics regarding business start-ups, but everyone agrees that over 50% of new businesses fail within the first year. Why take such a chance with your future and the future of your family? There are many unknowns in a start up. How much capital will be required? How long will it take to open for business? Where will you find employees? Can you get the necessary permits? Can you find the proper space for your business? How long will it take to get the income up to a point where you can start taking a salary? Etc., Etc., Etc.

We have a solution to the dilemma...

Buy an Existing Business

There are eight significant advantages to buying an existing business versus starting a business.

1. **You can review actual operating results rather than projections.** If a business has been owned and operated by the same owner for a number of years and if that business has been the source of income for his family, you can be reasonably sure that the business is profitable and viable.
2. **Immediate cash flow.** No expensive advertising to lure customers .the cash register starts ringing the first day you take over, just like it did the day before for the seller of the business.
3. **Trained employees in place.** When you take over the business, you will have a complete crew of trained employees to run the business. There is no down time for training and no customer dissatisfaction with untrained employees.
4. **Established suppliers and credit.** For the most part, the existing vendors will continue to do business with you without missing a beat. Remember that they have been supplying the business for a while and they know it is a good business. They do not want to lose your business, they want you to succeed and buy more goods and services from them!
5. **Established customers and referral business.** Your customer base is already in place and it will continue to grow through referrals unless you drive them away.
6. **Existing licenses and permits.** In many cases, all you have to do is transfer the licenses and permits to your name. In those cases where you have to re-apply for a license or permit, you have the comfort of knowing that the business, in its current location, was approved for the license or permit (for example, a liquor license for a restaurant).
7. **Training by the seller.** In addition to the trained employees, you will receive training from the seller in how to operate the business. You will be introduced to customers and suppliers and will get the benefit of the seller's extensive experience in running the business. You will not have to make the same mistakes that the seller made!
8. **The availability of owner financing.** Over 90% of the businesses sold by Sunbelt Business Advisors are bank financed with some owner financing. This may be the single most important advantage of buying an existing business. The seller who finances part of your purchase of his business has a vested interest in your success and shows confidence that his business.

Clearly, the best solution to finding a way to provide for you and your family is the purchase of an existing business. Another good avenue is the purchase of a franchise. Franchises can offer many of the benefits of buying an existing business as well as often being able to qualify for financing much easier than starting a business from scratch. A franchise will offer ongoing support, training and procedures to help you own and operate a successful business. Most existing businesses are purchased with a cash down payment ranging from 15% to 50% of the total purchase price. In start-ups, the cash requirement can reach up to 100%. Even when financing is available in these situations, the terms and conditions of the third party financing are generally much more stringent than the terms offered by the sellers of privately owned businesses.

WHAT ARE YOU GOING TO BUY?

Buy a Business You Like

Many business buyers think the most important quality in a business is profitability. Certainly, you want a business that will have sufficient earnings to provide for you and your family. **HOWEVER**, you will risk making a terrible mistake if you do not **BUY A BUSINESS YOU LIKE**.

Suppose you find a septic tank cleaning business that makes lots of money and can be purchased for a reasonable price with great terms. Unless you want to pump septic tanks, the fact that the business makes lots of money is of no importance at all. If you bought this business because of the income, you will spend long, miserable days in the business and will end up neglecting the business and selling it later at a loss.

One of the founding members of the Sunbelt Network made the mistake of purchasing a business because of the numbers and a very attractive purchase price. He purchased a small chain of dry cleaners with his oldest son (in his mid 20's at the time) who was going to help him turn this chain into the dominant force in dry cleaning in the marketplace. He did not stop to visualize himself, or his son, running this business. He did not take into account how uncomfortable it is in a dry cleaning plant when the temperature AND the humidity are in the 90's. He never thought about the fact that if an employee didn't come to work, his son, or he would have to iron shirts, pants, skirts, etc. He just looked at the numbers and the purchase price and made a bad decision. After only a couple of months, both his son and him HATED THE BUSINESS and did everything we could think of to stay away from the business. It did not take too long for the business to begin to deteriorate. They sold the business after 11 months of agony and, after the effect of the sale and the deteriorating operations, lost lots of money!

When you think about buying a business, think about what you like and do not like. If you fix on a particular type of business, visualize yourself running the business. Visualize taking your friends and relatives to see your business. Do you like what you see? Will you be proud to own the business? If not, or if you are not sure, do not buy that type of business.

Be Flexible

You will have to be flexible in finding a business. If you lock onto only one type of business, it will take you much longer to find a business to buy unless a broker is retained to perform a search on your behalf. We like to start a buyer thinking about what they like and do not like using the following broad categories of businesses. First, decide if there are any categories in which you do not want to work. Then focus on the remaining categories presented below and review the characteristics of each.

- RETAIL
- SERVICE
- MANUFACTURING
- DISTRIBUTION
- RESTAURANT
- LOUNGE
- COIN OPERATED
- TECHNOLOGY

Using a Business Broker

Of course, we are biased in this regard! We want you to use a Sunbelt Business Advisors broker. Sunbelt Business Advisors are trained professionals that are certified by Sunbelt to provide professional and confidential services for buyers and sellers of privately owned businesses. These brokers understand the "real world" methods of buying and selling privately owned businesses. Our brokers operate under a code of ethics, which provides excellent protection for you.

Enough self-promotion. You really are better off finding a business through a business broker. Remember that a business broker earns his livelihood by listing and selling privately owned businesses. If you demonstrate to the business broker that you are sincere in your desire to buy a business and you have the financial qualifications to do so, the broker will do everything in his power to find the right business for you. If there are five brokers in the business brokerage office, all five of the brokers will "crawl through

broken glass” to find you a business. You and the brokers have a mutual interest-you both want to find a business to provide for you and your family. By using these five brokers, you have multiplied your efforts five fold! The broker is paid by the seller, not by the buyer (some business brokers will operate as a “buyer broker” and are paid by the buyer, but this is a choice you can make, not one you have to make).

If you are concerned that the business broker will simply try to pressure you into buying a particular business, don't be. The business broker cannot “sell” you anything (if he tries to, leave and don't go back!). The business broker is there to direct you to multiple alternatives in the hope that one of the businesses he tells you about is the right one for you. You make the decisions, not the broker.

At Sunbelt, we say that we have the responsibility to:

1. Sell the business for the seller.
2. Find the right business for the buyer.

We have the authority to do none of the above. We are advisors and mentors, but not decisions makers. This is your decision and yours alone. We will advise and direct, and that's it!

When you visit with a business broker, tell the broker how much money you can comfortably invest in the business. The broker really cannot help you if you do not give him all of the information he needs. Why visit a business that the broker knows will require a down payment of \$100,000 if you only have \$50,000 for a down payment. A lot of time and effort is wasted when a buyer is less than candid with the broker.

It also helps if you tell the broker what you are interested in if you know. If you do not know, say so. Remember that the broker is there to assist you, so help in any way you can!

There is one last but very important fact about using a business broker. Selling a business is usually a very confidential matter. The owner of a quality business does not want his employees, customers, banker, relatives, etc., to know he is selling the business. If employees know the business is for sale, they may leave or, in some cases, try to sabotage the sale. Customers may go elsewhere if they know the business is for sale and bankers get very nervous if they find out their customer is selling. Therefore, many quality businesses are for sale only through business brokers. Sellers understand that a quality broker is going to sell the business with confidentiality. Therefore, you will find more and better businesses by visiting a business broker.



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SUPPLEMENTAL INFORMATION

ADVANTAGES OF BUYING AN EXISTING BUSINESS

1. Actual results rather than pro-forma.
2. Immediate cash flow.
3. Trained employees in place.
4. Established suppliers and credit.
5. Established customers and referral business.
6. Existing licenses and permits.
7. Training by the seller.
8. The possibility of owner financing.

Note: Remember, ultimately the success or failure of the business is the owner's responsibility, and there is no "Right" business, so buyers must be flexible.



THINGS A BUYER SHOULD KNOW:

- ❑ CONFIDENTIALITY. Sellers don't want their employees, customers or vendors to know they are for sale.
- ❑ Must be a business that the buyer likes and can manage.
- ❑ 3 Components of a successful Business: Location, Track Record, Management
- ❑ Usually a "Human" Reason for selling; retirement, poor health, divorce, Etc...
- ❑ Bank financing is difficult because... 1) All small business financials are done to pay less taxes. 2) Security-Can't run the business.
- ❑ A buyer will typically need 20% to 30% down to finance a business. Some seller carry back may also be required.
- ❑ **These basics hold true regardless of financial statements:**
 - True Owner's net = 10% to 20% of gross sales
 - cost of goods sold = 50% of gross sales (In a Retail Business)
 - Other expenses (Rent, Wages, Etc.) =30% to 40% of Gross Net Sales.
- ❑ Americans are not used to negotiating...
Make an offer (Even if only 50%)



BUSINESS PLAN FOR:

(Name of Business)

I. List five (5) things about the business that you would continue to do:

1. _____
2. _____
3. _____
4. _____
5. _____

II. List five (5) things about the business that you would change or eliminate to improve the business:

1. _____
2. _____
3. _____
4. _____
5. _____

III. Variable True Owners Net (dependent on your management):

Gross Sales X 20% = _____ (High range)

Gross Sales X 10% = + _____ (Low range)

Total = _____ Divided by 2 (Average) = _____

Plus any employee salaries you and/or your family would be picking up. + _____

Less any note payments back to seller for financing. - _____

Your True Owners Net _____

IV. Why would this be a good business for me?



BUYER'S CASH REQUIREMENTS

Section 1 Initial Cash

Total cash down payment	\$ _____
Inventory (if not included in purchase price)	\$ _____
Other (explain)	\$ _____
Total Initial Cash	\$ _____

Section 2 Existing Encumbrances

(Non-cash - to be assumed)

Existing seller loans	\$ _____
Equipment loan	\$ _____
Other (explain)	\$ _____
Total Amount to be Assumed	\$ _____

Section 3 Seller Financing

Non-cash - new loan created
to be owed to seller

Total New Loans	\$ _____
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Total Purchase Price (1+2+3)

Section 4 Closing Costs

Attorneys or escrow fees	\$ _____
Inventory service	\$ _____
Insurance prorations	\$ _____
Reimbursement of lease deposits	\$ _____
Miscellaneous prorations	\$ _____
Other	\$ _____

Total Estimated Closing Costs	\$ _____
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Section 5 Startup Costs

Utility deposits	\$ _____
Liquor license fees	\$ _____
Business license permits	\$ _____
Insurance costs	\$ _____
Taxes, bonds etc.	\$ _____
Legal/accounting	\$ _____
Workman's comp.	\$ _____
Proration's or other closing costs (not included in Section 4)	\$ _____
Other (explain)	\$ _____

Total Startup Costs	\$ _____
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Section 6 Total Cash Requirements

(Section 1 + 4 + 5)	\$ _____
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The above information is furnished to assist the buyer in determining the amount of cash necessary to acquire this business. The figures are estimates only and may vary; therefore, they are not guaranteed. The monies to be assumed are based on the seller's representations and may vary accordingly.

