The 10 Golden Rules For Buying A Business

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TRUMP UNIVERSITY
SPECIAL REPORT

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Introduction

It would be nice if you didn't need to work for money. Unfortunately, that's not an option for most people. So if you must work, you may as well work for yourself. If you want to produce significant financial rewards and to have a sustained and gratifying work experience, you must work for yourself. I once read a poll in which people rated their job satisfaction. They rated their jobs on a scale of one to four — one being "I love it" and four being "I hate it." I was astonished to learn that over 70% of those polled actually hate their jobs. If you feel anything less than completely satisfied with your work, then you must do something about it. It simply makes no sense to spend the majority of your life doing something you don't enjoy.

It's absolutely crazy to spend day after day, week after week, pounding away and only be able to stay just ahead of your bills. Most people are so focused on getting by, they completely forget that their goal should be to accumulate wealth. If you have any financial aspirations, and want to enjoy the benefits that wealth can bring, you simply cannot do so working as an employee — unless you receive a massive salary with huge bonuses.

Owning a business is, without question, your best option to achieve financial success. Buying an established and thriving business is your quickest route to that success. It is a much better option than starting a business from scratch, where failure rates are enormous, or buying a franchise, where your upside may be severely restricted.

You may be surprised to learn that acquiring a successful business is within your reach. All you need to do is properly prepare and educate yourself about the business buying process, and follow a program that will help you buy a business that can flourish under your ownership.

RULE #1

Make Sure the Business is Right for You

The single most important rule of the buying process is that you match your best skills and talents to an appropriate business. In fact, it is so important that even if you make mistakes in other important steps of the process, you can probably overcome them as long as the business you own is right for you.

Keep in mind these critical points when determining what type of business is right for you:

1. Your strongest skills must align with the driving factor of the sales and profits of any business you purchase.

2. A good business must be one that will thrive from your strengths and not suffer from your weaknesses!

3. Don't pretend you are something you're not. It's OK to stretch the truth a bit in a job interview, but don't fool yourself when it comes to buying a business.

4. Work from your existing skills. It's much easier to learn about a new product or industry than it is to master a new business skill.

When you match you best skill to the right business, you can't help but succeed. One of the most common mistakes people make is thinking they must own a business only in an industry they know; however, this is not the case. It's far easier to learn about widgets and the widget market than it is for you to quickly become a marketing expert if you have no prior marketing experience. Further, while you're learning the skill, the business will be heading south. Sure, an understanding of the industry is helpful, but not essential. After all, if you stick to a certain industry but don't have the skills to drive that particular business' revenue, you can't succeed. Conversely, if you have the right attributes, you can always learn a new product line or service.

Combining the right skill with the right business is the ideal marriage of form to function. Nearly every mega-successful person has mastered this understanding early on. Had Bill Gates not founded Microsoft, he probably would have been a top-earning programmer. He likely would have made a great living, and with a bit of luck and some stock options, he may have become reasonably wealthy, possibly a millionaire, as head of IT for a Fortune

500 company. Instead, he applied his greatest skill (software architecture) to the right business, and the rest is history.

Warren Buffet is another perfect example. He is a brilliant financial analyst. He probably could have made millions working at a top firm on Wall Street. Instead, he applied his greatest skill to a business he owns. The results speak for themselves — there's a huge difference between millions and billions!

So what is it that you do best? Is it sales? Marketing? Operations? Managing employees? Manufacturing expertise and efficiencies? Dealing with customers? Putting a plan together and executing? Solving problems? Perhaps you have a solid overall grasp of numerous skills. Whatever it is, you need to identify your one key skill and make certain it matches to the "driver" of the business. This is an important exercise, and one you must do before you begin searching for a business. There's no use spending endless hours searching "business for sale" listings trying to figure out which, if any, are right for you. Once you determine what type of business will thrive from your strengths, finding the business is easy.

The business buying process can be terribly inefficient for the inexperienced buyer. Every decision you will face may be new to you. Plus, there's a lot at stake. You cannot allow yourself to stagnate, just looking at listing after listing. You need to get out into the market. You need to speak with sellers and brokers. You need to visit business owners. In other words, get into the process and make things happen. Once you begin to speak with sellers, you will begin to formulate a set of your own personal Golden Rules that any business you buy must possess. This is very important. With these rules, you will quickly identify a business that makes sense for you.

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Although buying a business is completely different than purchasing a home, there is one common aspect. People who search for a home typically go from one open house to another. They take the listing sheet, do the tour, spend fifteen minutes at the house, and leave. They may like some things and dislike others, and on it goes, house after house. Then, something magical happens: you walk into one house and, after sixty seconds, they know it's "the one." Why does this happen? Actually, it's simple: at each prior house, they were building their Golden Rules. They liked the layout in one, the room sizes in another, the backyard in a third, the kitchen at one place, and so on. Then they found one with just about everything, and it just felt right.

So, too, it is with a business. Even though the right business should be a logical business decision, and not a "feel right" emotional one, the right business will possess all the things you need to have in place such as: the number of employees, the growth potential, the matching skill set to drive the business, the location, etc. It will have your Golden Rules and match your strengths.

While you will have to learn the "guts" of any business, you need to be fluent in the key areas to grow it. So, determine your strengths and weaknesses and make these points the criteria of your search. If you're great at sales but lack operating skills focus your attention on businesses where there has been a lack of an aggressive sales and marketing effort. Or buy a business in which top-notch sales skills are the key to maintaining and growing the business.

RULE #2

Never, Ever, Buy a Business without Seller Financing

Would you consider buying a new car if it didn't have a warranty? Imagine driving off the lot and the motor blows. That's your tough luck. You'd be hard-pressed to find a single non-consumable product that doesn't have a warranty or ability to return if it was defective. Unfortunately, entrepreneurship doesn't come with any manufacturer's warranty. However, having the seller finance part of the purchase is comparable to a warranty. Surely, they cannot guarantee your success. After all, if they sold you a good business, and you ran it into the ground, it is not their fault. But this is an investment with an element of risk. You are counting on the seller's information and documentation to make your decision. Now, you might wonder why a seller would want to help finance a perfect stranger's purchase of the business he has built and to which he is still emotionally tied. There are a number of reasons:

- Providing financing dramatically increases the number of potential business buyers.
- Seller financing is common in small business purchases no matter how much a seller or broker may try to convince you otherwise.
- Sellers can usually get a higher purchase price by providing part of the financing.

The seller expects the buyer to invest a substantial amount of money and make what may very well be the biggest investment decision in his or her life. The seller has undoubtedly painted a "blue sky" future for you, and has probably not allowed the buyer complete access to all of the customers or employees. Therefore, the seller must also share in the risk of this venture. There is absolutely no better way to validate the seller's claims. Every seller must be prepared to absorb some of the risk and demonstrate his/her con×dence in both the business and in your ability to run it by financing part of the purchase. In other words, they must have some "skin in the game." If not, doesn't this indicate that the business may not be as good as they'd like you to believe?

Seller financing MUST be part of the deal. Think of it as a comprehensive extended warranty on your pre-owned business purchase.

RULE #3

This is a Buying Process, NOT a Looking Process

Actions speak louder than words, especially when it comes to buying a business. Spend a few hours online and you will discover countless websites offering databases of business that are currently for sale. There are literally hundreds of thousands of them listed. While many of them may be overpriced or seriously flawed, there are nevertheless many good ones. Uncovering these gems is easy once you know what to do.

Because there are so many businesses to choose from, it's easy to spend all your time looking and never complete a purchase. Although the Internet is a great aggregate source for these listings, you can get caught in an endless search mentality. In fact, according to industry statistics, over ninety percent of people who begin the search to buy a business never complete a deal. Worse yet, the average person looks for a year-and-a-half to buy a business! This is completely ridiculous. We call these indecisive buyers "tire kickers" — but the only thing that produces is sore toes!

To be successful, you must set a rigid timeline to complete this project. If you're serious about buying, it should not take you more than six months — as long as you do things the right way. Don't waste your time on listings you can't afford or chasing businesses that aren't a good match for you. Determine what business is right for you and focus your search accordingly. Then locate it, negotiate it, investigate it, and buy it. Above all — get into the game! There's no need to delay your success!

Your immediate goal should be to contact — or better yet, to meet with — at least ten sellers or their representatives each month. If you get into this schedule now, you will drastically accelerate the process of buying a business.

RULE #4

Every Business has Secrets

You need to uncover any major potential issues before you buy. Research will help you do so, and proper preparation is your greatest ally. The average small business purchase involves over 200 items that need to be verified. This is called the "due diligence" period. Many people wrongly assume this is just a financial review period, but it goes much deeper. Due diligence entails a thorough review of these eleven aspects of the business (though not every business has all eleven):

1. Financials
2. Assets
3. Sales
4. Marketing
5. Employees
6. Systems
7. Competition
8. Customers
9. Contracts
10. Suppliers
11. Legal and Corporate

Do not wait until you find a business you like to begin your research. The buying process accelerates quickly and there are always competing buyers, so you will have limited time to conduct a complete review. As such, you must begin to investigate any business you're considering the moment you decide you'd like to learn more about it. You can start right away by using the Internet, consulting trade journals and associations, going to the library, and calling and visiting competitors. This is one part of the buying process where it's fine to become obsessed. You must examine EVERYTHING: the financials, the employees, the sales, the customers, the suppliers, the leases, the industry, the competitors, the marketing, the upside, the downside, the contracts and the potential liabilities. Get crazy about your investigation and you'll do fine; get lazy and you'll pay the price later on. Everything you need to know about any business can be easily uncovered, so allow yourself enough time to do it. Never agree to a final due diligence stage of less than 20 working days.

RULE #5

There's No Such Thing as a "Perfect" Business

Actually, there is a perfect business. It's one with absolutely no problems, no risk, no daily challenges. Guess what? It doesn't exist. In fact, you can probably find reasons to never buy a business or do anything meaningful in your life. To use the great Nike slogan, sometimes you simply have to "just do it." If you want bullet-proof guarantees, then it's probably best to get a job as a civil servant.

Every business has its imperfections. But you must determine how prohibitive these imperfections are to the future success of the business. Are these are minor or major issues? It is fundamentally important that you:

- Understand that no business is perfect
- Determine whether existing issues are incidents or catastrophes
- Adopt an open-minded, but not reckless, attitude
- Come to grips with the fact that you may just have to accept some imperfections

On the last point: this does not mean you should compromise your deal criteria. Rather, you need to carefully analyze the consequences of any potential issues and determine how they may or may not impact your ability to successfully build the business.

I have purchased many businesses in the past sixteen years, and they all had their share of warts. I always isolate any major issues, determine the worst-case scenarios, and ask whether I can live with it. I categorically believe there is always a way to work around issues as long as they are not catastrophic. Keep your eye on the bulls-eye and don't lose sight of the goal here. You want to own a business. Be creative and consider all of the "what ifs" to resolve any challenges. Focus like a laser beam. If there are significant issues, meet in person with the seller. Face-to-face meetings are more conducive to communication than firing off an email or making a phone call.

If you've ever been fishing, it's easy to keep going from spot to spot looking for the perfect place — but that just leads to a boat ride. Same goes for buying a business. Keep looking for the "perfect one" and you'll look forever. Look at each business thoroughly, but avoid getting consumed with the idea that the "next one will be better." It won't happen; none are perfect. The key is to identify a good business that can become great with you as its owner.

RULE #6

It's OK to Overpay for the Right Business

This rule may sound crazy, so let me tell you a story. Early in my entrepreneurial career, I had the opportunity to buy a business that I felt would be a perfect add-on to my existing business, and one whose model I could expand across the country. I did not have much money at the time. The business wasn't worth much, if anything. It wasn't making money. It was, I must admit, in disarray. However, the concept was brilliant, and I knew I could apply my skills to drive the business. The owner wanted $100,000, which I didn't have. The business only brought $100,000 in revenues, so he was out of his mind. But he would not budge. An outsider would likely never pay more than a fraction of what he wanted, assuming there would even be a buyer for the business. In any case, I bought the business at full price. Everyone said I was nuts. To me, it was more important to get into the business right away than haggle for months. Besides, I was certain I could build it.

In less than ten years, that business was generating over $4,500,000 per year and was VERY profitable. I'm not a genius by any means, but I understood then, as I do today, that value is personal. There's nothing wrong with overpaying a bit for the right business, because the wrong business is never cheap enough.

While you must respect and stick to certain proven methods to value a business, you cannot become obsessive about it. Or, even worse, risk losing the right business strictly on price, as long as you're not being forced to pay a ridiculous price for a business that you're not certain you can grow. And while the purchase price is important, payment terms should also be your focus.

Valuations used are often not suited for smaller businesses. Professional appraisers use big business methods and future projections. This makes no sense, unless you can predict the future (if you can, let me know — I'll pay for your trip to Las Vegas).

The best valuation method is actually a multiple of what the business has generated for the owner, historically. That includes the business profit, his salary and perks, and other components. You need to get a meaningful return on your cash investment and it should fit somewhere between 25 to 33 percent.

It's fine to be concerned about paying too much, but this cannot be your main fear. You're far better off to overpay for a good business than to buy the wrong one at any price. Unfortunately, a bad business will never recover unless you're an absolute turnaround expert. Sure, price is important. But it cannot be the main priority in determining the viability of any business.

RULE #7

There are More Bad Owners than Bad Businesses

How many times have you been in a particular business and thought to yourself, "this place is a goldmine"? Or have you ever wondered how a certain business owner manages to be successful? The latter was one of the main catalysts for me to go into business on my own. I would encounter these people all the time and they surely didn't seem to be smarter or more hard-working than me, yet they were operating successful businesses. Some, I may add, in spite of themselves.

There are plenty of stagnant businesses. I see them constantly and always think, "a few good ideas and some change could make this business a goldmine." Luckily, they're still in business, but they haven't done anything to grow. However, the foundation is in place for someone with new ideas, energy, and a great work ethic to really achieve explosive growth. That someone can be you.

There are many good businesses around that are being run by the wrong people. These businesses can prove to be gems if you know how to uncover what drives the revenue and how to improve and grow it. Take a grand, "big picture" approach when looking at different businesses. Investigate the business and the industry to determine what YOU can do with it.

The purchase price will generally be based upon the past historical data, but you also buy it for its future potential.

RULE #8

Fall in Love with the Business AFTER You Own It

In the business buying process both buyers and sellers are constantly torn between emotion and logic. It's easy to say that you must always remain logical; but it's not so easy to actually remain logical. After all, the thought of owning your own business, making more money, building value, enjoying your work, and helping others is pretty exciting. However, those are all things you only get to enjoy after you own the business.

On the road to business ownership, you'll face a barrage of situations and decisions that may be new to you. Maintaining a level head, thinking through each situation, and having access to the right information will all determine how well you'll succeed.

Unfortunately, many people begin to "fall in love" with the business they are evaluating. This can be a huge mistake. They think about all of the wonderful things that they're going to do with the business once they take over and this leads to three major pitfalls that can have enormous consequences:

1. They lose focus of the task at hand. First, the goal is to effectively evaluate the business' historical performance in order to establish a proper valuation. Second, your research in determining the current viability of the business as well as future opportunities cannot become biased. You want to be certain that the business you buy, while not perfect, has, at the very least, a solid foundation and the necessary infrastructure and ingredients in place upon which you can grow. If you are distracted into thinking about all of the "wonderful" things you're going to do, you'll pollute your research.

2. Critique the business without really understanding it. It is very easy as an outsider to critique a business and find faults with current operations or possibly underestimate exactly what should be done to grow it. The immediate goal once you buy a business is to learn the business and the industry; to get the "guts" of the business in your own belly. You cannot, and must not, make any drastic changes initially. As such, hallucinating about all of the grand things you're going to do can take away the priority of familiarizing yourself with the business before you make any major changes.

3. They get all excited about the product and forget what really pays the bills. Keep in mind that profit is what you need; the product is secondary. Of course you have to have pride in the product or service you offer, but that is almost the by-product of the business buying process. You don't need to have a high-profile and exciting product. Actually, I personally prefer the bland, boring, un-sexy businesses — they fly under the radar. No matter how exhilarating you think a product is, if you cannot make money, you'll learn to hate it pretty fast.

Don't get me wrong; it's fine to look at some of the upside, but you cannot let your emotions taint the evaluation process. You have to remain 100% objective at all times in order to formulate an opinion that is based upon factual data and logical thinking.

RULE #9

No One Cares About Your Money or Future Like You Do

No matter how wonderful, sincere, straightforward, and honest the seller appears, make no mistake, their goal is to sell you the business at the best possible price and terms. Similarly, if there's a business broker involved in the deal, they don't get paid unless you buy. One thing is certain, their agenda is to be sure you buy a business; not necessarily the one that's right for you.

If you think my approach is a bit negative, you're right. In fact, being skeptical can be the best asset any business buyer possesses. I trust people and am a very optimistic person. When it comes to buying a business, though, I want to validate absolutely everything the seller or their agents says and represents. It's always better to err on the side of conservatism when your money, your future, and your professional life are at stake.

Even accountants and lawyers you hire don't care nearly as much about spending your money as they would their own. It's wonderful to solicit people's advice, but at the end of the day, this is your future. The decision to buy or walk away from a particular business must be up to you and nobody else. Do not let anyone bully you into a decision.

RULE #10

Buying a Business is One Thing; Then You Must Run It

How many times have you heard successful people say: “you have to love what you do”? That’s easy once you have a pile of money, but let’s be realistic. If you are working your rear end off as an employee to just pay the bills, loving your job doesn’t seem remotely possible. However, if you’re going to thrive in business, you must be passionate about it. You have to feel like you’re in control of the operation. It’s fine to even be a little obsessed with the business, but you cannot be overwhelmed by it.

As you look at opportunities, it’s critical that you consider the “blood and guts” of the business. What will you do everyday? Can you see yourself becoming familiar with the operation? How quickly? Do the employees, suppliers, and customers seem like the kind of people you’d enjoy interacting with every day?

Forget about the money for a moment and ask yourself: “Am I going to enjoy running this business everyday?” Self-employment becomes an obsession. Therefore, you must derive tremendous satisfaction from the business itself if you are to build it into something great. You have to be enthusiastic about the business! If you cannot see yourself being the proud owner of a particular business, then stay away from it no matter what else has attracted you to it.

RULE #11

And One More... Your Knowledge Will Determine Your Success

Henry Ford said it best: *"Before anything else, getting ready is the secret of success."*

Knowledge always beats luck (except in Las Vegas). The most successful people are those who realize that they don't know it all. Ask any massively successful businessperson about the key to their success; they will always tell you that they are surrounded with people smarter than themselves.

No matter what you've done in your career to this point, nothing has prepared you for buying a business. That is, unless you've bought a few of them before. You may have the skills to run it, but throughout the entire buying process, you're going to face a barrage of crucial decisions that you have never faced before. And remember, it's your money and future on the line!

Buy the right business and it will change your life.

You have two ways to approach this process: You can hope that somehow you do things right, or you can prepare yourself properly to be certain that you do.

It's been said that the best way to learn how to do something well is to find someone who's already successful at it and just copy them. I was once in your exact position. I was tired of working like a dog for someone else. I saw successful people everywhere who were neither smarter nor harder working than I am. I admit I was jealous of their success. Then I decided enough was enough; it was my turn.

I starting at rock bottom, and in the past 16 years I have personally purchased ten businesses. I have made a lot of money simply by purchasing businesses that were right for me, at the right price. Then, growing them was easy. A few years ago, I was close to buying another business. The attorney and accountant signed off on the deal. The broker said it was great, but I didn't think so. I began an exhaustive investigation and, boy, was I right. It was a disaster.

After I walked from the deal, I stood in the business' parking lot and said to myself: "the average person would have bought that business and made the mistake of a lifetime." That's when I decided to put all of my years and hands-on experience to work in helping others. I realized that people needed access to good information and unbiased, experienced advice. That single episode gave birth to the course, The Art of Buying the Right Business.

This is not some textbook B.S. It's written from firsthand, in-the-trenches experience. I have already experienced and successfully dealt with everything that you're about to face for the first time!

Photo by Howard Schulman

About the Author

Richard Parker is a member of the Trump University faculty in Entrepreneurship. In addition to his work at Trump University, he is the author of several books and programs on buying businesses, and has over 100 published articles to his credit. As president and founder of Diomo Corporation, his materials and live seminars have helped thousands of prospective small business buyers in over 70 countries realize their dreams of business ownership.