



From the desk of Steve Marques and Brian Little

Please enjoy our complimentary guide “*10 Questions You Must Answer Before You Buy A Business.*” It is our hope that you may come away with a few insights that will help you navigate the rough waters of buying a business. As you well know, owning a business, whether it is a start-up or bought from a previous owner, is an extremely challenging endeavor. We wish you nothing but the best!

At Bedrock Financial Group, we strive to assist small and medium sized businesses with the financing needs that growing companies need. We pride ourselves on taking a consultative approach to offering a full range of commercial loan and lease options.

For most of you reading this, you will already have made the decision that you want to buy or start a business. There are a host of reasons why you may have decided too, but the bottom line is ... you decided. Perhaps you’ve realized that for many people having a J.O.B. stands for being “just over broke.” Possibly your company has downsized or restructured, or whatever the politically correct word is for laid-off some of their employees. Or, perhaps you have decided that now is the time to venture out on your own. For whatever the reason, the fact remains; you have decided you want to own your own business.

Often times, that decision to start...that commitment, can be the biggest hurdle that needs to be jumped before we make that purchase or invest the hard earned cash. This guide is geared towards people that have made the decision to buy their own business. Although each business and industry is different, there are some common questions that a potential buyer should ask before buying a business. This guide is a starting point to get your mind thinking of areas of

focus that you will want to address with the seller. These questions may be asked out of order and even at different times. In fact, these same questions can be reworded and asked at different points of the sales process. For example, a question about why the business is for sale may be answered more candidly after the owner has gotten more familiar with you than it would be answered in the first meeting. It is our hope that these questions will stir you to think of others. So with all that said...let's get started.

Question 1: Tell me about your company?

This is a great first question to ask a seller. Listen closely to how the owner describes the product or service the company provides. If you are talking in person, does the owner smile when describing the business? This clue is helpful in determining how the owner feels about his company. A seller who focuses on the challenges of the company and how difficult the industry is might be more willing to negotiate a cheaper price just to get out. A seller who smiles, laughs, and talks about how great the company is, may be less willing to negotiate a quick sale. Additionally, happy owners may typically be happier because their company is providing them with financial and professional success.

Listen to how the owner describes his role in the company. A hands-on owner who implies that the company revolves around him may be difficult to replace. In many respects, especially for the smaller business, the company takes on the persona of the owner. An ownership change can definitely disrupt a company whose owner is the face of the company. Be sure to observe these subtle clues to help you determine how an ownership change will affect the operation and most importantly the profitability of the company.

If the current owner cannot explain their business in a clear, concise way, perhaps there is a good chance that there is a huge chance to market the

business. Typically, the more profitable the business, the more detailed and clear the owner will be about what company they are really in.

Question 2: Why is the business for sale?

This is a question that you will want to work in at several points during your evaluation stage. Worked in at the right time during the first meeting, it will provide you with a host of insights into what the seller is thinking. Whatever the reason; be it illness, boredom, divorce, or cash out, there has been a constant decision that they do not want to continue owning the business. Think about it, if the company was providing all the rewards that the owner wants, why wouldn't they want to keep it?

Listen for inconsistencies. Does the owner talk about wanting to focus on "new opportunities," but is very vague when you ask him what will he do when the business is sold?" These conflicts may lead you to ask more probing follow-up questions that can uncover more details about why the business is really for sale.

Finding out that an owner wants to sell his business to spend more time with his family can lead you to think several things. First off, if you have a family too, might you be put in the same boat he is after a few years. Or perhaps, it makes you wonder if the business is structured in a way that allows you to be that hands off owner you had hoped. Remember, the more involved the current owner is on day to day operational decisions, the more you will have to fill that role right from the outset. Knowing that, can help you avoid surprises after the business has been sold.

If the owner's answer is vague at the first time the question is addressed, try finding an opportunity to ask the question later or rephrase the question during the next meeting. It may be interesting to determine whether the reason for selling changes as you get further along in the purchasing process. Not all owners are upfront and honest in their initial meetings.

Question 3: What are the biggest challenges facing your business?

Sellers generally will be honest, but guarded when it comes to criticizing and analyzing their own business. You may have to ask this question a few times throughout the due diligence process before you can get a good sense of what the owner really thinks about the future of the business.

Don't be discouraged if an owner does not give you a clear answer to this question. Many owners do not perform regular evaluations to see where they are, what they've done before, what's working, what's not working, or what opportunities is the business missing.

If you have an opportunity, talk to an experienced employee of the company. Ask the same question and see what kind of response you get. Often, what the owner sees as a major challenge, may be something totally different that what the employee sees. This does not make either person wrong, necessarily. It is your job to ask more probing questions, weigh all the facts, and make your own decision.

Question 4: You must ask yourself, "Why am I buying this business?"

As you look at each business, it is a great idea to continue asking your self this question. Although the overall reasons why you want to buy a business might be the same, the reason why you want to buy this particular business may be different. Ask yourself, "What is it about this particular business that is intriguing?" Is it the cash flow? Is it the potential for growth? These are great reasons to consider purchasing one business over another. But be careful to make sure that you are not rushing into a business. Even if you have been looking for quite awhile, be sure not to rush into a decision.

Continue asking yourself at various stages through the buying process, why am I interested in buying this particular business? Break the business down. What do

you like about it? What does not interest you? Another good question, what scares you about buying this business? As your knowledge of the business changes, your answers may change as well.

Question 5: What drives this particular business?

What is it about this company that makes it successful? Is there something about this company that gives it the potential to be a great company? Having a restaurant at a busy city intersection, may be the single-most important thing that makes that restaurant successful. What about a business with a great reputation for price? How does this fact affect the business you are looking to buy? Look at the company that seems rather ordinary. But when looking at the employees, you realize how experienced, well trained, and dedicated the core team is. This is a company you might think will succeed as the company grows. Good employees are hard to find. But remember, that good employees can be hard to keep, as well. What happens if a few employees leave because they don't like the changes they seen with new ownership? What will this do to your bottom line? In some cases, it may not matter too much. But in others, it could be tragic. If customers see a great employee as the face of the business, and he leaves, that can devalue your new business significantly.

To help make your business purchase successful, you determine the company's USP or unique selling position as quickly as possible. In other words, what makes the company you are thinking of purchasing special in the eyes of your customers and/or prospects. If the company already knows what makes them unique, great. You are steps ahead. If not, why not. It may be a sign of weakness. But if the company is doing well without one, determining what your unique selling point is and marketing that may take it to the next level.

Question 6: How will I finance this purchase?

You should start to find out how you will finance your purchase before you find a business to buy. Arranging financing can be a long and tedious process. Start

as early as possible. Besides, the faster and more decisive you can use your financing options as leverage against the seller, the better position you will be in to negotiate the best sale price.

When you seek funding, you will have to provide a Personal Financial Statement. You will be asked to provide one at various stages in the sales process. For example, if you are going through a business broker, they will require one up front to make sure you are a qualified buyer. The owner may require you present one to make sure you have the financial resources to purchase the business. Even if the numbers are not attractive, you must not lie, or fudge reality. In the end, the truth will most likely come out and you will have; wasted your time, the seller's and broker's time, faced embarrassment, and perhaps ruined or tainted your reputation. The business world can be a small one. Don't risk your reputation by misleading anyone about your financial situation. The truth will come out in the end.

If you are currently employed and own your own home, before you buy a business, you should look into refinancing your mortgage. If you wait until just before buying the business, after the bank knows that you will leave your job, or after you have bought the business, you may have a more difficult time getting the bank to approve you. If you refinance now, you can claim you are using the money to remodel or debt consolidation and then leave the money available as part of your down payment.

There are three things you should know about financing your business. First, can you afford it? The business must be able to support the loan. The cash flow of the business must be strong enough that the bank is comfortable that they will receive their loan payment every month. Second, what collateral will you use? If you were lending money, wouldn't you feel more comfortable knowing that if it couldn't be repaid, there was a way to collect it? Third, how much does the business need? Working capital is always easier to get when the business does

not need the money. Failure to have enough cash on hand when starting a business is perhaps the biggest reasons start-ups fail. When you need the money, it is often impossible to get a loan as quickly as you need it or for the amount you need. Plan ahead.

Question 7: Does the location of this business help or hurt its survival?

I'm sure you'll agree that the location of a restaurant or retail store makes a difference in its success. But I would suggest that location matters in every business. What if your business is located in a higher risk crime area of the city? What if you have to pay for parking? What if your office is 20 minutes away from the nearest highway? Attracting and retaining good employees could be an issue in each of these situations.

How long is the lease on the current building? Is the building owned by the company? Take a look at the community and city in which you live. Is it in a growing area? How is the community changing and what effect will that growth have on your business? You don't have to be a real estate expert to answer these questions. Use your common sense. Ask neighbors of the business and perhaps a real estate agent. You might be surprised at how locals describe their town. For that matter, how do the locals describe your business? Does it have a good reputation? Is it not even known at all? This may be okay in most businesses, but if a restaurant does not have any local "buzz" about it, what does that tell you about the business and the reputation it has or does not have. If you purchased the business, how much better might it do if you were able to do a better job marketing it within the community?

Question 8: Is there a business plan?

A great question to ask the business owner is to see his business plan. You might be surprised as to how many small businesses operate without one. The answer to this question can help you evaluate the current state of the company and get a good sense of how much the owner is involved in day to day activity.

If there is a business plan, but it is several years old, what might that tell you about the business? How has the growth of the company progressed since the plan was written? Why was it written? Why was it ignored and not updated?

Should you decide to purchase a business, it is strongly recommended that you put together a business and a marketing plan. Without a continuous flow of clients buying from your business and then capitalizing on that initial relationship, your new business may become one of the 80% of businesses that won't be here in five years.

In developing your business and marketing plan, figure out what it will cost to implement these proposals. Often times, your marketing plan seems perfect, but when your cash flow cannot support the full implementation of the plan, the result can be disaster. Don't wait too late to start planning. The sooner you start the better. You can always add detail to your plan as you learn more about your business.

Question 9: What is the owner's timetable?

Owners sell for lots of reasons. Many reasons are financial, of course. But others sell because of family crisis, health issues, or just plain boredom. As you delve into the due diligence and information gathering of your research, try to find out when the owner would ideally like to have the business sold. A seasonal business may have the owner pushing to sell in February, but by August, they are resigned to keeping the store open through the holiday season. You as the buyer will then have to judge when is the right time to press hard, when to slow down, or perhaps slow to an almost crawl. The adage "slow and steady wins the race," may not always apply, but in buying a business it usually is accurate. Research, ask questions, negotiate research more, ask more questions, and weigh your options. Remember, you only get one chance to buy the business for

the “right” price. You only get one chance to structure your financing to get the most flexibility for your business to grow.

Typically, once an owner has decided to sell the business, the mindset shifts from long-term thinking to day to day thinking. Decisions are made, not necessarily in the best interest of the company, but in the best interest of making the company look good for the sale price. Be aware of this and factor that into your evaluation of the company. Companies that have openly been for sale for quite some time, may have lost its momentum, lost market share, or lost good employees who see the “writing on the wall.” How might this affect the company when you take it over? Can you regain its momentum? If you are thinking the company needs to make significant changes anyway, perhaps it makes little difference. The key is that you recognize the possibilities and weigh all things when making your decisions.

Question 10: How Much To Offer?

There is no magic formula for establishing the offer price. Here are two thoughts on what to offer after you have done your due diligence, valued the business, and determined what you are willing to pay. One option is to offer a price close to your valuation. The second option is to offer an amount less than you are prepared to pay and negotiate back and forth with the seller. There are advantages to both methods.

If you go with the first idea and offer close to what you are willing to pay, you show the seller you are a serious buyer and you are mean business. You have taken the time to value the business, and are ready to move on to other issues. There is also the issue of having the seller assist with the financing. If you show you are serious and knowledgeable from the start, the seller may be more willing to negotiate on the financing options. Remember the asking price is only a piece of the total package. You also have down payment amount, rate, terms, etc. and

by making a fair offer right from the start, may put you in more control of the situation. A good guide is to offer 10-20% less than your valuation of the business.

If you decide to offer a “low-ball” or “trial” offer, you suggest to the owner that you are interested, but willing to negotiate. This can work for some, depending on your ability to negotiate and on the owner’s willingness to haggle as well. Some owners may take offense to a substantially low offer and just ignore you. That may be okay if there are no other deals on the table, but what if the owner gets another offer the same day that is for close to what he is asking. Your offer may immediately get rejected or worse yet ignored. By offering a low offer in the beginning, your negotiations may become too adversarial for some. Be prepared. But here is a case where that “low ball” offer may work great. Let’s say you know the business has been for sale for quite some time. The owner is struggling to find a buyer because they have an illness, family situation, or financial problems that force the sale. If you are sure you have a salvageable business to purchase, why not offer a low dollar amount. Then wait. You might just get yourself a great deal.

We hope you have appreciated our free guide titled, “10 Questions You Must Answer Before Buying A Business.” The advisors at Bedrock Financial Group are a results oriented brokerage firm, providing financial resources to companies and entrepreneurs across the United States, Canada, and the UK. Through a diversified network of banks and non-bank lending capabilities, we provide a wide range of financing options custom-tailored to provide the best options for realizing your business visions and goals.

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