



# Buying a business

The importance of forecasting in business, how it's done and how it helps in planning

If you want to own your own business, buying a company that's already established may be quicker and easier than starting from scratch.

If you want to become a business owner but aren't sure how to start your own business, then perhaps consider buying a business instead of trying to start one from scratch. To do this successfully, you will need to put time and effort into finding the business that's right for you. A successful business that pays good returns will not be cheap, however. Be sure you are ready to make a substantial investment.

Buying an existing business can make good business sense. Just be sure to remember that you will be taking on the legacy of the previous business owner; you need to fully understand every aspect of the business you're about to buy.

## **Why buy an existing business?**

There is always a debate about whether it's better to start a business of your own or to simply buy an existing business. If you can afford the initial investment, you will have a greater chance of succeeding with a business that is already actively trading and operating.

With a new business, you must develop the product or service, determine what people are willing to pay you for it and set up almost all your processes and business relationships from scratch. While all this work has already been done with an existing business, you should be aware that taking over a



company still requires a lot of work to be done before you can call yourself a successful business owner.

One benefit of buying a business is that regardless of a company's past performance, an existing business will have a history from which you will be able to make certain decisions. Even if the company was not profitable, you may have the skills and talents to turn it into a viable venture. With access to the company records, you will be able to see what it did in the past to get to its current position and make the necessary changes to turn it around.

To make sure you buy the right business, you will need to do a thorough investigation of its past activities, its operations, its current status, the competition, and the general state of the industry and its future potential. It's important to have the right skills in order to turn a business around, so this is something to consider, especially since each business is unique. It's always a good idea to consult an expert on the status of the business before making a final decision.

### **Character traits required to buy a business**

The skills and personality traits needed to start a new small business and make it successful are different from the skills necessary to take over an existing business and grow it. It also requires a completely different mindset.

Buying a business is a better option for you if:

- you're someone who isn't passionate about the initial start-up stage of a company,
- you enjoy increasing a company's revenue and profits instead of building a business up from nothing,
- your management capabilities and organisational skills are strong,
- you can consolidate more and experiment less,
- you're a hard worker or



- you can make predictions based on past results and trends.

## **Pros and cons of buying an existing business**

### **Advantages**

- The groundwork to get the business up and running has already been done.
- Problems and issues that may arise at start-up phase have probably been addressed and rectified.
- It may be easier to obtain finance as the business will have a proven track record.
- There will be a demonstrated market for the product or service.
- There may be established customers, a reliable income, a reputation to capitalise and build on and a useful network of contacts.
- A business plan and marketing method should already be in place.
- Existing employees will know the business and have experience you can draw on.
- Many of the problems will have been discovered and already solved.

### **Disadvantages**

- You may need to invest a large amount upfront.
- You may have to budget for lawyers' and accountants' fees.
- You may need several months' worth of working capital to assist with cash flow.
- If the business has been neglected, you may need to invest cash in fixing it.
- You may need to honour or renegotiate existing contracts agreed to by the previous owner.
- Staff may not be happy with a new boss. Depending on the previous owner's relationship with your new employees, staff morale may be low.



## Buying a business vs buying a franchise

If you have decided that buying a business is the right choice for you, then you might be wondering whether to invest in a business opportunity or a franchise.

Here are a few things to consider:

- Franchise owners tend to be less independent than individual business owners because they don't have as much freedom in how they run their business. They might not have the freedom to change their offering or develop their own branding. Franchisees do, however, enjoy more security due to their products and/or services being thoroughly researched and tested for their market.
- Once you buy a business, you'll need to put in the hours to make it work. That includes taking the time to learn industry-specific skills and the internal processes of the business. If you would prefer ongoing support and guidance, then a franchise might be a better choice for you.
- Even though the initial costs of buying an existing standalone business can be higher, you can change your business model should it not be profitable. A franchise might require a lower investment but you will need to meet the obligations of a franchisor on a monthly basis.
- Apart from initial start-up costs, franchisees need to pay ongoing fees to a franchisor. If you are happy to do this in exchange for the security of being part of a larger brand, then it's the ideal option for you.
- Since some franchises are easily recognised and have a large number of outlets, branding and marketing comes easily. If the business you are thinking of buying hasn't given their brand proper attention, you could find that some extra effort is required to start generating profits.



If you would like to find out more about franchising in SA, visit the [BizConnect franchising section](#).

## **Funding your business purchase**

There are several different funding options to consider as you begin the process of buying a business. You should know that it doesn't matter whether you're starting a new business or buying an existing business, investors will still want to see your research and plans before they will consider approving your application.

Take the time to put a detailed business plan together that includes all the information a potential investor would want to see. Here is a link to a [business plan template](#) that you can easily customise.

Funding options available to you are the following:

### **Bank finance**

To apply for bank finance, you would need to visit your nearest branch for them to collect the necessary documents and to evaluate the risk of the business you want to purchase. Your personal credit record will also be considered. Visit the Standard Bank site to find out more about their funding options.

- Standard Bank: <http://www.standardbank.co.za/standardbank/Business>

### **Angel investors**

These investors are willing to take a risk in a business in exchange for high returns. Angel investors use their own money to finance a business and will usually give you a certain number of years before they expect to see returns.



Most angel investors will also use their own skill and experience to mentor the businesses they fund. Below are two organisations that you can contact:

- Angel Hub Ventures: <http://www.angelhub.co.za/>
- Angel Investment Network: <http://www.investmentnetwork.co.za/>

### **Government funds**

The South African government aims to assist previously disadvantaged individuals with the funding required to develop a business. Entrepreneurs looking to take this funding route should be prepared for a lengthy wait, large amounts of paperwork and strict selection criteria. Benefits of a government loan are that the interest rates tend to be lower and the repayment terms are a lot more flexible. Websites that you can visit for further information on government funding include the following:

- Department of Trade and Industry (DTI): <http://www.thedtic.gov.za/>
- National Empowerment Fund (NEF): <http://www.nefcorp.co.za/>
- Small Enterprise Finance Agency (SEFA): <http://www.sefa.org.za/>

### **Private equity**

Private equity funding consists of several third-party investors pooling their funds together to finance a business. Private equity investors are willing to invest large sums of money, and their investment periods are a lot longer than other funding institutions. It can be a difficult and lengthy process to qualify for their support, however. Organisations that you can contact about private equity funding include the following:

- Business Partners: <http://www.businesspartners.co.za/>
- Vantage Capital: <http://www.vantagecapital.co.za/>



- Horizon Equity: <https://www.horizonequity.co.za/>
- Ethos: <http://www.ethos.co.za/>

## **Government grants**

There are a number of grants and assistance programmes available from the South African government if you are looking to buy a business. These funding options have very strict requirements but do not need to be repaid. Amongst other qualifying criteria, you will need to prove that you'll be aiding the economy by creating jobs and complying with BEE policies.

- Department of Trade, Industry and Competition (DTIC):  
<http://www.thedtic.gov.za/>
- Black Business Supplier Development Programme (BBSDP):  
[http://www.dsbd.gov.za/?page\\_id=1218](http://www.dsbd.gov.za/?page_id=1218)

## **Pitfalls to avoid when buying an existing business**

Some common mistakes made when buying an existing business include the following:

- Buying the wrong business: Buying a business that does not suit your skills, knowledge, interest and personality
- Insufficient homework: Not doing enough research and due diligence on the business
- Having no idea of the value of the business: If you want to buy a business, you should know every financial detail of it so that you will know the right price to pay. You can do this by reviewing the financial status of the business
- Insufficient information: Having no idea why the business is being sold



- Over-extending yourself financially: This is a common mistake. It's far better to have enough money when you buy a business so that you will not be buried in debt
- Ignoring the company's image: This could be critical to the value and success of the business since most businesses have established an image over the years
- Not protecting yourself: When buying a business, structure the contract so that you do not put your personal assets at risk
- Not negotiating: If you are buying a business, you should negotiate every detail about the acquisition from physical assets to intellectual property
- Making changes immediately: This can cost you dearly as you may alienate experienced employees who are familiar with how the company works. Before changing something, understand why it was done that way in the first place
- Not promoting the business: Assuming that the business is already well established and that it will just promote itself is a big no-no. Develop a comprehensive advertising and marketing plan to ensure success

### **Business valuation methods: How to get it right**

- Look for a business with a strong customer base, growing sales, good staff, established procedures and positive cash flow.
- Do your research. Make sure you get all tax returns as well as profit and loss statements. You will get a better insight into factors such as mismanagement.
- Get an objective assessment. Use objective, third-party criteria to make sure that the terms of the agreement are fair to both parties.



- Find out what's important to the seller. Some business founders are more interested in a capable buyer than a hefty purchase price. That can save you a lot of cash.
- Talk to the employees. Make sure you hold onto people who may be hard to replace. Their expertise and knowledge of the business may be invaluable.
- Talk to customers and suppliers. Get them to tell you as much as possible about their experiences of doing business with the company.
- Location is critical. If you rely on retail sales, make sure the location is one that will attract traffic.

### **Additional resources**

- [Buy an existing business](#)
- [Business Gateway: Buy an existing business](#)
- [Buy an existing business: Advantages and disadvantages of buying an existing business](#)

### **Did you know?**

Start-up entrepreneurs often make the mistake of trading from their personal bank account. This makes it harder to differentiate between your personal expenses and business expenses. It also doesn't allow you to build up a credit risk profile for your business, which is an important factor should you ever want to approach a bank for financing. Rather, start trading as a business from the get-go by opening a [Business Current Account](#).

This article based on content previously published on BizConnect