11

Essential Things You Must Know BEFORE You Buy an Established Business

INTRODUCTION

A safer way to buy.

Dear Business Buyer,

Do you want to buy an established business — one that is strong, sustainably profitable, suited to you, and gives you the right income and lifestyle? If so, this report may be among the most useful things you read before you begin.

A business deserves to be investigated as carefully as a house, a car, or any other major financial commitment. Yet the typical buying process does not give you enough information before you sign a legally binding contract. It has become standard to treat due diligence as the time to investigate properly — but by then the price is agreed and you have already committed to buy before you truly know what you are buying.

There is a better way: a SAFE process — one built to significantly reduce a buyer's risk and help you make your best decision. The idea is simple: buy a sustainably profitable business that is right for you, and learn to think and buy like a professional investor — on the fundamentals, not on a good story. This report is where it begins.

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1 Understand your financial risk tolerance

There is an important difference between your tolerance for financial risk and the finances you have available. Having the money to buy a business does not mean you are in the right position to. Understanding that difference lets you enter a purchase where your investment is matched to the risk you can genuinely carry — get it wrong and ownership can become deeply stressful and put the whole venture at risk.

Be clear about exactly how much you are prepared to invest relative to your overall wealth. A financial risk assessment makes that concrete — and once you understand your own tolerance, you can set a meaningful business-buying budget.

2 Consider the total costs of buying a business

Your budget has to cover far more than the purchase price. Before you buy there is industry research, professional advisers, and legal, entity and finance setup. On top sit transactional costs such as stamp duty, and the working capital the business needs to keep running — plus the investment any improvement opportunities will require, and costs such as stocktaking.

These are all separate from the purchase price, and together they can add around twenty per cent. Account for them and your budget becomes real.

3 Build a team

Assemble a trusted team before you start searching. A financial adviser helps you understand your risk profile and the right level of investment for your overall position and goals.

Your accountant needs your full financial picture so the right entity and tax implications are considered — expect to involve them through the finance and due-diligence periods. Your lawyer handles legal and contractual issues, and possibly settlement — unless you engage a registered settlement agent to prepare the documents and complete the handover on settlement day.

4 Understand the concept of sustainable profitability

Businesses for sale vary in condition and quality, just like any second-hand purchase — and recognising quality is critical. A sustainably profitable business keeps growing its profit and revenue over recent years, returns more than a fair wage and reinvestment needs, and has repeat customers.

For a new owner, the competitive advantage must be transferable, and the business and strong leadership must work together to maintain it. Sustainable profitability comes in degrees — and many businesses near the end of their life cycle can look profitable on current figures, so thorough analysis matters before you buy.

5 Should you pay for ‘potential’?

Businesses are often advertised as having ‘potential’ — understandable, since most buyers want to improve what they buy. The problem comes when the asking price builds that potential in as future growth. Any such opportunity will need investment and carries risk in the doing. So should you pay a premium now for unproven future profit that has to be created outside current trading?

If you overpay for ‘potential’, you pay twice — once to buy the business, and again to fund the improvements. And if the opportunities were so easy, why are they not already being done, and showing in today's profit? Consider paying for current profit from current trading, and let the risk you take be rewarded — not charged for.

6 Use a systemised process to evaluate opportunities

Searching for a business is emotional — you are weighing money, lifestyle, and your hopes for the future. In that state it is easy to overlook the obvious. A clear, step-by-step process keeps you objective and safe.

You might fall for the product, the hours, the location, or the current profit — but none of it matters unless the business makes sound financial sense on your own judgement, and can be shown on the facts to keep performing under your ownership. A rock-solid system is the only way to evaluate opportunities and buy with confidence.

7 Consider your situation

Buying well means weighing your life situation, not just the business — family, health, age, lifestyle and finances. Sustainable profitability needs effective leadership, and that depends on the rest of your life supporting your ownership.

Buying while your situation is working against you can be costly: your attention gets split when the business needs all of it. Ownership is demanding, especially in the first few years — make sure the rest of your life will support you, not hinder you, through the inevitable hard stretches.

8 Know how to research your ‘right’ industry

The safest start is an industry you know. But familiarity is no guarantee — the business could be fading in a declining market. Sustainably profitable businesses exist across hundreds of industries, and your search may well lead you into unfamiliar ones with strong-looking profiles.

If you are considering an unfamiliar industry, knowing how to research it is what gives you the confidence to act — the customers and suppliers, the growth rates, the technology and innovation reshaping it, and its future prospects. Understand the environment before you own a business in it.

9 Perform pre-due-diligence

In the standard process you get only limited information up front — a brief summary, an asset list, dated financials, maybe a lease. On that, you are encouraged to make an offer and sign. Only then does the contract let you do due diligence. Unless your contract lets you walk away for inadequate findings, you usually end up settling. The core problem: you never get to fully investigate and value the business before you are contractually committed — you can be locked into buying something you do not understand until it is too late.

The smarter way is pre-due-diligence — a concept developed in the Smarter Business Buyer System. It happens before you are under contract, analysing historical and current information across more than twenty-five topics to model the business financially. That lets you value it accurately and understand its future cashflows under your ownership. Only at the end of pre-due-diligence can you be confident enough about future performance to decide whether to make an offer at all.

10 Create financial models of the business

One of the most valuable things you can do is build your own financial models of the business. After pre-due-diligence, that work supports two key models. First, a budget-adjusted profit and loss statement — your forecast of the business's profit, including a wage and benefits for a working owner. Base it on your own research, not just past performance, because ignoring the future effects under your ownership can be disastrous.

Second, a business valuation built from your analysis, which may or may not match the asking price. What matters most is that you have had real input in both, so they genuinely reflect performance and value under your ownership. If you then make an offer, you can do it with confidence. Do not rely on models built without your input — it is your leadership and judgement that count. Consult your advisers, but build the models yourself.

11 Know the impacts of binding and non-binding offers

Seek legal advice before you make an offer — how an offer is made carries real consequences. Do not let emotion push you into a binding contract without proper thought and advice.

In some places an offer is made by an Agreement to Purchase or Contract of Sale, which may be legally binding; in others, by a Heads of Agreement or Letter of Intent, which may or may not bind you depending on the wording. Knowing whether you have entered a binding contract affects your negotiating position, your liability, and ultimately whether you buy safely.

BEFORE YOU BUY

Three questions to ask yourself.

How important is reducing your business-buying risk?

How would your life look if you bought the wrong business?

How could your life look if you made your best buying decision?

Consider what is really at stake:

LIFESTYLE | HEALTH | FINANCIAL SECURITY

CONFIDENCE | INDEPENDENCE | RELATIONSHIPS

BEGIN — ON YOUR OWN TERMS

You've seen how the system thinks. Now put it to work.

Start with the free two-minute Quick Check on a business you're considering — no sign-up. Then create your free profile to analyse a real opportunity properly, or explore the whole system first.

Take the free Quick Check →

Create your profile — start free

Explore the system

Prefer to talk it through? You can also book a confidential strategy session and work through the system on the business you're weighing up, so you can see it clearly and make your own call — **book a strategy session**.
