Do you have a business you are eyeing? Consider these tips before taking the leap

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[Photo: Courtesy]

In the course of your entrepreneurship journey, you might find an existing business on sale that appeals to you. On top of the material valuation of the enterprise such as fixings and stock, you are likely to be asked to pay a certain amount as goodwill.

But why, you might ask, would anyone want to sell their business especially if the margins are good and there's a solid customer base? You walk into your favourite salon for your usual appointment only to find that the owner is not there to welcome you with her smile and small talk. After some time, you inquire from one of the attendants, who drops the bombshell that 'Madam aliuza biashara!'

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While the common mode of owning a business in Kenya is through registering and growing from scratch, the practice of buying an existing business is gaining prevalence.

Those who buy going concerns cite their reasons as immediate turnover, existing goodwill and lower probabilities of failure since the enterprise has established relationships with suppliers and has overcome challenges in the market as well as existing competitors.

However, depending on the business you buy, you might inherit some no-so-pleasant aspects. For example, the business may have unproductive assets such as obsolete machinery or outdated inventory.

What's more, if the business had a bad reputation with suppliers or poor employee relations this ill-will could be transferred to your business.

While the cost of setting up new business requires gradual capital investment, buying a business is a one-off transaction that will set you back a lump sum, putting pressure on the business to break even and recoup your investment.

That said, risk is part of an entrepreneur's journey and if you have your mind set on buying a business, take the following appropriate steps to guard yourself against liability.

1. Evaluate yourself

First, you need to appraise your skills regarding the desired business. Do you have the technical skills required to take over from the current owner?

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Sometimes we look at a well-performing business and imagine it would be easy to step into it and continue harvesting money. Businesses rise and fall on the strength of their management so take time to understand the crucial skills needed to retain the business success.

2. Reason for sale

Most people planning to sell a business will first approach their close circle such as friends or family before advertising it to the public.

Big and well established companies might seek competitive bids and use brokers, while lawyers and bankers might also know of businesses whose owners are experiencing financial difficulties and are looking for a quick sale.

Whichever way you find your prospective business, ensure you clearly understand why the owner wants to sell it.

Some people might sell for personal reasons such as illness, a move to paid employment, relocation or simply to concentrate on another venture. Others might be pushed out of business as a result of a shrinking market or losses. Then there are those people who build businesses to sell.

If you decide to buy a struggling business, ensure that you understand what it takes to turn it around and that you have a certain advantage, either in form of technical skills or a competitive edge.

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3. Carry out due diligence

This goes without saying. A thorough screening of the business will bring to light any legal issues such as supplier and employee disputes, unpaid loans and overvalued assets.

In addition to speaking to employees and suppliers, ask for the books of accounts and ensure that the recorded assets will contribute to your future incomes.

For example, if you're buying a restaurant where the previous owner had bread ovens yet you plan to buy your bread, not bake it, then this equipment won't be of value to you.

The value of goodwill also needs to be realistic as there are customers who won't continue with the new enterprise once they realise there's been a change of management.

4. Obtain a professional valuation of the business

The person selling the business will obviously have an estimate of how much they want for their investment, both in time and money, but you should consult a financial expert to get a realist market value of the business. Some of the issues that may have come up during your due diligence should be factored in here since they will ultimately affect your ability to sustain the venture.

Your accountant should also be able to draw up an estimate of future earnings of the business.

5. Close the deal

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It would be prudent to involve a legal officer for the final process.

A lot of business deals are done over a handshake and a verbal agreement but you might want to guard yourself against future claims by the owner's 'sleeping partners' or family members who might show up when business is booming to lay claim to your business.

If you think you might be better off buying an existing business rather than starting one, do a critical analysis.

If the pros outweigh the cons, then maybe buying it won't be such a bad idea.

