



LAWPATH
We've made legal easy



Questions to Ask Yourself When Purchasing a Business

Want to own a business but don't know where to start?
Purchasing a business may be your perfect launching pad.
Read this guide to find out how.

22ND NOVEMBER 2018

Starting a business from scratch can be very overwhelming, and it comes with a range of costs, obligations and risks. Buying an existing business can be a great way to simplify becoming a business owner.

You may buy an already thriving business, or a fixer-upper. Either way, buying a business can be very profitable. But before you sign that agreement, you should have a solid understanding of what you're getting yourself into.

Here are some questions you should ask yourself before purchasing a business.



What Kind of Business Do I Want?

There are a range of businesses out there for sale. You need to determine what sort of business you want to purchase. You can base this off your financial status, location, lifestyle, and any previous experience you may have. Choosing your type of business could be based off a life-long dream of yours, or simply for practicality reasons. Either way, you need to be happy with your choice and take all factors into consideration before purchasing a business.

It's advantageous to purchase a business that you have experience in, but it's not the be-all and end-all. Further, it's beneficial to purchase a business in an area that interests you – why spend your money on a business you're not going to enjoy running?



What Businesses are Available?

You will need to research what businesses are available within your location of choice and your price-range. There are websites which specialise in buying and selling businesses, however this does come with some risks. Be careful if you are mostly researching online, because it is easy for people to embellish on the internet.

Your research should involve visiting potential businesses, talking to owners, customers and surrounding businesses to get a feel of the environment and profitability. You can a good idea of the business's reputational standing by conducting some research online, and this is where customer reviews can also be valuable.

You should also check that the business isn't insolvent by searching looking at the Insolvency Notices section on the ASIC website. Another important consideration is whether the company is involved in any Court proceedings.



What Can I Afford?

Although the thought of purchasing a business can be exciting, you should not go into it assuming you will make a profit immediately. Many people make the mistake of putting all their life savings into one business venture. This could incur serious debt and ruin your reputation as a business owner. You should buy something well within your price range and take into account all the financial risks that could arise. Drawing up **business and financial plans** and having a talk with a financial advisor are simple ways to get ahead of your finances. When buying the business, you may either choose to purchase it yourself, take out a business loan, partner with an **angel investor**, or use seller financing. Each of these avenues come with a range of risks and advantages.



Why is the Owner Selling?

This is a very important question to ask before you purchase an existing business. Owners sell their businesses for many reasons such as old age, moving onto bigger ventures, ending leases, etc. However they could also be selling because their business is no longer profitable, disputes with surrounding businesses or landlords, competitors moving in nearby etc. A failing business does not mean you cannot turn it around, but you should definitely be aware of these factors before you buy. Although business sellers are obliged to act in good faith, you should always do your research to make sure they're not selling for any undesirable reasons.



Will it be Profitable?

The financial history of a business is important and you should do your research before making any concrete decisions, even if you think you know a business is doing well. Firstly you should research similar businesses, traffic at the particular location, taxation, and trends. Then you can ask for financial records, assets, lease agreements and any outstanding debts. All this can go into your financial plan to help decide if you can profit off the business. Looking into what competitors the business has and will have in the future will give you an idea of the business's profitability.

Example

Mary wants to purchase a local grocer named 'Local Foods'. However, a large grocery chain named 'Watworths' is due to open in 10 months' time down the road. The seller of 'Local Foods', Sunny, has not disclosed this to Mary.

It would be safe to assume that Mary's desire to purchase 'Local Foods' would likely be different if she knew about the grocery chain opening down the road. Mary would be advised to look up local Council development plans to see what the future has in store for the area where she plans to run her business.



What are my Legal Obligations?

There are many things you need to cover legally so you are protected from any liability. Make sure you obtain copies of employee contracts, agreements with suppliers and customers, sales records and any other relevant documentation. At this time, you should decide whether you're going to retain the current staff, retain new staff or operate without staff when you start.

You should consult a **business lawyer** or **contract lawyer** to generate sales and employee agreements and negotiate terms. You may also want to conduct an inspection of the business as well as a business evaluation to ensure you are buying a business that is up to standard. Familiarise yourself with council obligations and tax requirements such as stamp duty and GST.

Conclusion

Purchasing a business can be a much easier and cost-effective way to start a business. With the right skills and knowledge you can make it your own and generate a great profit. As with any business venture, being informed and conducting your own research is the best way to ensure you are protected legally and your business is running smoothly.

Unsure where to start? Contact a LawPath consultant on 1800529728 to learn more about customising legal documents and obtaining a fixed-fee quote from Australia's largest legal marketplace.