



# Buying a Small Business: 5 Keys to a Successful Process

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# Why Acquisitions?





## Why Acquisitions?

- “Silver Tsunami”
- Small business acquisitions continue to achieve record levels
- Only 6% of business owners transfer ownership to family members

Sources: US Census Bureau, BizBuySell, Principal Securities





# Agenda

- Why Buy a Business?
- Locating a Business to Purchase
- What is It Worth? Is It A Good Deal?
- What Are the Key Terms?
- What Am I Missing?





# 1. Why Buy a Business?





## Why Buy A Business?

- An existing business is already “working”
- The concept is tested
- The market has been tested and customers obtained
- The product is selling





## Why Buy A Business?

- The business has employees
- The business has an established reputation/brand name
- The business has records, systems, and processes
- Financing is easier to obtain than for a startup





**What could possibly  
go wrong?**





## On The Other Hand, ....

- An existing business is already “working” – *but is it working well?*
- The concept is tested – *but is it keeping up with the times?*
- The market has been tested and customers obtained – *are they satisfied?*
- The product is selling – *but what about that new competitor?*





## On The Other Hand, ....

- The business has employees – *how happy/good are they?*
- The business has an established reputation/brand name – *okay, the reputation is “established”, is it also good?*
- The business has records, systems, and processes – *the business has records, systems, and processes*
- Financing is easier to obtain than for a startup – *but you may need more*





# Is a “For Sale” Business Having Problems?





## 2. How to Find a Business to Acquire







## Where Are the Prospects?

- For ***transactions \$500k to \$2.0 million***, 2/3 successful buyers are ***within 50 miles*** of the seller
- For ***transactions below \$500k***, 2/3 successful buyers are ***within 20 miles*** of the seller
- ***\*\*\* Key Takeaway – look for your opportunities close to home \*\*\****

Source: Pepperdine study





## Work Your Network

- Talk to friends who own businesses – are they ready to move on to another challenge?
- Do you work for a business you love whose owners may wish to sell?
- Do you buy from/sell to a business you love whose owners may wish to sell?





## Work Your Network

- Talk to friends and business associates who might hear about opportunities and let them know you're interested
- Attorneys
- Accountants
- Bankers





## Are There Intermediaries You Should Know?

- Introduce yourself personally to business brokers in your area;
- Prepare a one-pager including:
  - *Your background*
  - *Your criteria (size, geography, industry, operator/manager, financing)*





## Initial Contact With Brokers and Sellers





## How to Find Intermediaries You Should Know

- Georgia Association of Business Brokers ([www.gabb.org](http://www.gabb.org))
- \*\* Try searching LinkedIn groups for “businesses for sale”





## Is There Information Online?

- [www.BusinessesForSale.com](http://www.BusinessesForSale.com)
- [www.BizBuySell.com](http://www.BizBuySell.com)
- [www.BizQuest.com](http://www.BizQuest.com)
- [www.Flippa.com](http://www.Flippa.com)
- [www.Restaurants-for-sale.com](http://www.Restaurants-for-sale.com)
- [www.MicroAcquire.com](http://www.MicroAcquire.com) \*\*\*





Oh Wait – I Almost Forgot These Other 800+

<https://larvato.com/list-of-websites/>



Photo credit: J. Scott Applewhite





### **3. What is it Worth? Is It a “Good Deal”?**





## Market Context?

- “The business broker told me he can get \$XX for it....”
- “My CPA told me the assets are only worth.....”
- “I’ll need \$XX to meet my retirement lifestyle objectives.....”
- “A buddy at the country club (said he) sold his business for.....”





## Obtain Financial Statements

Obtain the business's last two or three annual income statements and balance sheets

Tax returns are preferred

**\*\*\* Determine "Sellers Discretionary Earnings" – "SDE"**

***Calculated as: Pretax Earnings plus Interest Payments plus Depreciation plus Payments to owners***





## Consult Objective Resources

- [www.Bizbuysell.com](http://www.Bizbuysell.com) database of completed transactions
- Business Reference Guide – [www.BusinessRG.com](http://www.BusinessRG.com)







## Is It A Good Deal For Me??

- When we look at a target company/potential acquisition, lots of characteristics make one different than another – ***even if the financials look very similar*** –
- ***Are there non-financial considerations?***





- Lots of one-time customers vs lots of repeat customers.
- Could imply lots of custom or “project” work, which can make growth difficult.





- “Macro” headwind vs. “Macro” tailwind
- Are there foreseeable general economic conditions that would make it difficult ... or easier?





- Low capex vs high capex
- Have you really estimated your projected cash flow accurately?





- Diversified customer base vs one or two major customers
- Losing one customer can hurt a little ... or A LOT





- Easy to operate vs high requirements for technical knowledge and skill
- Do you have the skills?





- Industry has low barriers to entry vs high barriers to entry
- Will new competition form easily?





## Moral of the Story?

- At some point, financials step aside while you check out the background and do confirmatory and qualitative due diligence





## 4. What Are the Key Terms?





## Key Deal Terms – Overview

- Best practice is to make a written proposal, which can take many forms (a “term sheet”, “Indication of interest”, or a formal “letter of intent”)
- Both parties sign the agreement
- Most of the terms of the agreement are not binding – binding agreement is memorialized in an executed ***purchase and sale agreement*** (you’ll need an attorney for that)





## Key Deal Terms

- Written proposal should include:
  - The acquiring entity or person
  - What is being purchased
  - The purchase price/form of consideration
  - Any purchase price adjustment





## Key Deal Terms, cont'd.

- Written proposal should include:
  - Standstill/exclusivity period \*\*
  - Confidentiality agreement \*\*
  - Conditions to closing





## Key Deal Terms – Seller Note?

- **Version A** - “\$550,000 in the form of a subordinated Seller Note, with a 7-year amortization, 7.5% interest rate, with payments beginning 6 months after closing”
- **Version B** – “\$550,000 in the form of a subordinated Seller Note, with a 7-year amortization, 7.5% interest rate, with 84 equal monthly instalments of \$8,436.10 beginning March 1, 2023, totaling \$708,628.30, including \$158,628.30 of interest?”





# 5. What am I Missing?





## What Am I Missing?

- Due Diligence





## What Am I Missing?

- Due Diligence – include:
  - Financial
  - Legal issues
  - Operations
  - Employee relations
  - Assets
  - Products
  - Suppliers
  - Customers





## What Am I Missing?

- Due Diligence – sample outlines:
  - <https://www.accountingtools.com/articles/acquisition-due-diligence-checklist>
  - <https://www.bizbuysell.com/learning-center/article/due-diligence-checklist-what-to-verify-before-buying-a-business>





## The Most Difficult Question

- What is the risk that the current owner's activities are crucial to its continuing success?
- What is the current owner's true role in the business's day-to-day operations?





#1

- Buy something from the business if you can. See if you touch the owner at any point in the normal sale process.
- Ask for something custom or a policy exception – see if employees can handle the curveball on their own.





#2

- Read every review you can find on every review platform. See how often you see the owner's name mentioned.
- 50% or more may be a red flag.





#3

- Does the owner take long vacations often or have intense hobbies?
- Check their social media for hints and ask them what they do for fun and their travel.





#4

- See if you can shadow the owner for a day of remote work.
- If their day is full of calls from panicked employees asking them what to do, it's a red flag. Boring is good.





#5

- Ask what trade shows the company attends and who goes.
- If only the owner and their spouse go every year, the owner may have all the critical industry relationships.





#6

- Examine carefully the long list of owner “add-backs”
- If the owner treats the business like a personal piggy bank, red flag – may encourage culture where employees also lack professional standards.





#7

- Look for awards or accolades on your tour and in company info.
- How many mention the owner's name and how many mention the company's name?





#8

- Get an employee list of every W-2 employee, position, and tenure.
- Look for a good mix on tenure. Too many with 20+ years could mean overly loyal to status quo. Too many newbies may mean culture is bad.





#9

- Does owner almost always open or close the business every day?
- One is bad; both may be very bad.





#10

- Pull out a piece of paper with columns for 7 days of the week. Ask owner to walk you through what they do in a normal week.
- If they struggle or there is no “normal” they may be the fireman.





## Wrapping Up

Do you have actionable ideas about how to help your clients successfully approach business acquisitions?

Now what?

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Let's connect: <https://www.linkedin.com/in/peterwilliamscfa/>





# Please complete the Workshop Survey!

*Step-by-step Instructions:*

*Open Event App or open the web version of the Event App.*

*Log in, if not already logged in.*

*Click Agenda/Schedule*

*Ensure you are registered for this workshop*

*Click on the Workshop you wish to complete Survey For*

*Scroll to the Surveys*

*Click on the Workshop Survey*

*Complete Survey – Add Comments*

*Once Completed – Submit Survey*





**THANK YOU**  
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