



Starwood Business Group

Business Sales ▪ Valuations ▪ Exit Planning

GUIDE TO BUYING A BUSINESS

A comprehensive overview for prospective buyers

"Stop chasing the money and start chasing the passion."

-- Tony Hsieh

If you are considering purchasing an existing business, **Starwood Business Group** can help guide you through the process. With our experience, knowledge, and relationships, we will help you through this exciting journey. This guide outlines what you should consider and prepare when acquiring a business.

"Opportunities don't happen. You create them."

-- Chris Grosser



TABLE OF CONTENTS

BUSINESS TRENDS AND OPERATIONS.....	3
MARKET TRENDS.....	4
PREPARING FOR OWNERSHIP.....	5
❖ Executive Summary	
❖ Business Description	
❖ Market Research	
❖ Marketing Plan	
❖ Operations	
❖ Financial Forecast	
THE ACQUISITION PROCESS.....	12
WHAT LENDERS LIKE TO SEE.....	14
CONCLUSION.....	16



BUSINESS TRENDS AND OPERATIONS

When acquiring a business, you want to make sure it is the right fit. Asking the following questions can guide you to determine if the business help you achieve your personal and professional goals

- ✓ Is the business growing? If not, can you identify and implement opportunities for improvement?
- ✓ If the business will be your main source of income, will it support your current lifestyle?
- ✓ Is the business conveniently located, or in a place to which you can relocate?
- ✓ Do you have a similar leadership style and philosophy as the seller? As the new owner, you can make improvements, but an understanding of the current culture can help you ease any apprehension from the staff, and ensure a smooth, successful transition.



MARKET TRENDS

Many of the business trends will be driven by market and industry trends, so it is important to understand the demographics in the area as well as changes in the industry.

ASK YOURSELF

- ❖ What are the area demographics?
- ❖ What is the local competition?
- ❖ Is the population growing?

IDENTIFY TRENDS BY

- ❖ Keeping track of industry influencers and publications.
- ❖ Absorbing up-to-date industry research and trends reports.
- ❖ Making the most of digital tools and analytics to assess industry behavior.
- ❖ Listening to your customers.
- ❖ Observing your competitors.



PREPARING FOR OWNERSHIP



As you prepare to purchase the business, you will need to write a business plan. The business plan is your blueprint for success. It will help you think through initial decisions before acquisition and serve as a guide once you are in the day-to-day operations. You will also share your business plan with your lender, business partners and key employees.

Be clear and thorough when writing your business plan. Include a formal title page, and ensure you use proper spelling and grammar. Make an accurate and professional representation of your capabilities and objectives. Your business plan should include the following six sections:

- I. Executive Summary
- II. Business Description
- III. Market Research
- IV. Financial Forecast
- V. Operations
- VI. Marketing Plan



I. EXECUTIVE SUMMARY

The Executive Summary introduces you and your business venture to readers and is often the first impression of your project. This section should be concise, providing the “what, why and how” of your undertaking, but also compelling enough to persuade lenders and others that your acquisition plan is viable. You may want to tackle the Executive Summary last, as much of the information for this section is drawn from the rest of your business plan.

Business Overview

Provide a brief overview of the business, your background in the industry, and the specific services you will offer.

Mission Statement

Outline your business philosophy. Define your goals and where you expect to be in five or 10 years.

Financing Requirements

Summarize the amount of capital you will need to achieve your acquisition goals.



II. BUSINESS DESCRIPTION

The Business Description goes into greater detail about the business structure, your qualifications, and business resources. This section explains why you have the personal know-how and professional means to build long-term success.

Professional History

Describe your background, any professional experience in the industry, and where and when you attended school, degrees earned, and any related courses taken.

Management Team & Key Personnel

Identify the principals who are ultimately responsible for the financial performance of your business, your key team members and their roles, and any professional advisors who will be instrumental in providing input and guidance.

Organizational Structure

Outline the legal entity for your business (Sole Proprietorship, LLC, etc.) and ownership details. Determine whether your target business has any licensing requirements.



III. MARKET RESEARCH

A certain amount of research is required to ensure the local market has the appropriate demographics to support your business. The Market Research section demonstrates to a lender that you understand your community and that you have considered the competition in this area.

Market Description

Describe who lives in the community surrounding the business and the predicted growth or changes for the area over the next five or 10 years.

Target Customer

Describe the ideal customer or family for your business. Include demographics such as age and income level.

Competitive Analysis

Define the other businesses in your local market, the services they offer, their advantages and disadvantages.

Competitive Advantage

Finally, define the competitive advantages your business Offers. For example: services, location, price, etc.



IV. MARKETING PLAN

Budget

Approximately how much are you budgeting for marketing activities for the first year or two?

Differentiation

How will you set yourself apart from the competition? For example, will you offer special events or sponsor community groups?

Marketing Mix

What is your marketing mix? That means the combination of print ads, television ads, client referral programs, social media, and other marketing channels.

This section allows you to be more creative as you describe the marketing activities you will use to create visibility for the business and support ongoing business growth. Be sure your marketing plan is realistic and addresses budget, differentiation, and marketing mix.

V. OPERATIONS

The Operations section details the day-to-day needs and functions of the business, demonstrating that your future success is based on well thought out plans about how you intend to run your business. Make sure to include the following:

Location and Premises

Describe in detail the location of the business, why you chose it, and whether you will own or lease the space. Detail the equipment and inventory necessary now and in the future, whether the equipment will be owned or leased, and who your main suppliers/vendors will be. Describe the visibility of your business to surrounding foot and vehicle traffic.

Days & Hours of Operation

Describe the days and hours you will be open and how you will handle holiday and after-hour calls.

Staffing

Outline any staffing changes that will occur after the acquisition, if applicable. Define personnel policies and the roles and compensation of staff members.



VI. FINANCIAL FORECAST

For most business owners, the Financial Forecast is the most challenging section to complete. For your lender, however, it can be the most important. Your loan financing is based on the numbers in your Financial Forecast, so it is critical to make these calculations as accurate as possible. Work with your CPA or financial advisor to ensure your forecast is viable and reflects the business accurately. Your forecast should include:

Income & Cash Flow Projections

The financial projection should cover at least 36 months of operation of your business.

Capital & Operating Expenses

These are the total funds needed to acquire and operate your business. Try to be as specific and realistic as possible. Include loan payments, staff salaries, rent, utilities, supplies, and other minor expenses. It is better to be conservative and overestimate your budget.

Project Financing

Detail how much you need in financing to purchase the business and consider your preferred terms. Include any personal or investor funds that be will contributed to the project. Include purchase price details such as real estate value, value of equipment, and whether the transaction will be an asset or stock sale.



THE ACQUISITION PROCESS...

There are multiple steps involved in purchasing a business. Starwood Business Group will be your partner throughout this journey. We believe in your success and will guide you through the process:

- ❖ **Gather Your Team** | Before you embark on an acquisition, it is wise to have a team of trusted advisors, including a CPA and an attorney. It is advisable that they have prior experience in acquisition financing.
- ❖ **Explore Financing Options** | Lenders who understand the unique aspects of a business will be able to structure the loan to best benefit both the buyer and seller.
- ❖ **Determine the Purchase Price/Deal Structure** | Agreeing on the purchase price is a fundamental step that should occur early in the process. The purchase price should be based on a combination of asset values, annual revenues, multiples of earnings and other intangible assets. The building, land, equipment and furniture will constitute the tangible assets.
- ❖ **Present an Offer to Purchase** | Once you have decided on a business, work with SBG to write and present an Offer to the Seller. This will take the business off the market, giving you the opportunity to perform in-depth due diligence and work towards closing.



...THE ACQUISITION PROCESS

- ❖ **Secure Financing** | A lender will look at your personal credit in addition to the financials of the business. How you manage your personal credit is typically a strong indicator of how you will manage the business' finances. When preparing for financing, you should take steps to protect personal credit and avoid making any purchases that will negatively affect your credit score.
- ❖ **Financials** | The lender will ask you for the following:
 - Three years of business tax returns
 - Year-to-date (YTD) income statement and current balance sheet
 - Historical income statements and balance sheets
 - Projections for the first three years under new ownership
- ❖ **Due Diligence** | The due diligence period is the time for serious research and analysis. Make observations and inquiries related to:
 - Historical financial statements
 - Business tax returns
 - Current pipeline
 - Inventory list
 - Competition and market share strategies
 - Current marketing
 - Client lists and contracts
 - Vendor list and contracts
 - Monthly sales breakdown
 - Employee handbook, organization chart, contracts
- ❖ **Close the Deal** | At this point, the deal is done and there is no room for further negotiations. There is a detailed closing checklist that you will need to complete before closing the sale. Once closed, it will be time for you to focus on your comprehensive post-acquisition plan.



WHAT LENDERS LIKE TO SEE...

FROM THE BUSINESS

The lender will consider the following criteria to ensure that it's a viable business for them to fund.

Positive Trend | Lenders like to see positive trends when examining financials. A decrease in sales or revenues can be a red flag. If the business has negative trends, be sure you can identify the problems and include ways to increase business in your business plan.

Key Employees | When purchasing a business, the reputation of the business can be considered an intangible asset. The staff and community relationships play an important role in the success of the business. Lenders like to see key employees continue working with the new owner, as it diminishes risk.

Seller Training | Lenders want to see a well-thought-out transition plan. The transition and training period can range from one to 12 months, depending on circumstances. Work with the seller to negotiate the training and transition and clearly define them in the purchase agreement.

Seller Financing | When a seller finances even a small portion of the deal, it shows the lender that the seller is confident in the new owner's abilities and leadership. The terms of the seller carry note are negotiated between the buyer and seller.

Working Capital | Lenders may analyze the operational and transitional working capital needs of the company.



WHAT LENDERS LIKE TO SEE...

FROM THE BUYER

The lender will need a clear picture of you to confirm that you are suitable to run a business set up for success.

Personal Credit History

Anyone who will own 20% or more of the business will need to have acceptable personal credit histories. If any of the guarantors have a history of delinquencies or bankruptcies, that could negatively impact the chance of obtaining financing.

Business Plan

Buyers have to provide the bank a business plan for the business they are acquiring. Lenders want to see that you have a clear understanding of the business you are buying. Include ways to improve the business where you see fit.

Equity Injection Funds

The buyer's equity injection funds cannot be borrowed. It can come from the buyer's savings, an equity investment from a third party or a gift from family or friends.

Transferable Management Experience

Lenders want to know that buyers have the necessary skill set to own and operate the business. Whether it's previous small business ownership experience, sales and marketing, human resource management or financial understanding – this demonstrates that the buyer has what it takes to run a successful business.



CONCLUSION

Whether you are a first-time buyer or a veteran entrepreneur, Starwood Business Group has the knowledge, expertise, and professional network to guide you through the acquisition process.

Starwood Business Group has worked with buyers and entrepreneurs of all backgrounds and levels of investment. Our comprehensive business valuations ensure that you will find quality, well-priced businesses available in a variety of industries.

Contact us today to learn how we can help you thrive by achieving your goal of business ownership!

info@starwoodbusinessgroup.com

Starwoodbusinessgroup.com

770.814.4466