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# **BUSINESS BUYER TIPS**

## **Step #1 - Are You Prepared to Own A Business?**

Ever wonder if you have the stuff to succeed in your own business? To find out, take this eye opening test developed by Northwestern Mutual Life Insurance Company. It is based upon studies that reveal common characteristics among entrepreneurs.

The test cannot predict your success, but it can give you an idea of your potential -- and help you decide whether you really want to take the leap and open your own business!

As you take this test, add and subtract your score. Then check your total at the end to see whether you fit the entrepreneur profile.

1. **Significantly high number of entrepreneurs (45%) are children of first generation Americans. If your parents were immigrants, give yourself 1 point. If not, subtract 1 point.**
2. **Successful entrepreneurs were not , as a rule, top achievers in school. If you were a top student subtract 4. If not, add 4.**
3. **Entrepreneurs were not, as a rule, enthusiastic about participating in group activities in school. If you enjoyed group activities like school clubs, team sports or double dates, subtract 1. If not, add 1.**
4. **Entrepreneurs often prefer to be alone as youngsters. Did you? If yes add 1. If not subtract1.**

5. Those who started childhood enterprises or ran for office at school can add 2 because ambition can usually be traced to an early age. Those who didn't start childhood businesses should subtract 2.
  6. Stubbornness as a child seems to translate into determination to do things one's own way -- a hallmark of entrepreneurs. If you were a stubborn child add 1. If not subtract 1.
  7. Unwillingness to take risks can handicap those headed for uncharted waters. Were you a cautious youngster? If yes, subtract 4. If no, add 4.
  8. If you were daring add 4 more.
  9. Entrepreneurs often pursue different paths regardless of what others think. If the opinion of others matters a lot to you, subtract 1. If they don't, add 1.
  10. Entrepreneurs often start a business because they're tired of daily routine. If that's your motivation, add 2. If not, subtract 2.
  11. If you really enjoy work, are you willing to work overnight? If yes add 2. If no subtract 6.
  12. If you'd be willing to work "as long as it takes" with little or no sleep to finish a job, add 4 more.
  13. Entrepreneurs generally enjoy their work so much that they move non-stop from one project to another. When you complete a project successfully, do you immediately start another? If yes, add 2. If no, subtract 2.
  14. Successful entrepreneurs are willing to use their savings at the outset of a project. If you'd be willing to spend your money to start a business add 2. If not, subtract 2.
  15. If you'd be willing to borrow from others too, add 2 more. If not, subtract 2.
  16. If your business fails, will you immediately work to start another? If yes, add 4. If no, subtract 4.
  17. If you'd immediately start seeking a good paying job, subtract 1 more.
  18. Do you believe entrepreneurs are "risky"? If yes, subtract 3. If no, add 2.
  19. Many entrepreneurs put long-term and short-term goals in writing. If you do, add 1. If you don't, subtract 1.
  20. Handling cash flow can be critical to success in your own business. If you believe you have more knowledge and experience with cash flow than most people, add 2. If not, subtract 2.
  21. Entrepreneurial personalities seem easily bored. If that describes you, add 2. If not, subtract 2.
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## Scores

**35 or more:** You have everything going for you and ought to achieve spectacular entrepreneurial success -- unless you're stopped by things beyond your control.

**16 to 35:** Your background, skills, and talents give you an excellent chance for success in your own business.

**0 to 15:** You ought to be successful in a business of your own if you apply yourself and learn the necessary skills.

**0 to -15:** You might be able to make a go of it on your own, but you would have to work extra hard to make up for a lack of built-in advantages and skills that give other entrepreneurs a head start.

**-16 to -43:** Is building your own business really what you want to do? Your talents probably lie elsewhere and you may be happier if you are working for somebody else.

## **Step #2 - Finding The Right Business!**

***FIRE, READY, AIM!*** The commands are correct but, we must have the right sequence if we want to hit our target. If business ownership is your quest -- the five steps listed below summarize the sequence of steps involved in finding the Right Business for you.

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### Self Analysis and Financial Review

Inventory your skills, talents and interests, lifestyle needs and resources. Create a mental picture of your ideal business. Ideally, how would you be spending your work day? What special skills or interests can you bring to your enterprise? Will family members be involved? What are their interests, skills and talents? How would they fit into your picture of the ideal business?

Determine the minimum amount of income you will need from your business to maintain the lifestyle you have created. How much capital are you willing to invest (risk)? What are the sources of your capital?

Once you have developed your "profile" you are now ready to begin. We have developed a "Buyer Profile and Business Identification Workbook" which has assisted hundreds of opportunity seekers hone in on and identify their "perfect business."

### Prepare to search

Many good books and software programs are available on how to acquire, finance, operate and grow a small business. If you don't have at least one in your personal library, get one now.

Research targeted industries. Arrange for equity loans now if you intend to use such funds in acquiring your business. Arranging for equity line of credit before you find your business gives you much more flexibility and leverage. Imagine, for example, negotiating financing with the business owner and banker at the same time.

### **Begin the Search**

Ideally you want a business in need of the skills and resources you can provide. Interview brokers, intermediaries, accountants, bankers and others to uncover opportunities. Conduct your own direct contact campaign to targeted industries or engage a firm to search for you. When a target is found, overview data is gathered.

### **Letter of Intent (or Conditional Offer to Purchase)**

A Non Binding offer to purchase spelling out proposed price, terms and conditions of sale is prepared. Either side may revise or quit for any reason. "Letters of Intent" or "Offers to Purchase" and other paperwork relating to the buy-sell process are generally provided by your Business Broker or Intermediary. Once agreement is reached, "Due diligence" begins.

### **Step Five -- Due Dillegence and Closing**

Check out business thoroughly. Engage professionals to assist in due diligence and closing. Confirm willingness to buy. Closing documents are prepared, reviewed and executed. Money is exchanged for keys. Congratulations, you now own your own business.

## Step #3 - Start Up - Franchise – or Buy Out

### Which Business is best for you?

This exhibit reviews and compares the risk elements associated with each choice. The degree of self satisfaction and ego gratification associated with each choice has not been addressed although it must be acknowledged that these factors are perhaps the strongest motivators for business ownership. In this regard, start ups provide the highest degree of satisfaction and gratification and buy outs perhaps the least with franchises somewhere in the middle. Interestingly, most business observers and our own experience indicates that start ups, albeit the most satisfying choice, have the poorest chances for success.

Success Factors	Start up	Franchise	Buy out
Location	unknown	unproven	proven
Product/service acceptance	unknown	unproven	proven
Working capital requirements	unknown	unknown	proven
Time to break-even	unknown	unproven	proven
Time to profitability	unknown	unknown	Immediate
Level of profitability	unknown	unknown	proven
% Return on initial investment	unknown	unknown	proven
Choices available	unlimited	plentiful	limited
Ability to pre-measure management skills required	guess	educated guess	visible
Ability to find the "right opportunity"	easiest	easy	difficult
"Due diligence" (check it out)	easy	easy	difficult
Opportunities for improvement	unknown	unknown	identified
Training and assistance	none	Yes - Franchisor	Yes - by seller
Financing:	unlikely	probable	likely
Outside collateral required (ie: Home)?	Yes	Likely	Seldom
Source of lending	Bank/2nd mtge (Home).	Equip. finance	Seller finance
Chances of success	low	high	high

# How Can We Help You?

## Financing

The Gray Rider Real Estate Company can assist you in obtaining commercial financing. Banks are reluctant to finance business purchases for several reasons. First, all small businesses attempt to minimize profits shown on financial statements to reduce tax liability. Also, a bank cannot manage a business if foreclosure becomes necessary. Therefore, the majority of business purchases are financed by the owners, which demonstrates their confidence in the business. As long as you have 25% of the total purchase price in cash and have a good credit rating, we can obtain financing for you through affiliated commercial lenders.

## Confidentiality

Unlike the sale of real estate, the sale of an ongoing business is very confidential for both the seller and the prospective buyer. All inquiries are held in strict confidence. Meetings are confidential, and we are available after hours and on weekends.

## Things a Business Buyer Should Know

At the Gray Rider Real Estate Company, we are advocates of finding a business that you like and would feel comfortable managing. You, like every other prospective buyer, have a vision of being your own boss and calling your own shots. A business must fit your visions to be successful.

An old saying in the real estate industry is... "The three most important things a buyer should look for are location, location and location." While location is important to a business buyer as well, be aware that track record and management round out the three components of a successful business.

Let's assume that you find a business that you like and its location is fine. But, because of poor management, the business may not show the greatest track record. Purchased for the right price and on the right terms, this business could become more successful with proper management, making it a good way to achieve your vision of being in business for yourself.

As a prospective business buyer, you should be concerned as to why the business owner is selling the business. Business owners sell for a variety of honest reasons. Besides the obvious reasons of retirement, bad health or re-location, many sellers simply tire of doing the same thing and want to move on. If it is a good business for you, the reason for the sale doesn't matter.

Finally, be aware that many businesses sell for less than what they are listed for. So, if its a business you like, don't be afraid to make a low offer. As long as you truly feel your offer is reasonable and fair, we'll be glad to communicate it to the seller.

**Remember, we are well trained professionals who know how to buy a business. Please utilize our talents and call us whenever you need assistance or have questions about the process.**

If you have any questions concerning the material presented on the previous pages, please contact:

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