Mint Financial

Here's Your Comprehensive Guide.

This is a guide for what to do when you decide to buy a business. It focuses on how to find businesses for sale and how to analyze a purchase.

All of the reasons why you should purchase a business instead of starting one. There are a number of inherently compelling reasons to do so:

- Existing businesses typically produce cash flow.
- You're purchasing a proven business model (product/service or both).
- You can potentially purchase at a discount.
- A customer base is already built in.

The fact that you're reading this article is a pretty strong indicator that you've more than likely decided to take the next step on your path toward business acquisition. Before we get too far into things, it's important to understand that not all businesses for sale are created equally. Every single business is going to require an individualized approach to create and tailor an analysis of its operation, financial health, growth projections, etc.

We're going to walk through what it's going to take for you to purchase a business hypothetically, using our professional experiences as well as industry insight.

Where do you find businesses for sale?

Once you've committed to exploring a business purchase, the next logical question is obviously, where do you find businesses for sale? Here are a few different ideas for where you can start your search journey:

- Online marketplace(s): Websites like BizBuySell, BusinessesForSale and Flippa list thousands of businesses for sale across a variety of different industries.
- Brokers: Business brokers specialize in connecting buyers and sellers of businesses. They can be a great resource for finding businesses that meet your specific criteria.
- Classifieds: Online classifieds and online newspapers are often overlooked but can be a goldmine of opportunities. A little bit of research can go a long way.
- Direct from the business owner: There are business owners retiring and others looking to exit their current business. These make for what I would consider the best opportunities.
- Your existing network: Look to your existing network, friends and family for opportunities. They might be able to refer you to businesses that might be a good fit for you.

Make sure you create and document a pipeline of leads for businesses that are for sale, and especially take note of the ones that are not listed anywhere online yet. Those are going to be the golden opportunities that you'll really want to take advantage of. Your deal flow is going to become important if and when you decide to start making multiple acquisitions — if you want to build and grow a portfolio of companies.

How to go about analyzing the deal

The first thing that I always tell anyone looking to purchase a business, is that they need to have an attorney and accountant available to help them with all legal and financial-specific needs throughout the analysis, due diligence and valuation steps. Even the most experienced entrepreneurs and business owners have them on standby to help out when the need arises. When you're considering buying a business, there are a few key pieces of information you will want to analyze to ensure the deal is a good fit for you.

The profit and loss statement

Analyzing the biz ops

Of the number of businesses that I've been involved in the acquisition process with, analyzing the operations of the business is second to none after you understand the financial position of the company.

Acquiring a business isn't necessarily for the faint of heart or inexperienced, in my experience that is. You have to understand a few key components of a business's operations when you're analyzing it. Again, this is high-level business 101 because every niche or industry is going to have specifics that pertain to it. Here's what you're going to do for your potential purchase of the core processes that run the business. We call these five steps a business process analysis (BPA):

1. Identify a process to analyze that exists today.
2. Review data on the process that exists today.
3. Mind-map out the process.
4. Analyze the process.
5. Develop a "what this process will become" plan (if you discover holes/problems).

The reason you want to look at the core processes through this particular lens is because you'll identify deficiencies within the business that could be opportunities waiting for you as the new owner. These wins include operational cost-reduction, automation prospects and even delays or process bottlenecks.

How to put a value on the business

The tail end of the analysis, and probably the most important one, is where you'll determine what you believe to be the valuation of the business. This doesn't mean you'll just be taking the asking price for that particular business at face value, though. There are various valuation models to consider — like the market value method, assetbased method, ROI-based method, discounted cash flow (DCF) method and quite a few others. I won't get into the specifics of each, because they're rather technical and really specific to various situations that your legal and financial advisors would best be able to guide you on. But some of the questions that you're going to need to uncover around valuation include:

- What is the current market value of the company (if it were sold today)?

- What's the potential for growth?
- Does the business include intellectual property?
- Is there anything proprietary about the business/model (trade secrets, technology, etc.)?

After you've had a chance to go through all of the provided documentation, it's important to do a thorough analysis of the entire deal itself, including the valuation you've come up with. You're going to be asking yourself, your attorney, and ideally a CPA, the following:

- What should the proposed terms of the deal be?
- What are the risks and rewards of the deal?
- What are the current and future market/industry trends looking like?
- How does this acquisition fit into your overall personal investment strategy?

By taking the time to answer all of these questions, you can make a much more informed decision on whether or not buying that particular business makes sense. If you're confident in everything you've come up with, the final step is presenting your proposal to the business owner, negotiating and either closing the deal or walking away from it!

Paying for the deal

How you acquire your new business or company is also unique. There are almost an infinite number of combinations that can be used to potentially fund the deal. I won't go into the specifics of each type, as I'm publishing another article about business financing — both traditionally and creatively. But here are some ways you can go about purchasing a business:

- Friends and family (liquid cash)
- Personal savings (liquid cash)
- Traditional bank financing (loans)
- Seller-financing/creative (seller-owned Loan/promissory note) ● Private financing