Buying a Business

First step - do your homework

If you are contemplating buying a business it is important to carry out a thorough investigation of the business before you sign an agreement to purchase the business or, alternatively, make your offer conditional on being satisfied with a due diligence investigation of the business.

Obtain professional advice

A business purchased as a going concern is usually acquired by the purchase of the assets of the business, i.e. the plant, fixtures, fittings and stock. In some instances, for tax reasons, the vendor may require you to purchase the shares owned by the vendor in a private limited liability company.

In both forms of acquisition there are taxation, financial, and accounting issues, which will determine the best method and structure of the purchase. For this reason if you are considering purchasing a business, it is advisable to ***consult both your accountant and ourselves at the commencement of the negotiations and before any agreement is signed.*** If you do not obtain advice the breakdown of the purchase price may not be structured to provide you with the maximum tax advantages.

In the remainder of this paper we will discuss the issues involved in the purchase of the assets of a business.

Purchase price

In addition to the value of the plant, fixtures, fittings and stock included in the purchase of a business it is usual for a vendor to add an amount for goodwill (see pages 5-6). The breakdown of the purchase price between goodwill and plant, fixtures and fittings is very important because you can only claim depreciation on the plant, fixtures and fittings. It is in the interests of the vendor to sell the plant, fixtures and fittings at the depreciated value of those items in the books of the vendor because the amount by which the sale price for these items exceeds the depreciated value will be treated as profit on which the vendor must pay tax. However, from a purchaser's point of view it is desirable to increase the value of the plant, fixtures and fittings to the highest price you can negotiate with the vendor so as to obtain the maximum depreciation advantage.

Goods and Services Tax (G.S.T.)

GST is a factor to be considered in the purchase of a business. Certain criteria must be met if the sale and purchase of the business is to be zero rated (i.e. no GST is added to the sale price) under the Goods and Service Tax Act. If the business is not zero-rated and GST is payable it is important for you to obtain advice on when the GST is payable otherwise you may be faced with a bill for GST before taking possession of the business.

Essentially a business must be sold as a going concern to a person or company registered for GST if the sale price is not to be increased by GST. ***If you are not registered for GST then it is essential to be registered by the date you sign the agreement for sale and purchase, if the agreement is unconditional, or by the date the agreement is declared unconditional***.

Financial budget

No business should be purchased without the preparation of a detailed and accurate budget. The preparation of the budget will depend on the financial details provided by the vendor. It is important to obtain full accounts for at least the last three years, assuming the business has been operating for that time, immediately you commence negotiations with the vendor. If up to date accounts are not available it may be better to delay your decision until accounts become available. The unavailability of the accounts may be because the business has not been performing as well as is being presented to you.

The historical costs of running the business are important but care needs to be taken that the budget includes likely increases. If a rent review is imminent you must find out if the landlord intends to increase the rent so that you can take the increase into account in the preparation of the budget. In addition, staff and salary levels must be considered along with anticipated increases in the price of stock in trade, consumables, exchange rates, where goods are imported, and interest charges.

For income purposes the historical results of the vendor are a useful starting point. However you must be careful to take into account factors such as possible competition from other businesses or imports, the development of a new shopping complex which may attract some of your customers, the effect of inflation and increases in the cost of raw materials. Do not overlook external factors, which may reduce the demand for a product, such as the saturation of the market place, or advances in technology.

Remember to include in your budget the servicing costs on any borrowings required to purchase the business. An allowance should be made for your own capital invested in the business. Finally the budget must make provision for your salary and expenses if you are to work in the business. It has been known for a budget to show a return, which is less than what you could obtain, by working for a salary and investing your capital.

Historically most small businesses fail because the owners did not prepare accurate financial budgets before they committed themselves to purchase the business. Nearly every business requires more money than just the purchase price. It is essential to ensure that you have enough working capital so as to enable you to weather any bad trading periods. Having prepared your budget it is important to monitor it constantly because unless you know where you are going you will not know when you have got there nor when you have failed to get there.

An important spin-off from the budget process is the determination of the ***break-even point***. Every business proprietor should be aware of the level of income at which the business breaks even - the gross profit equals the overheads, the level at which it produces the income necessary for the proprietor to cover his/her living expenses, any essential capital expenditure and loan repayments, and the taxation upon that level of profit.

[a] Gross profit rate

The first and obvious ratio is the gross profit rate:

$$\frac{\text{Sales - Cost of Sales}}{\text{Sales}}$$

Note first of all that this is not the same as the mark-up rate. To achieve a gross profit rate of one-third on sales you need to mark-up the purchases by one-half.

The practical difficulty with this ratio is that the cost of sales over a period involves an opening and a closing stock, and it is often not practical to take stock frequently.

However, businesses with small numbers of high value items, or businesses with point-of-sale computing systems, which update the stock quantities, are less restricted.

The target figure is obviously the gross profit rate represented by the standard approved mark-ups for different lines, and the target will need to be adjusted for the expected profit mix.

Variations from target can be expected to result from:

- Changes in the product mix from that expected.
- Special promotional discounts, sales lines, etc. This effect can be quantified by taking stock of the sale lines at the outset, writing their value down to a figure at which the approximate mark-up will still be obtained

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at sale price, and taking the write down to the profit and loss account.

- "***Shrinkage***". This is not just shoplifting - employee pilfering and faulty paper work may be more important.
- "***Faulty paper work***". Are you quite sure you actually received the goods you are being billed for? "***Hollow pallets***" really do exist and van salesmen should not always be allowed to put goods away [e.g. in the bottom of the freezer] unsupervised.

[b] Stock turn rate

The stock-turn rate, expressed as the number of stock-turns per year, is the year's cost of goods sold, divided by the average of the opening and closing stocks.

$$\frac{\text{Cost of Sales}}{\text{Average Inventory}}$$

The actual figure varies widely between types of merchandise. For example, the stock in a furniture showroom might sit on the floor for months, whereas it will only be a few days for a fruit and vegetable shop.

Inter-firm comparisons are helpful but variations over time should be watched.

The cost of excessive stockholding includes paying too much interest, possibly paying too much rent, and perhaps discouraging sales by presenting a "***cluttered***" appearance.

On the other hand, you cannot generally sell something you have not got, though a large proportion of sales may come from a small number of fast-selling lines.

An abnormally low rate of stock turn brings into question buying practices.

- Is it worthwhile to buy large quantities at a time just to get bulk discounts?
- Are you trying to satisfy 100% of the customers when a smaller percentage would increase your profits?
- Are you holding obsolescent stock, which should be quit at any price?
- Are you making too many "***buyers***" mistakes?
- Are there any available savings from ordering "***just in time***"? Do goods tend to arrive too early? Remember, you may get a month's extra credit if the invoice for the purchase is dated at the beginning of the month rather than at the end of the previous month.
- Care needs to be taken with purchases on "***indent***".

Note that the annual nature of this ratio tends to mask large seasonal variations in stock levels in some businesses.

[c] Average age of debtors

This ratio is debtors divided by credit sales multiplied by 365, and is expressed in days.

$$\frac{\text{Debtors x365}}{\text{Credit Sales}}$$

The aim is to reduce this figure and, in particular, to stop your debtors using you as a cheap source of finance. After all, you pay interest on the money you have tied up in debtors.

Points for consideration are:

- Increase the proportion of cash sales, even at the cost of incurring credit card fees.
- Get invoices out early. Perhaps offer a discount for very quick payment.
- Obtain credit references for new customers who are likely to be of a significant size. If you ***can***, get personal guarantees from

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company directors. Send each customer a letter setting out your terms of supply.

- Fix a credit limit for a customer and do not supply a customer when that limit is reached.
- If special tooling or purchases are required obtain a deposit.
- Have a firm debt collection procedure on the principle that the squeaking wheel gets the most oil.

Business assets

There are many and varied assets that comprise the assets of a business. Some of these are as follows:

(a) Goodwill

Goodwill is the essence of any business. Goodwill transforms what would otherwise simply be a collection of assets into a viable business that generates profits. There is no standard formula for determining the value of goodwill.

In a technical sense, goodwill can be regarded as the price paid now to acquire a future earnings stream. Without knowing anything about the earnings stream, it is impossible to assess the goodwill value. For an existing business with an earnings history, the value of goodwill will typically be the difference between the gross business values, less the aggregate value of the operating assets acquired. The gross business value will be a function of earnings, together with an assessment of the risk associated with the receipt of the earnings stream in future, and the potential growth of those earnings.

In practice, many factors will contribute to the existence of goodwill, and affect its value.
One of the most traditional factors is location. For example, a high-profile retail shop located in the midst of a busy pedestrian thoroughfare will have goodwill value by virtue of its location.

Goodwill might be derived from the business having a unique product which no one else can offer; perhaps as a result of a sole agency arrangement or because the product has been developed by the business and protected through patents or trademarks.

A business may enjoy cost advantages over its competitors, perhaps because of sophisticated manufacturing processes or better distribution systems, but in any event its cost advantage boosts profits and increases the value of goodwill.

Goodwill is often justified in the case of businesses that have products that enjoy high profile branding, such as those frequently seen on supermarket shelves and television commercials. This branding means there is high consumer recognition and regard for the product leading to increased sales over competing products, often at higher prices.

The nature of a business customer base will significantly influence goodwill.

A company that has a well-diversified clientele comprising largely high-quality customers who pay their accounts on time will clearly be regarded more favourably than a business reliant on a handful of key accounts, some of who have difficulty paying on a timely basis.

The nature of the market in which a business operates, and the position within that market, can justify goodwill. For example, where there are significant barriers to entry, the value of an existing business will be higher.

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Newspapers are frequently cited as a good example, as the cost of establishing a competing paper within any market can be prohibitively expensive.

Perhaps the most overlooked factor justifying the existence of goodwill is a company's staff. The customer relationship, experience and know-how possessed by staff will not appear as an asset on any balance sheet, but are nonetheless key indicators of the existence of goodwill.

However, in considering goodwill attributed to personnel, it is important to distinguish between personal goodwill and business goodwill. This is especially important in the case of smaller businesses operated by only one or two working proprietors.

In these situations, the goodwill may very much belong to the individual proprietors, rather than their company and, as a result, may not readily transfer with the company to a new owner. The personal relationships between the proprietors and their key suppliers and customers need to be investigated carefully to ensure such relationships will survive any ownership transition.

Goodwill is very much an intangible factor, representing the value associated with an amalgam of contributing factors. If the name of the business is an important factor it will be necessary to provide in the agreement for sale and purchase for the vendor to agree to you taking over the name and telephone number of the business and for the vendor to cease trading under the name.

Sometimes goodwill will be reflected within a set of financial statements. However, this figure should not be taken as necessarily a true indicator of the actual current value of goodwill.

It is important to recognise that goodwill values change over time, and vary depending on trading circumstances and future outlook.

(b) Stock in trade

Although the vendor may offer to sell the business with stock at valuation, it is unwise to agree to buy stock at valuation without giving consideration to how much stock will be acquired and its condition. Your enquiries into the business will establish the normal stock level and the agreement should limit the amount of stock to be acquired with an option to purchase stock above that limit.

When investigating the business take time to become fully acquainted with the stock so as to be aware of its general condition. Review previous stock take records, inspect stock lines, examine stock movement reports and such like.

To deal with the risks associated with damaged, slow moving or obsolete stock it is useful to include in the agreement a suitable clause to address these issues.

Often the additional time and effort taken to clarify what stock is included in the purchase will save considerable expense later, avoid disputes and ensure you only buy good stock.

(c) Book debts

The vendors book debts are not normally included in the purchase of business assets. If book debts are to be included provision must be made to adjust the price because of doubtful, aged or uncollectible book debts.

(d) Know the industry

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Do you have knowledge of the products or services of the business? While this is a fairly obvious requirement many people invest money in a business about which they have little or no knowledge.

(e) ***Copyright and trade secrets***

If the business includes either of these assets it is important for them to be included in the agreement. It is also essential to ensure that the asset being transferred is actually owned by the vendor. Sometimes, for example, the vendor's rights are actually owned by some other party and are being used by the vendor under licence. Special rules can apply. For example, a copyright drawing prepared by someone under commission from another party is owned by that other party but this does not apply to literary work such as, for example, computer programmes.

The traditional and conventional subjects protected by copyright are books, music, films and so on. People are often surprised to learn that copyright law also protects more mundane objects such as computer programmes, engineers' drawings and graphic trademarks. It also comes as a surprise to many people that copyright cannot be registered in New Zealand. Under our law copyright subsists automatically from the time the copyright work is completed and although no formalities are required, it is important to ensure that all copies of the copyright work carry a warning that they are in fact copyright.

Juggling GST to put cash in your pocket

It doesn't take a rocket scientist to work out that cash flow is vital when you are in business. That's why it makes sense to hold on to your money as long as possible (within the law) before handing it over to the Inland Revenue Department.

So what can businesses do to make the GST rules work for them, rather than against them?

Is it best to file GST returns reasonably often, or only twice a year?

Generally speaking, businesses registered for GST have three choices.

They can file returns once a month, once every two months or once every six months.

The application form for GST registration requires you to choose one of these three options. The IRD automatically registers you for two-monthly filing unless you specifically request otherwise.

Six-monthly filing can be a very attractive option for small businesses. The administrative cost and trouble of doing the books is obviously reduced by doing it only twice a year.

More significantly, there is a substantial cash-flow advantage in receiving GST throughout the six-month period but having to pay that GST to the IRD only at the end of the six months.

Six-monthly filing is not allowed if your annual turnover (excluding GST) is more than $250,000.

But not every business will benefit from six-monthly filing.
Businesses, which regularly find themselves in a net GST credit with the IRD, are better off filing their returns monthly.

Exporters are a good example. While export sales are zero-rated for GST, exporters can still claim back the GST on business supplies they buy. So it makes sense for such businesses to get their GST refunds from the IRD as soon as possible. The administrative costs of filing monthly are outweighed by the cash-flow benefits.

What is the difference between being registered on an invoice basis and being registered on a cash-basis? Which is preferable from a cash-flow perspective?

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The application form for GST registration gives you three options for accounting for GST:

- Payments (or "***cash***") basis
- Invoice basis
- Hybrid basis

The payments basis is the most straightforward of the three options, and is the one many small businesses choose to use. It means you have to pay GST on goods or services you sell when you receive payment for them. You can also claim back the GST on goods and services when you pay for them.

Any business that sells mainly on credit should use the payments basis to maximise its cash flow.

Example: A hardware supplies wholesaler has a customer base of retailers. It gives most of them 30 days to pay their invoice. Some pay after 30 days, but a significant number delay payment until long after the 30 days has passed.

For June and July, the wholesaler billed $40,000 in sales, but received payment for only $20,000. By accounting for GST on a payments basis, the wholesaler is saved from having to pay GST on money not yet received.
Businesses with turnovers of more than $1million a year cannot use the payments basis.

Accounting for GST on an invoice basis is a little more complicated. You have to pay GST on goods and supplies when you receive any payment or when you issue an invoice, whichever is the earlier.

You claim back GST on the same basis - when you make any payment or when an invoice is issued to you, whichever is the earlier.

Any business that buys mainly on credit should use the payments basis to maximise its cash flow.

Example: A small supermarket buys most of its goods on credit from one or two large suppliers. During June and July, the supermarket buys $40,000 worth of stock on credit.

Even though the supermarket does not have to pay for that stock for another 30 days, it is able to claim back the GST on the $40,000 when it files its return. The supermarket will therefore have the use of that money until it has to pay for the stock.

Other businesses, which would benefit from being registered on an invoice basis are those planning to buy a significant capital item with a long time lapse between payment of the deposit and payment of the balance.

Example: A panel-beating company decides to buy some commercial land and buildings from which to run its business. It pays the GST-registered owner a deposit of $20,000 in June, and takes possession soon after. The settlement date is not until December, when the $180,000 balance of the purchase price is due.

If the company files its returns every month (or every two months), and accounts for GST on an invoice basis, it can claim back the GST on the full $200,000 purchase price in its June (or June/July) return.

How often you file, and whether you account on a payments or invoice basis is not cast in stone. You can apply to the IRD at any time to have these classifications changed, provided you don't exceed the turnover thresholds.

The hybrid accounting method is a mixture of the two other systems. Businesses have to pay GST on an invoice basis, and can claim GST on a payments basis. This system invariably results in cash-flow disadvantages for businesses.

There are definite financial advantages to choosing a GST system that fits in with the financial ebbs and flows of your business. If in doubt, talk to your financial adviser to make sure that the GST system is working for you.

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Lease of premises

The duration of the lease and rights of renewal are very important. Some financiers will not consider advancing funds to purchase a business unless the lease has at least 6 years to run. The existing rental and the date of the next rent review is important as this will affect the budgeting and potential earnings of the business. It is common for a lease to provide that when the rent is reviewed it will not be less than the rent charged before the review date (a ratchet rent clause). In a recession rental rates often fall but you will be locked into the existing rent if the lease contains a ratchet rent clause. Similarly in a recession it may be preferable to have a short-term lease so that you are not committed to paying rent for a long time if the business is not successful and you wish to close down the business.

In a lease to a private company it is standard practice for a landlord to require the shareholders to guarantee the payment of the rent and the performance of the covenants in the lease. If the shareholders guarantee the lease however they will loose one of the main advantages in forming a company - namely to limit their liability to the amount of their contribution to the capital of the company. The shareholders can ask the landlord to waive the guarantee, which is unlikely, or arrange for their personal assets to be transferred to a trust. If this issue is of concern we invite you to telephone to discuss the matter.

A right to assign the lease is important if you wish to on-sell the business. Where the landlord owns adjoining premises ask yourself if the lease should contain a covenant, which prohibits the landlord from renting the adjoining premises to a business in competition with your business.

It is common for a lease to restrict the type of business (the use) that can be carried on in the premises. If your business is not very successful and you wish to transfer the lease to someone else a purchaser will be restricted to the uses stated in the lease. From a tenants viewpoint it is desirable to have a wide range of uses, for example any uses permitted under the zoning for the property.

If the premises you wish to lease is part of a building or property and there are other premises in the building or on the property owned by the same landlord it is important to check ***all*** the leases to ensure that the landlord cannot lease any of the premises for a use in competition with your business.

We strongly advise you to check with the local authority that the business you wish to purchase or commence complies with the zoning for the property, that there are no outstanding council requirements in respect of the business, that the Council has issued all necessary building consents for the buildings and that a code compliance certificate was issued when construction was completed. We also advise you to check that the premises and any chattels are in good order and repair.

The sale of a business dealing with food will involve a Health Regulation certificate issued by the Council and you should enquire at the Council to see what is required if you purchase the business. On occasions there are specific local authority by-law requirements you should be aware of.
All of the terms of the lease must be carefully considered. If you transfer the lease to someone else you will remain liable under the lease until the term of the lease including any rights of renewal expires or the lease is changed in some important manner without your consent. For this reason when you sell your business it is important to find a financially sound purchaser

because if the purchaser becomes bankrupt, or being a company goes into receivership, the landlord will look to you for the rent and all other payments due in terms of the lease.

Vendor's warranties

It is usual for the vendor to base the sale price of the business on historical and anticipated profitability. The vendor should be required to

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warrant the accuracy of the financial information made available to you and upon which you base your decision to proceed. If possible you should obtain at least 3 years previous accounting records. You should also obtain details of the sales and banking to substantiate the financial information supplied.

Beware of businesses that have been "***groomed***" for sale. For example, the banking may have been increased by money received from a source unrelated to the business. A better guide is to check the vendor's GST returns for the previous twelve months.
If you are given photocopies of the returns ask to see the originals returned by the Inland Revenue Department. Photocopies have been known to be altered. If the vendor is not willing to make this information available ***do not purchase the business***. Remember to keep copies of all records you are given in case it becomes necessary for you to make a claim against the vendor for breach of the turnover warranty.

Do not rely on representations that the "***true turnover***" is higher than the figure shown in the accounting records. Also remember that any warranty given by a vendor is only of value while you know how to contact the vendor and the vendor remains solvent. If, for example, the vendor leaves New Zealand then from a practical point of view a warranty will be rendered virtually valueless because of the practical difficulties in issuing court proceedings against someone living outside New Zealand.

In conclusion remember that a turnover warranty ***is not a guarantee*** that the turnover will remain at the figure quoted after you take over the business. It is simply a statement of what the turnover was for the period of the warranty.

Restraint of trade

If the vendor has particular expertise and a personal following the vendor must be restrained from operating a similar business within a defined area and for a specified time. Care must be taken to ensure that the restraint is adequate to protect you. The restraint area and time must be reasonable if it is to be enforced by a court of law.

If the court decides that the restraint is too wide and effectively prevents the vendor from earning a living the restraint will not be enforced by the court.

Finance

Financial institutions will advance money to suitably qualified persons or companies to purchase a proven business. The financier will require to peruse at least 3 years prior accounts and the latest set of management accounts available to the vendor. It is almost invariable for a financier to require a purchaser to form a company so that security can be taken by way of debenture over the company and secured against its business assets. Alternative financing may be available if the purchaser has a mortgage free property or a substantial equity in a property.

If you require finance to purchase a business an approach should be made to the financier at the earliest possible opportunity. While the financier will peruse financial information the financier will not accept responsibility for deciding whether or not the business and the price is
reasonable. There are matters for you to resolve with the help of your professional advisors.

Insurance

Arrange appropriate insurance. The Mercury Energy debacle left many businesses aware of their vulnerability, when relying on basis infrastructure services to make trading possible. Business interruption insurance (also called loss of profits insurance) is a cover designed to keep a business afloat after a crisis, until the business can trade profitably again. If a crisis forces a business to stop trading, it may quickly resume - but how long will it take to get profit levels back to where they were, before the crisis? Business interruption insurance will pay out the same profit as earned previously, for a specified time - hopefully long enough for the business to get back up to speed. You choose the

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designated period, which will be the time you consider it will take to restore trading to previous levels.

Licenses

To operate some businesses the premises must be licensed while in others the person who manages the business must be a licensed operator. For example, any business involving the sale of food must have a current certificate of registration for food premises from the Council and the person responsible for managing the business must hold a current food-handling certificate. A restaurant/cafe which sells/allows customers to consume alcohol on the premises must be licensed and the manager must hold a licence. To operate a real estate/travel agency the person in charge must be licensed. If you are contemplating purchasing any business in which you have had no previous experience it is important to find out what licences, if any, are required to operate the business.

The New Zealand Small Business Guide

One in five small firms fail. The failure rate of small businesses is not 80% within the first five years, as is often quoted, despite much evidence to the contrary.

The real statistics are much more encouraging. In fact, just 1 in 5 start-up businesses fall over, which is 20%. A further 20% just peter out. Another 20% sort of dissolve when the original partners split, but these businesses generally re-start later in a related guise. 20% are sold to another owner/manager and 20% survive in more or less their original form.

So, the facts are that only 40% of small businesses cease trading within five years, which is only 2 out of 5 and only half of that 40% truly fail. Thus the more accurate failure rate is 1 in 5.

For these statistics, we're indebted to Richard Higham and Sara Williams' "***New Zealand Small Business Guide*** Penguin", an invaluable guide for business people of whatever rank.

The New Zealand Small Business Guide walks reader through most of the hurdles from borrowing money and setting prices (a particularly fascinating subject) to writing business plans, hiring staff and consultants, franchises, the arts of survival and boosting profits. This is a book for dipping, once you have read it right through.

In business as in life, we forget far more than we learn. Books like the Small Business Guide should be kept on the desk as a daily reference. This guide won't replace professional advice and it doesn't try to do so. But professional advice can be less than perfect too. This is a book for the sole trader who is very much master of his/her own destiny.

Warning

We have only attempted to highlight some of the factors to take into consideration when purchasing a business. It is essential for you to involve professional advisors at the earliest opportunity and most importantly not to sign an agreement before you have obtained professional advice. Remember the advice contained in the old saying - ***Let the buyer beware*** - consult us before you buy any business.

An agreement for sale and purchase is a binding legal document. Always carefully read the agreement. With the advent of the facsimile machine we recommend that you instruct the agent to send us a copy of the agreement then telephone us and we will answer your questions.

BUYER'S CHECKLIST

Do you possess the necessary business management skills?

- The location of a retail business is very important. Before buying any business:
  - ***Count the number of people entering the business at key trading periods***

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- *Mingle with the customers and observe an average purchase in dollar terms*
- *Multiply the average purchase by the head count for a rough guide to the turnover*

- Visit the local Council offices and find out if any development is planned in the area, which might adversely affect the business e.g. a new shopping complex - has the Council made a pedestrian count in the area? Some businesses require a food premises licence. If appropriate check with the Council. On some occasions there are specific local body by-law requirements you should be aware of.

- Visit other businesses in the area and discuss the business. You are likely to pick up any good or bad vibes about the business. Be tactful however because if you approach customers they may not welcome the news of an impending change of ownership. If a customer gets the impression that you are inexperienced the customer may look around for another supplier causing an immediate drop in turnover.

- Do not be pushed into a quick decision. A decision made in haste may result in a bad investment decision, which could be avoided by making a more thorough investigation

- Regard the accounts with suspicion. Always inspect the cashbook, which should be maintained on a daily or weekly basis. If the accounts have been adjusted to give the most favourable presentation the cashbook may give you clues to investigate

- Try and verify the sales by other methods. If the vendor will not allow you to work in the business while you are making up your mind stand outside the business watching everything and everyone going in and out for at least a week and on random days for another month. The vendor will soon realise that if s/he is being watched and you should be wary of increased activity put on for your benefit. In the case of a lunch bar or coffee bar estimate the value of the stock in the display cabinets at both the beginning and end of the day. Check on the waste. Check on all deliveries. If you are buying a lunch bar is enough bread being delivered to make the food sold. Make up a possible day's sales list and check against the deliveries. Some vendors will do anything to get out of a business.

- Question your own motives for wanting to make the purchase. Does it make sound business sense?

- Ask all suppliers if their bills are being paid. If the turnover is high but the bills are not being paid ask yourself why because with a high turnover the vendor should be able to pay the bills.

- Are you a good "***Mr Fixit***"? Commercial appliance repairs are more expensive than domestic repairs.

- Be wary of a "***new accountant***". The accountant may not have been given all the records of the business and may not be aware of its true history. Explanations like "***my last accountant was hopeless***" should be treated with caution.

- If you are buying a retail business ask yourself "***do you have the personality***?" Essentially you have to sell yourself and make customers want to come back.

Remember that 50% of all new businesses fail within three years and 80% within five years mainly because of a lack of management skills.

For More Information

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Visit our website at www.gellertivanson.co.nz or call us on (09) 575 2330.

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