

Top 10 Mistakes Made When Buying a Business

Buying a business is a complex process, and it can be confounding because of the interplay of business, legal, and people issues. It can, however, be a rewarding process if it is the right business and you have done your homework and researched the business thoroughly. Below are some common mistakes made when buying a business:

1. **Buying the wrong business for you.** Whether you plan to be a hands-on owner or hire managers to do the bulk of the work, most entrepreneurs need a business that suits their skills, knowledge, interests, and personality. Otherwise, the business may not be successful.
2. **Signing contracts or agreements in your own name.** Do not put contracts, loan agreements, or the lease in your name. You need to have or set up a corporation or LLC to buy the business, since you don't want to subject your personal assets to the risks of the business.
3. **Not doing proper due diligence.** Just because a business appears to be successful, and even shows a profit, does not mean that it is not without problems. You need to find out exactly what is owned, borrowed, leased, and owed. You don't want to get saddled with a pile of bills, unpaid vendors, rent due, and other outstanding debt.
4. **Not knowing why the business is being sold.** A business owner may simply say that he's retiring. However, he may know that a competitive superstore has purchased the property across the street. Determine why the business is up for sale and what the business environment will be like once you take over.
5. **Ignoring the company image.** Most businesses have established an image or a brand over the years. Customers are familiar with this and changing it quickly can be self-defeating, since this image may be integral to the value of the business.
6. **Not having a favorable purchase contract.** Not unlike buying a home, you will need to negotiate details regarding the acquisition. From physical concerns regarding the property, to assets, intellectual property such as trademarks, stock, and outstanding bills, you need to define in the contract who is responsible in each area and exactly when and how the responsibility shifts from the seller to you as the buyer. It would be wise to consult an experienced corporate lawyer.
7. **Overextending yourself financially.** A common mistake is going into serious debt when buying a business. You are better off either waiting until you have sufficient funds to purchase without significant debt or putting together a buying team.
8. **Making drastic internal changes.** The time in which it takes to train a new staff can cost you money and drain your reserves. Often, the current employees are the most familiar with the internal workings of the company.

9. **Not promoting the business.** It is a big mistake to assume that since the business is already established that it will simply promote itself. Even if the business has a solid base of steady customers, you need to immediately establish a comprehensive advertising and marketing plan.

10. **Not knowing the value of the business.** Buyers have to do a detailed financial analysis of the business to determine the appropriate price to pay. This includes reviewing income and loss statements, balance sheets, key assets, contingent and actual liabilities, and cash flow statements. You may find that it is more cost-effective to start from the ground floor with a brand new business.