# Tips for buying a business

B uying a business is a big step and can be a huge risk, unless you do your homework.

Here are some steps you can take to maximise your chances of business success.

### Know what you are buying

The value of a business often depends on the assets being bought. Make sure you know what the assets of the business are and how much they are worth.

When you consider the assets, remember to look at some of the less obvious assets like customer databases, operating manuals, trademarks and designs

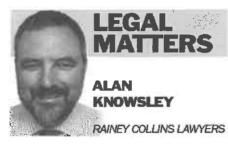
Make sure that you are buying those successful systems and intellectual property of the business as well as other assets, like any machinery, stock and office equipment.

## **Due diligence**

Naturally the seller wants to make the business sound as good as possible, so it's a good idea to make your own inquiries and dig deeper to satisfy yourself that what you are hoping to buy is up to the mark.

For example, we recommend that you:

- Try to get access to the key customers and suppliers to find out what their views are about the business, and their plans.
- Check what the terms of existing contracts are and find out what contracts will be signed over to you and what contracts you might have to renegotiate.
- Try to find out about the competitors.



How do the business's sales and prices measure up to the competition?

## Complete a legal due diligence.

Are the assets of the business legally owned by the vendors? Are there any pending legal disputes? Are the contracts in order? What liabilities could the business face?

Remember to work with your accountant, too – they will be able to provide advice on the financial position of the business and its long-term viability.

You can include a due diligence condition in the agreement for sale and purchase if the seller agrees.

# What about existing employees?

Employees are key to the success of a business. Will you take on all or some of the existing employees, and if so, on what terms?

Negotiating to talk to key employees about their plans makes sense.

The agreement for sale and purchase needs to set out whether you are going to

be responsible for outstanding leave entitlements of employees and, if so, how that will be dealt with on settlement.

Some employees, such as catering and cleaning, are protected if a business is sold and have the right to transfer to the new owner.

That right extends to a new employer who takes over existing contracts, so setting up a new entity does not get around this requirement.

# What is happening with the business premises?

If the business premises are leased, check the terms of the lease, including the rent, how long is left on the lease and whether there are any remaining rights of renewal.

## Get advice before you sign

While you might feel rushed to sign up to a business purchase, it is best to get advice before doing so.

Many of the clauses you include in your sale and purchase agreement, (such as a restraint of trade clause) can be vital to how well your business goes.

There is much to think about when buying a business.

Expert advice will go a long way towards helping you buy wisely and minimise any nasty surprises.

Column courtesy of Rainey Collins Lawyers, phone 0800 733484. If you have a legal inquiry you would like discussed, email aknowsley@raineycollins.co.nz.