BUYING A BUSINESS? HERE'S 20 GOLDEN RULES TO HELP YOU AVOID THE COMMON PITFALLS

You can avoid most of the big mistakes in buying a business by doing some simple homework before hand. A little due diligence will go a long way towards ensuring your business purchase is a wise and fruitful one. When the time comes for you to sell, you will have a business of value.

1. Take a good look at the strengths and weaknesses, opportunities and threats of the business. Do a SWOT analysis. Take particular note of why the business exists and ask, "Will it continue to exist in ten years time? Will you be able to continue to do the things necessary to keep the business relevant in today's business environment?"

2. Buy a business with a track record. Five years is preferred, three is a minimum requirement. Track record gives you a history and sales trend.

3. Buy a business that has image, brand & reputation. Consider how much money it takes to build a brand.

4. Ensure that the business has registered all relevant designs, patents and trademarks. Often Intellectual Property is the chief asset a business has to sell.

5. Investigate the quality of the products and services delivered by the company. It is often too hard to turn around a company dogged by faulty products or bad service.

6. Ensure that supplier contracts are in place and in writing where possible.

7. Be careful that the business is not reliant on one supplier. What if the supplier stops supply or closes down? The same applies to the basket of clients. A good spread is safer in each case.

8. The lease must be of sufficient length and contain reasonable terms . Is the property available for sale?

9. Investigate the reason for the sale. The most genuine reason for the sale of a business is usually retirement.

10. Investigate whether there are any key employees and what you will do to ensure they stay on, if required.

11. How well is the business systemised? Good systems ensure the risk in taking over the business is reduced. Is computerization completed? The question for the buyer is "How much will it take to complete the systemisation of the business?"

12. Does the business have a good credit rating? An unhealthy credit rating is a sign of poor business performance.

13. Check key ratios in the business. Are there marked changes from year to year. E.g. does gross profit or net profit change considerably from year to year? Are stock levels consistent from year to year, taking into account normal rise and fall, or business cycles? If not why not? Compare the business year to year and then with industry averages.

14. Ensure you have enough working capital to get you through the whole year and beyond. Most businesses fail because they run out of money. How much working capital does the current owner need?

15. Make an accurate assessment of the competition. Where is the company strong and why? What are the competitive threats?

16. Stock can be a killer. Beware of a business that carries a lot of stock. Is the stock all "good and saleable?"

17. Check equipment for its durability. Is the equipment up to date? Will you need to make replacements in the near future? And if so, what will that cost?

18. Check all the local gossip. Speak to people in the vicinity of the business to find out any rumours of changes in circumstances that could be the motivator for the sale.

19. Ask yourself whether you could operate the business. Envisage yourself being in the place of the owner. Is the owner personally involved in the business to the detriment of the business itself? Will all the goodwill you are paying for leave the business with the vendor? How can you insure against this? Will the vendor allow you to defer payment or pay on performance? Will the vendor consider vendor finance?

20. Don't let emotion cloud your judgement. And remember there's always another business around the corner.

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