CHRISTIE & CO

Buying Guide

What to consider when buying a business

What makes a business succeed

1. Starting your business for the right reason

It may be a bit of a cliché, but for your business to succeed, you need to have a genuine passion for what you're doing. Successful business owners never underestimate the amount of work they'll need to put in and the potential impact of this on their family and friends. It's not enough to be starting your business because you were fed up with working for someone else or because you were tempted by the idea of a millionaire lifestyle – you won't get there unless you have the deep enthusiasm and drive necessary to succeed.

2. Careful market research

A successful business is the result of diligent market research. For a business to thrive, it has to meet the needs of its target audience and it has to occupy a carefully thought-out position in its market. It's all very well coming up with a great idea, but if there is no actual demand for it, it's doomed from the start. To run a successful business, you need to begin by carrying out market research to understand your customers and their needs. Ascertain whether or not there is enough demand for your product or service – and be realistic about it. Don't just talk to your family and friends, whose inclination will probably be to spare your feelings by telling you that your idea is a good one. Get independent and objective views from a variety of people who fit into your target market.

3. Effective management

Running a business successfully requires a wide range of skills; it's not just about thinking of a great business idea. Successful business owners either have or acquire skills in a number of areas, or they hire people who can fill the gaps in their knowledge. For example, if accounting isn't their strongpoint, they'll hire an accountant. If they haven't managed people before, they'll undertake management training to ensure that they can manage their employees effectively.

4. Thorough financial understanding

Successful business owners go to great lengths to establish a deep understanding of the financial side of their businesses, and in particular the cash flow. They will always save enough money to tide the business over if the going gets tough, and they don't underestimate the initial sums of money required to get the business off the ground. They never allow hidden costs such as transport, heating and lighting to mount up, and furthermore are prepared for the fact that some clients may take longer than anticipated to respond to invoices.

5. The right choice of location

For many businesses, location is key. A successful business meets the needs of its local market and is located in a place where its target audience can get to it easily. It need hardly be pointed out that a shop in a prominent position on a busy high street will attract more custom than one on the edge of town with few passers-by. But location considerations should also take into account competition: if there are several other businesses doing exactly what you intend to do, it stands to reason that your business may struggle to compete. Locate your business in a place where there is a clear gap in the market.

6. Gradual and tactical expansion

Successful businesses only expand when the time is right to do so. The successful business owner never gets carried away with their success and never borrows money to grow the company prematurely. They will establish a healthy business with a limited product range, and only then will they begin to grow their range and geographical coverage gradually and tactically. At the same time, they adapt quickly to changes in the market, for example by having a website to tap into an ever-increasing online audience.

7. Listening to customers

A successful business is one that takes its customers' views seriously – not just one that says it does. Never underestimate the power of word of mouth, and make sure customers come back for repeat business. Act on any feedback your receive from your customers, even if it's a complaint, and try to ensure that whatever it was that caused them to complain doesn't happen again. Let them know what you've done to ensure that it won't happen again, and offer them an incentive to give you a second chance.

Legal foundation of a business

The legal foundation of a business is very important, and prospective purchasers are advised to seek advice at all stages of any transaction process from appropriate professionals and specialists (e.g. solicitors, accountants, tax advisers, PAYE specialists). There are primarily four ways in which you can trade: Sole Trader, Partnership, Limited Liability Partnership, and Limited Company. This post takes you through these options and explains how they're different.

Sole Trader

One of the simpler forms of business is as a Sole Trader, either in your own name or a business name. As a Sole Trader you own your business and keep all the profits you make after tax but, equally, any business losses are your losses. Your business is indistinguishable from you personally.

Partnership

This is an association of at least two people. It's advisable to instruct your solicitors to draw up a Deed of Partnership to clarify matters such as:

- Division of profits and losses
- Partners' responsibilities
- Outgoings and expenses
- Dispute resolution

Partners have unlimited liability for the total debts of the business partnership, both jointly and severally. However, while the partnership deed may say that losses are to be split equally, remember that if your partner(s) can't or won't pay, you'll be personally liable for all the losses. If no Deed of Partnership is drawn up, the partnership will be governed by the Partnership Act 1890, which provides that all profits and losses are shared equally.

Limited Liability Partnership

An alternative to a partnership is the Limited Liability Partnership (LLP). Originally developed for large accounting and law firms, any business can form itself as an LLP. LLPs are separate bodies and have members rather than partners or shareholders; they are, like companies, a legal entity distinct from their members. At least two "designated members" are required, who have responsibilities comparable to those of company directors. Noted that "members" is not a term unique to LLPs, as shareholders in companies are also known as members.

An LLP removes the joint and several liability of partnerships; this is replaced with liability limited to the total assets of the partnership and any additional amount the members have agreed to contribute on a winding-up.

LLP status is an alternative to full incorporation, particularly for care homes, where there may be tax advantages when it comes to the selling of individual homes or the whole business. The LLP is essentially a halfway stage, between traditional partnerships and companies. However, the trade-off is that liability is limited, but a partnership business has to be made public in that there is a duty to file accounts and returns at Companies House. To set up an LLP you need to file form LLP2 at Companies House and pay a registration fee. A partnership deed is still likely to be required, as you are otherwise subject to default rules (generally the same as for a traditional partnership) and you're likely to require the advice of a solicitor.

Limited Company

By forming a Limited Company, you'll reduce your personal liability, but you'll have additional responsibilities and greater public accountability as a result of the provisions of the Companies Act 1985, as you're also likely to be a director. A Limited Company is a separate legal entity. Normally, there would be no liability on the part of directors or shareholders; however, it may be necessary to give personal guarantees in order to gain finance.

For example, where a company is new, with no trading history and little in the way of assets, in order to secure their loans, banks will expect a charge over the property of the directors (i.e. a mortgage) so they have some chance of recovering their money if the company fails. Also, directors' personal assets are available in limited circumstances to pay creditors. These include an insolvent liquidation, where the directors may be held responsible for the debts of the company if it can be shown that they continued to trade at a time when they knew or ought to have known that there was no reasonable prospect of the company avoiding insolvency.

If you decide to form a Limited Company, certain formalities need to be complied with. These are as follows:

1. Check that the name you wish to use is available.
2. File form G10, setting out the address of the registered office and the particulars of who will be the first directors and secretary.
3. File form G12, a statutory declaration of compliance with the requirements of the Companies Act 1985.
4. Also file a copy of the Memorandum of Association and the Articles of Association.

Memorandum of Association

This is the document governing the company's relationship with third parties, and sets out the purpose for which the company is formed, the amount of its share capital and name. The Memorandum of Association should be signed by two subscribers and their signatures must be witnessed.

Articles of Association

These govern the company's internal relationship with its shareholders. Commonly, a private company limited by shares will adopt Table A (a standard set of regulations) with some amendments.

Assuming the Registrar of Companies is satisfied that the incorporation documents are in order, a Certificate of Incorporation will be issued, which is conclusive evidence that the requirements of the Companies Act 1985 have been met. You can form the company yourself, instruct a solicitor to complete the forms for you, or purchase an off-the-shelf company from formation agents. A shelf company is one that has already been formed but has never traded. The formation agent sells you the company with standard Memorandum and Articles, and transfers the share(s) to your nominee(s). The existing director and secretary will resign so you can appoint your own. As the documentation is not drawn up specifically for your business, its standard format may be inappropriate for your needs.

What kind of business is right for you?

Choosing a business can be great fun. Each business you view will help you clarify the kind of business best suited to you and your skills and experience. The clearest path is often to set up in a business that you know already. A chef working for someone else might buy a restaurant; a hotel manager or barman might buy a hotel or pub; a family doctor or nurse might buy a care home; and a teacher might set up a children's day nursery.

In general, few businesses provide the scope to start small and still make a profit, as well as holding out the possibility of expanding as you learn and grow more confident. But service industries, such as retailing, hospitality and care, allow you to acquire new skills as you work and grow into your new role. The risks of starting up are relatively predictable and therefore manageable; as a small business, you have the option of making further investment. Properly run, a small business can be highly profitable.

None of these sectors require specialised or advanced training of any length, although there are legal requirements for those in the licensed and care trades. A good example of the opportunities available in these sectors is the care industry. As lifestyles, demographics and working practices change, so will the need for additional care services for both the young and the old. You need no special training to own a business of this kind, but you do need specific training to run one. Many of the skills necessary to run one business can be transferred to another: financial planning, marketing, handling staff and business development are all skills that you can apply across a range of businesses.

There are three kinds of business covered in this post, defined according to the lifestyle which naturally goes with them. They are:

- Lifestyle businesses
- Entrepreneurial or commercial businesses
- Multiple businesses

Ask yourself what kind of business life you want to live, ideally. Do you want to make money first and foremost? Do you want to build up the business, sell and move on? Do you want to establish a chain of similar business units? Do you want to retire in 5, 10 or 15 years and be supported by the business? Do you want the capital value of the business to grow? Do you want to take maximum profits from the business in the short term? Do you prefer to work alone, or in teams? Do you enjoy building up a business and employing people to help you? Do you like to see your ideas put into practice?

Lifestyle businesses

Many people choose businesses that allow them a more relaxed lifestyle, as opposed to making high profits. These people are concerned with their health, their environment, the pace of their life, their community and so on. They tend to buy what professional business agents call lifestyle businesses. These businesses allow you the freedom to do such things as:

- Organise your time
- Work for yourself
- Live where you want, often in a village or rural setting
- Choose your working environment
- Operate the business on your own without the added complication of having to employ staff

A lifestyle business should also give you freedom from:

- Unpleasant environments
- Unreasonable working conditions
- Office politics
- Nine-to-five routine
- Long-distance commuting

In general, those who are attracted to lifestyle businesses tend to be less interested in money and more interested in the quality of their working life. They may have other sources of income, or be less dependent – emotionally or financially – on the business. Typical lifestyle locations tend to be in unspoilt rural areas, in pretty country towns and villages. If you're attracted to such a business, it's worth searching widely throughout the whole country, since you need to combine location with a sustainable business. Typical examples of lifestyle businesses are a small guesthouse, a rural retail outlet or post office, or a village pub.

Entrepreneurial or commercial businesses

Entrepreneurial or commercial businesses tend to be a much more straightforward proposition. Of course, there can be no fixed rules, but people who are attracted to these businesses are willing to trade their working environment for higher profits. Such businesses can operate where there are a sufficient clientele for what they offer. They can be found throughout the country, usually in areas of high population density, and they bring the advantages and disadvantages of urban life.

Such businesses require full commitment of time and energy. Running them often means employing staff, working every day, or arranging for someone – a manager perhaps – to cover for you. The commitment is greater, but the financial rewards are potentially higher.

Multiple businesses

While it's fair to say that many business owners invest much of themselves along with their money, there is a category of business buyer – in reality an investor – who is interested in developing a chain of businesses. People like this usually specialise in a particular sector, aiming to build an empire and run it. They may be less interested in the business once it's running at a profit, and more interested in moving on to increase their share of the market by adding another business to their portfolio.

If you invest in one or more properties which you plan to expand, you have to be prepared to trust others to manage certain aspects of your business for you. Since you cannot be everywhere at once, and since your business's reputation is one of its most valuable assets, you must appoint good staff and managers. You must be competent at managing others and at dealing with the larger issues of planning and strategy.

How to find the right business property

Many people dream of being their own boss. Once that dream crystallises into a determination to buy your own business, you'll be eager to take the first steps towards finding your ideal property. Let us show you how...

Naturally, you'll have more choice if you're flexible about where you look. Research the region and its suitability, and the business market. Gather information from personal contacts, owners and managers of similar businesses near you, and trade shows and exhibitions. You might also consider training courses and on-the-job work experience.

Build up some written notes based on your conversations, research, internet browsing and various enquiries. Cover the following areas:

- ***Personal questions:*** housing, schools and amenities.
- ***Business questions:*** competition, location and other local businesses.
- ***Local area:*** demographics, communications and transport.

Preparation is crucial, not only because you'll be thinking clearly about your new venture, but also because you'll be showing your lender that you've done so. The more precise you can be, the better.

Searching for businesses for sale is relatively simple if you know where to look. Information about businesses for sale is available from a number of sources, including Christie & Co, trade press, local media, local websites, and even word of mouth. Alternatively, ask a business agent to conduct a search on your behalf.

If you do the search yourself, it should be methodical. You should already know the kind of place you want to live in, and the kind of business you'd like to run and why. You should have an idea of how much money you are going to invest and how much you need to borrow. You may already have contacted a business finance broker; you should also have contacted a solicitor and an accountant, who'll work for you during the acquisition process. Ideally they will have previous experience of your market sector.

If you're sent details by business agents, you'll probably look at dozens before deciding to view a potential purchase. This is perfectly normal and is an important part of the process. Ensure you stick to the price, location and accommodation criteria that you've set yourself.

Viewing businesses

Divide your attention into five areas and get as much information as possible about each:

- ***Locality*** – where you'll be living; a personal choice for you and your family. Think about schools, transport, amenities, culture, climate, etc.
- ***Location*** – usually of prime importance to the success of a business, dictating where your customers will predominantly originate. Also think about competitors, local trading conditions, average local house prices, etc.
- ***Tenure*** – whether the business is freehold or leasehold; primarily a matter of time and money. Think about both the long term and the short term, and how much you can afford.
- ***Building*** – the physical state of the building which contains the business, and on which it depends. Think about its condition, any repairs needed, and any alterations required to meet trading regulations or for expansion, parking and access.
- ***Business*** – the financial state of the business. Think about how the accounts reflect its performance; compare this with similar businesses.

The more information you can gather, the better. You can use it to find out more by asking informed and intelligent questions of the sellers and their agent, or to check whether they're being straight with you. Remember, facts are the key here – not only those you can check with local authorities or simply by seeing the property, but also those to do with reputation, competitors and, of course, your own instinct. Before you view, consider doing the following:

- Using the business as a customer, if possible.
- Sending a friend to use the business as a customer.
- Watching the business at various times of the day to see how many customers go in or pass by.
- Checking on the weekend trade at pubs, restaurants and hotels.
- Talking subtly to competitors.

On the viewing day, dress appropriately – think about the impression you want to create. Arrive early and get a good feel for the area. Ask yourself these questions:

- Do you want to own this business? Why?
- What are its advantages and disadvantages? Why?
- Would you want to be a customer/client of this business? Why?
- What other businesses of this type have been for sale in the last year? Have they sold or not? Why?
- Why is this business on the market? Be aware of as many reasons as you can; be ready to ask the owners polite, direct questions to ascertain their real reasons for selling.
- How long have these owners been here?
- What was the business like before they bought it?

Have they done all they can with the business?

A busy, successful business takes as much energy and as many ideas to manage as a deserted, unsuccessful one will take to change. Try talking to the owners about their approach to the business and about what they've tried doing over the last few years.

What changes are you planning to make? What impact will these have on the business?

If the business was recently sold and is back on the market again quickly, be wary; it could be a great opportunity, but you could find yourself in a difficult position sooner than you'd imagined.

What role do the owners have? What is their relationship with their clients and customers?

This is a vital question because a charismatic, innovative owner or renowned chef may be responsible for a considerable amount of a business's turnover. For example, in a pub, ascertain if the owners are a magnet for social life, or expected to be the key figures in local societies, events and celebrations. Are the owners or their family always working in the business, thus cutting staff costs and adding a strong element of personal service?

Is there a manager who is central to the business, whose departure might damage it?

Are there any reviews of the business in trade or local guides, the local media or tourist reports?