



Where is the real risk in buying a business?

The seller has set a price; you are looking at the historical financials and deciding how to structure the transaction. Perhaps your main focus is to put as little down as possible and acquire some seller and bank financing. If this describes you...you just made your first rookie mistake.

- Here is a list of the items and questions/comments to focus on first when analyzing a business before you start structuring the deal:
- Revenue and Profit—Are you buying a job or a business?
- Customer concentration—No one customer should equal 10% or more.
- Vendor concentration — No one vendor equal 10% or more.
- Relationships with employees, vendors and customers — Are they transferable to you and your team?
- The dip in efficiency and profit when you take over — If the company is making above industry profits, you will have a dip in profits before you are able to take the company to the next level – it happens all the time and is just a cost of future growth.
- Regulations — Are there any governmental regulations that are about to wipe away a material amount of profit from the company?
- Competition from outside — Are there any large players about to enter the market?
- Competition from inside — Have the employees signed non-compete agreements?
- Competition from inside, now outside — If the seller really does not know what they want to do after the sale of the company, make sure they are not going to take away some of your profit by competing with you on the fringes while they wait for you to fail and take the business back over.
- Economic pressures — The recession caught most of us off guard. What is happening with the local and regional economy that could affect your level of sales and profits?
- Upcoming capitalization expenses — Is technology changing in your industry to the point that you will need to make a significant investment just to keep the current sales and profits?
- What are you buying? — Many owners consider some of the assets as personal and not a part of the sale. Find out what you are buying! Deals have died over a framed painting at the front entrance or over equipment that produces no income. Also, many times what a buyer thinks they are buying is actually leased equipment.

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