

eNB *New Brunswick's Business News* BUSINESS

David Barnett is a regular columnist for eNB Business: New Brunswick's Business News, a Transcontinental Media Specialty Publication. eNB Business is published monthly and distributed to businesses across New Brunswick free of charge. For more information, please visit www.enbusiness.ca

Build a team to buy a business. December, 2007



David Barnett

Pay for expert advice, you'll save when buying a business.

Recently I have become involved in two business purchase transactions. I wanted to share first hand with you some of the lessons that these two parties have learned so that you can learn from their mistakes. I became involved in these deals when both buying parties approached me for help in obtaining financing.

Deal A is a situation where some lifelong professional types (civil engineers) have decided to leave their corporate environment and purchase a well established retail business. They were introduced to this opportunity by their good friend, the real estate agent.

I'm not sure what a business and a house have in common but more and more real estate agents are endeavouring to represent these types of transactions. The seller in this situation is represented by a long-established business broker. Business brokers often stand in a dual-agency type role.

There are certain basic points of due-diligence that everyone should do in examining a business opportunity. If the buyers had approached the business broker directly, the broker would have told them to undertake this due diligence. Why? Because if he didn't he might get sued. Since the buyers have representation, the business broker is under no obligation to help. The buyers have their own person "looking out for them."

Just like a real estate transaction, the real estate agent is receiving a commission from the selling broker. This creates an inherent conflict of interest. In most due-diligence efforts, the buyer is trying to find reasons to devalue the business. For example, in a retail situation, the recent opening of a competitor on the next block might be a real reason why the business has a lower value.

In the situation I'm outlining here, the realtor has no incentive to encourage proper due-diligence since every effort to reduce the selling price results in a lower commission cheque. The other problem is that the buyer's representative doesn't know what to suggest as far as due diligence. Aside from structural and mechanical aspects of the building in question, what do realtors know about calculating the present value of future cash flows? For that matter, if the buyer has to work to create the future cash flows, why should they pay anything for them? This is all very subjective and forms part of calculating what's called "goodwill."

In an effort to save money, the buyer's representative actually

suggested that the buyer use the same accountant as the seller since they were a reputable firm and were familiar with the books. The problem with this, of course, is that the seller's accountant works for the seller. When buying a business you need to bring together a team of professionals that work for you.

How do you know if someone works for you? You pay them for the time they put in for you. It's as simple as that. When a home inspector looks at a house you might buy, you pay him for his time and professional opinion. If you don't end up buying the house because he tells you the foundation is bad, you still have to pay him. His fee is the happy price you pay to avoid spending a lot of money on a lemon.

This is the same in buying a business. You need to build a qualified team of people who work for you and represent your interests. Deal A (at the time of this writing) has completely fallen apart as more and more details that should have been uncovered in the initial due diligence are becoming apparent. Also, the inexperience of the realtor has led to errors in the written offers. The buyers were assuming that the vendor would take back part of the purchase price in the form of a loan (normal in this type of transaction) however their realtor left this out of the offer and phrased it as an all-cash deal.

This has meant that a lot of people have had their hopes dashed, and a lot of people (me included) have wasted a tremendous amount of time.

Now let's examine Deal B. In this deal, a group of experienced business people hired a chartered accountant, a lawyer and a building inspector to look at the different aspects of the deal. The due-diligence period only lasted a couple of weeks. The buyers discovered several problems and made an offer substantially lower than the asking price. The offer was rejected and the buyer and seller found no middle ground. The buyers ended up spending some money on professional fees but avoided wasting a lot of time and, more importantly, buying a business with hidden problems.

Deal A has already wasted 4 months of everyone's time.

As a result of some of these issues, I have decided to do a seminar series in Moncton and Saint John in January. I have brought in a team to talk about the process and pitfalls of buying or selling a business. For more info or to reserve a spot, go to my website and click on the seminar link.

David Barnett is a Business Finance Consultant with Advantage Liquidity Partners Ltd. in Moncton. ALP Ltd can be found at www.alpatlantic.com or by calling (506) 387-4881.

Phone (506) 387-4881
Toll-Free..... 1-877-387-4881
Facsimile (506) 387-4797
E-mail: info@alpatlantic.com

Advantage Liquidity Partners Ltd.
Visit us online at
www.alpatlantic.com



Equipment Leasing • Loans • Factoring
Commercial Mortgages • Lines of Credit