

# Rochester

## BUSINESS MAGAZINE

## BUYING A BUSINESS: What's Motivating You?

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By George Scott

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*Editor's Note: Doing a considerable amount of homework helps to minimize the risk of buying a business. This article, geared toward first time buyers, is the first in a series of three articles, which address the preliminary "homework" aspects of the business buying process.*

Naiveté when buying a business can prove to be financially and emotionally disastrous. This particularly holds true for the reason(s) for wanting to buy a business in the first place.

A half-dozen reasons are regularly heard. Some of them indicate a buyer's clear-headed understanding of what lies ahead. Others don't.

**Being Your Own Boss:** An individual usually wants to be his/her own boss because a) entrepreneurship is the person's true destiny, or b) it is time to escape from the hostility, frustration, and stagnation found in some corporate environments.

It's not easy to say whether one ever knows what his/her true destiny really is. However, if you find yourself contemplating self-employment even when all is going well with your present job, that inner voice may be trying to tell you something.

If getting into your own business is simply to get away from your current ogre of a boss, change your attitude or go to work for someone else – self-employment is not necessarily the solution to the problem.

**Career Change:** If you are in your mid to late 40's, chances are you may feel that the time is right to become self-employed. Financial stability has been achieved. The children are older and require less of your time. You and your spouse have handled other major life situations successfully, and you both feel ready to handle this one.

Also, past professional achievements give you the confidence that the principles applied in accomplishing those achievements can be successfully applied to the operation of your own business.

If this substantial career change is a result of careful planning, rather than a stop gap reaction to occupational burnout, then self-employment is a wise move to make.

**Active Retirement:** Remaining active and having a "raison d'être" (reason for being) are two motivating factors for purchasing a business upon retirement.

However, all too common misconception is that a retired owner will be able to sit back, relax, and count all the money that comes rolling in. If that is your intent, keep in mind no business will take care of itself. An owner's hands on involvement is needed to increase the chances of sustained success.

If you are serious about having an active retirement, and about your responsibilities to your clients, employees, creditors, and suppliers, then buy a business that is consistent with your current lifestyle ... and enjoy it.

**Working Fewer Hours:** Owning and operating your own business means, in essence, that you are "on call" 24 hours a day – seven days a week. Owners of successful businesses are usually the first to arrive in the morning and the last to leave at night ... frequently LATE at night.

While very long hours are necessary in all cases, it is important that you understand the time requirements of a particular business before getting into it. One of an entrepreneur's driving forces is the knowledge that the many, many hours spent on the job will directly benefit the owner and not some unseen and unreachable group of shareholders.

**Becoming Wealthy:** A common misconception is that all business owners are wealthy.

While just about everyone acknowledges "becoming wealthy" as one of the main reasons for wanting to buy a business, it doesn't always happen. Granted, many business owners can and do enjoy a comfortable lifestyle, but all of them are not independently wealthy.

Wealth, per se, can be realized when a business owner successfully converts the substantial equity of the business into liquid assets through either a sale or merger.

Otherwise, becoming wealthy may be just an elusive reality.

**Building a Better Mousetrap:** Quite often, creative individuals see buying (or starting up) a business as a way of marketing their newly-developed product or service.

Each and every product/service must be properly marketed in order for it to sell – and that requires hard work.

One other option exists if you are the builder of the better mousetrap and are not prepared to put in the hours, and (more importantly), the money necessary to make the business successful – sell the rights to the product or service to someone who is.

It is critically important that your motivation is realistic enough and strong enough to sustain you throughout the business buying process and beyond.

If you still remain uncertain about the validity of your reason, discuss it with one or two people who already own a business. Their feedback can be invaluable. - **RBM**

**George Scott is a partner at Vangellow/Scott/Benz Business Group, a Pittsford-based mergers and acquisition firm.**

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## BUSINESS MAGAZINE

## BUYING A BUSINESS: Are You Ready?

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By George Scott

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If you still want to proceed after carefully thinking through your motivation, then you should continue an in-depth self-analysis by rating your level of preparedness in the following areas of concern: Financial, Mental, Physical, and Emotional.

**Financial:** In order to determine your actual financial qualifications, prepare a personal balance sheet. Have current market-value appraisals made for all major assets more than two years old.

Also, secure an up-to-date credit report and check for any blemishes or glitches. Organizations such as the Credit Bureau are more than willing to help you review your report for accuracy and then make any necessary changes.

Having copies of both your personal balance sheet and credit report immediately available will be helpful for the following reasons:

**Timing of Purchase** – Depending on the size and diversification of your asset base, now may or may not be the best time for you to purchase a business. The single greatest reason of business failures is undercapitalization. If a blunt review of your statement by you and/or your advisors indicates that you may be "going in too thin," it may be best to wait until your financial position improves.

**Ownership Entity:** In almost all cases, it is wise to form a corporation so that your personal assets will be protected from the potential business liabilities.

Also, if your financial position is not as strong as you would like it to be, you may need to take on a partner (as an actual partner or shareholder).

With some types of businesses and personal financial circumstances, a sole proprietorship is all that is needed. Before selecting a specific ownership entity, consult with your attorney and accountant.

**Simplifying the Process:** Unless an all-cash purchase is to be made, sooner or later, someone (e.g., seller, banker, landlord, equipment lessor, franchisor, professional intermediary) will require a copy of both your balance sheet and credit report. Therefore, having several copies of both documents handy will make things easier when they are requested.

**Emotional:** When "The Buck Stops here" sign sits on your desk, there can be many lonely days when tough decisions have to be made. Also, business obligations must sometimes take precedence over family commitments. If you are ready to handle these situations with logic and not pure emotions, then business ownership may well suit you.

**Physical:** If you have a health condition that could be aggravated by the frequent 12-hour days and the many stresses associated with business ownership, it would be wise to consult your physician.

Some conditions may be serious enough to make business ownership very unhealthy. Others may just impact cash flow.

For example, a recent buy with residual effects from an old leg injury indicated he was unable to stand for prolonged periods of time or to do much lifting. This particular condition will not necessarily prevent him from buying certain types of businesses. However, his cash flow and profitability will be changed by having to pay an employee to do the work that he cannot.

**Mental:** Depending on the size of the business purchased, you may find yourself handling more functions than ever before.. That type of mental juggling can be simultaneously exhilarating and fatiguing. Also, there will be a definite need to remain on top of ever-changing local, regional, national and/or international industry conditions. Maintaining that critical level of awareness may require further formal education, attending educational seminars, self-education, or a combination of all three.

If these and other mental demands are a welcome challenge, then proceed with your business purchase.

Some individuals may feel the extent of suggested self-analysis is time consuming and unnecessary. However, the annals of business failures are replete with stories of people who rushed into buying a business without first determining their level of readiness. When you buy a business, proper attention to preliminary activities could save you hundreds of hours and thousands of dollars. - **RBM**

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BUSINESS MAGAZINE

## BUYING A BUSINESS: Acquisition Parameters

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By George Scott

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Frequently, a first-time business buyer's acquisition parameters are loosely defined --- or even nonexistent. Many buyers find that they eventually figure out what kind of business they DO want by gradually determining what business they DON'T want.

Generating your own answers to the following questions will help you avoid wasting your time and that of others who become involved in your business buying process.

**Business activity** – Do you prefer to make things, distribute them, or sell them to the ultimate consumer? Are you more comfortable providing a service to clients?

**Your Role** – Can you pick up a broom as easily as you can sit behind your desk? Are you prepared to be your firm's best salesperson, or should that job be left to someone else?

**Personal Standards** – Does a major or minor aspect of a business prevent you from considering certain types of businesses? For example, would owning a business involved in the production, distribution, or retailing of alcoholic beverages create inner turmoil?

**Family Involvement** – Besides you, will any member of your family be involved in the business? If so, are the duties, responsibilities, and levels of authority clearly defined?

**Locational Preference** – What are your first, second, and third locational preferences? Are you willing to relocate? Will a 30-45 mile drive to the business be acceptable?

**Purchase Timing** – By what date would you LIKE to be, or MUST be, in the business? Why not sooner or later? Are there specific reasons for your timing (e.g., annual bonus, RIF severance package availability)?

**Income Requirements** – If taking a smaller income during the first year or two would help you take a much larger income in year three and beyond, what is the absolute minimum income required?

**Hours of Operation** – Will the hours of operation create a conflict with an existing personal commitment, such as attending a child's extracurricular activity? If so, what commitment will get top priority?

**Operational Environment** – Do you have strong feelings about going to work in a suit versus blue jeans? Does your office need to be immaculate at all times?

**Investment** – What limits does a review of your personal financial statement tell you that you must have? In addition to the cash down payment, have you allowed for another \$3,000 - \$10,000 of pre-closing cash disbursements (e.g., pro-rated reimbursement, security deposits, attorney, and accountant fees)?

**Business Financing** – Will you have sufficient working capital cash reserves (or available lines of credit) consistent with the needs of the business? If not, would taking on a partner or additional shareholders be acceptable to you?

**Customer Contacts** – Are you more comfortable dealing with presidents and owners than with purchasing agents or chief financial officers?

**Employees** – What depth of management staff are you seeking? Do you prefer employing skilled or unskilled laborers?

Obviously, there are other questions within each category that can and should be asked. Common sense will dictate what those additional questions should be.

Buying a business requires considerable thought, laborious attention to detail, penetrating investigation, and assumption of calculated risks. The process can be made easier and less risky with thorough upfront preparation and self-analysis.

If you feel that: 1) your motivation is realistic, 2) your level of financial, mental, and emotional preparedness is sufficient, and 3) your acquisition parameters are somewhat defined, then you are ready to start the process. - **RBM**

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