

JONES COUNTY JUNIOR COLLEGE
SMALL BUSINESS DEVELOPMENT CENTER
A MEMBER OF THE MISSISSIPPI SMALL BUSINESS
DEVELOPMENT CENTER (MSBDC) NETWORK.
MSBDC has assisted Mississippi businesses since 1981

NEWSLETTER

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Special Edition on: Buying an Existing Business
March 2004 Issue
Director: Greg Butler
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1. Welcome From The Director
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Often entrepreneurs enter small business by purchasing an existing firm. In many ways it's a better way than starting a new business from the ground up. Because an established firm has a track record, the entrepreneur can determine in advance if the business is a success. This months Newsletter will address the things that a person should consider in purchasing an existing business. Your SBDC Counselor can help you look at the business to see if it is something in which you should get involved.

Also, please check our Workshop Schedule for upcoming workshops. We will be offering workshops on How to Get a Business Loan on March 24 and a Small Business Tax Workshop on March 30 in addition to our normal workshops. Call us at 601-477-4235 to register.

---Greg Butler

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Please feel free to forward this newsletter to friends or business associates that may be interested.

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2. Buying an Existing Business
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Buying an existing business has many advantages. Among them are:

- the business is already operating, and success can be judged,
- customers are known and can be interviewed for feedback,
- financial data is available for inspection,
- wholesalers and suppliers can verify the activity of the firm,
- bankers and other financial organizations will have an impression of the success level, and
- competitors will sometimes share insights about the firm.

Several factors should be considered before purchasing an existing firm. Look at the financial picture of the business. Is the firm successful? If so, why does the seller want to sell? Are the seller's motives sincere or is the seller trying to leave a sinking a ship? Many motives can be uncovered by determining the trends of sales and profits. Is the business getting better or worse? Examine the books and accounts payable. Examine tax returns if possible. Check leases and other contracts. Finally, check with the people involved if possible. Talk to employees, customers, suppliers, and support people such as bankers, insurance agents, and accountants. They will look at the business differently than the seller. Their input can be most helpful in determining profit potential. It may be necessary to obtain the sellers approval for the people outside the firm to talk to you.

The following checklist will help prospective buyers of existing businesses consider the factors in order to decide whether or not to buy.

****What has been the trend of profits for the firm?***

At least 3 years financial statements and/or income tax returns should be reviewed to establish the trend. If the seller is not willing to provide these items, the buyer should be suspicious of the claimed profitability.

****Is the business growing, declining, or relatively stable?***

The prime measure of business growth is sales volume. Authenticity of sales claims should be verified. Sales records, both cash and credit, are essential.

****Are profits consistent with sales volume?***

Any significant variation (up or down) from standard profits for this type firm should be investigated.

****Why does the owner wish to sell?***

There may be entirely legitimate reasons for the decision, such as health, age, divorce, etc. The potential buyer must be sure that the current owner is not merely looking for a chance to sell at an inflated price or because of serious problems in the operation of the firm.

****What is the condition of accounts receivable and inventory?***

Determine if the accounts receivable are current or a long collection of past-due accounts. The inventory should be composed of fresh, modern merchandise not obsolete merchandise that will be hard to sell. Only investigation of the accounts receivable ledger and inspection of the inventory will find the answers.

****Are the fixed assets properly valued?***

Fixed assets should be modern and in good condition. The answer will be found in purchase invoices, amounts of depreciation charges for past years, recognition of modern versus old equipment, and thorough checking of its condition by inspection and operation.

****If the store is rented, what is the nature of the lease?***

Be sure that the lease can be renewed. Look at the time periods of the lease. Is it a percentage lease? What are those

percentages? What is the landlord's attitude toward the business? If one of the primary advantages in buying the firm is the location involved, the lease and an option to renew become of great importance. Options should be in writing.

****What is the competition in the area?***

By buying instead of organizing a new firm, one competitor has been eliminated. The nature of the remaining competition is still important. It should be known. Chances for successful competition with other firms should be reviewed as carefully as if a new firm were being planned.

****What are the present owner's plans after the sale?***

Too often new buyers find that the seller is in competition with them soon after the sale. The assurance against this is a clause in the sales agreement stating that "the seller agrees not to engage in the same business within "x" miles for "x" years.

****Will I need any of the present employees?***

Honest sellers will usually give a prospective buyer an honest evaluation of their personnel. They may even assist in choosing only superior employees if they are going out of business for good. Interviews with employees and observations of their activities on the job can assist the potential buyer in making any necessary decisions.

****What is the customer's attitude toward the firm?***

Interviews with customers within or outside the store and door-to-door neighborhood surveys are vital ways to find answer to this question. Some ill will may be discovered, but ways to overcome it may be devised. The important thing is to know what customers and neighbors think of the firm.

****What is the reputation of the firm among business people?***

Visits to surrounding firms, the chamber of commerce, or service clubs will provide answers. The seller may be known as a "poor payer" in the trade, a dealer in shoddy merchandise, or one who is lacking in community support or renders too few services. Again, if any sort of negative reputations like this are discovered, they should not in themselves cancel the idea of purchasing the firm, but ways should be devised to change the

reputation of the firm, if possible. Gathering information is important.

****Do suppliers regard the seller favorably?***

Although any critical attitudes you discover may be overcome, relations with suppliers are a measure of business competence. On the other hand, if the firm owns valuable distributorships, it is important that their continuation be assured. The same is true for franchises.

****Are the liabilities correctly stated on the balance sheet?***

Individual contracts and other obligations may be checked in detail. The best protection for the new buyer is a clause in the sales agreement providing that any other claims or liabilities are those of the seller.

****How much is the business worth?***

Determining the value of the business is a difficult, but essential, part of buying a business. Pay too much for the business and your chances of success diminish greatly. There is no single factor on which value hinges. Value is ultimately determined by a combination of numerous elements, including the assets of the company, its past and future earnings, the outlook of its industry and geographic market, and the strength of such intangibles as management and products. If you are thinking of buying an existing business, you should consider things such as:

-How does the cost of starting the business from scratch compare to the benefits of buying an existing business?

-Is the price that you are paying for intangibles such as a customer base, established location, name recognition, etc. worth the price or can these things be cultivated easily enough on your own without paying a premium for them?

-Can the cash flow of the business support the price paid for the business?

If possible, get professional help in evaluating the purchase price of a business from a business broker or an accountant. If this assistance is not available, you need to substantiate and evaluate the appraisal and assumptions of the seller.

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3. Workshop Schedule

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SO YOU WANT TO START YOUR OWN BUSINESS

- Greg Butler, Presenter

(JCJC Campus, Forestry and Life Science Building, Room 206)

- Monday, 1:30 - 4:30 p.m.

3/15

4/19

5/17

Tuesday, 6:00 p.m. - 9:00 p.m.

4/13

5/11

6/8

- Wednesday, 9:00 - 11:30 a.m.

4/7

5/5

6/2

SERVSAFE CERTIFICATION TRAINING

(JCJC Campus, Community Services Building)

March 23 – 25 9:00 a.m. – 4:30 p.m.

HOW TO GET A BUSINESS LOAN

- Greg Butler, Presenter

March 24 1:00 p.m. – 4:00 p.m.

(JCJC Campus)

IRS TAX WORKSHOP FOR SMALL BUSINESSES

- Greg Butler, Presenter

March 30 9:00 a.m. – 4:00 p.m.

Cost: \$10.00 (includes lunch)

(JCJC Campus, Library-Projection Room)

SHOW ME THE MONEY: PROFIT-FOCUSED SMALL BUSINESS MANAGEMENT

-Greg Butler, Presenter

May 18 6:00 p.m. – 9:00 p.m.

Cost: \$10.00

To register for any of these workshops, please call us at (601) 477-4235 or e-mail us at sbdc@jcc.edu.

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4. Subscription Management
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You will continue to receive the Small Business Development Center Newsletter automatically. You may unsubscribe at any time by simply sending a reply with the message: "Remove from newsletter." Or if you received this newsletter from a friend or associate and want to sign up, simply send a reply with the message: "Please sign me up for your newsletter."

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5. Contact Information
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A member of the Mississippi Small Business Development Center Network

Helping to Develop the Pinebelt One Business at a Time!

Jones County Junior College Small Business Development Center is a member of the Mississippi Small Business Development Centers (MSBDC) network. MSBDC has assisted

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