

Checklist for buying a business



Main topics:

- **Preliminary questions:** ask these before you start
- **The interested buyer's checklist:** now you've made the decision to go into business, this checklist can help you decide whether to buy the business and how much to pay for it
- **Documents involved when you buy a business:** which documents do you need, why and when?
- **Things to watch out for:** warning signs to look out for when buying a business

Preliminary questions		
Question	Tips to help you answer	Tick (✓) when done
Why do you want to go into business?	You need to check to see if running a business will suit you as a person. You should compare running a business with employment to make sure buying a business is the best solution for you.	
What type of business do you plan to buy?	Having experience in the industry may build your confidence in that area. Experience is not essential but you must thoroughly research the industry you intend to buy in, including talking to people who run businesses in the industry. Research should include competitors and the area you intend to buy in.	
Can you raise the finance to buy a business?	You need to be able to raise the finance to purchase a business. You also need to look at your security and sources of finance, and then choose the best source of finance for you. Business Victoria has a Business Loan Finder which will help you find and compare loan options.	
Why is the seller selling the business?	Try and do as much research as you can before purchasing an existing business. Ask the seller why they're selling and look at the reliability of future trading.	
Do you have personal details of the seller?	Make sure you have the full name, address, bank details and references of the seller. Check if the seller is a company by doing a company search at the Australian Securities and Investments Commission (ASIC)	
The interested buyer's checklist		
Key areas	Things to consider	Tick (✓) when done
Valuation of the business:	<p>Make sure the business you buy is not overvalued. Financial due diligence is when accountants analyse the financial information provided by sellers to see if a business is profitable. A recent CPA Australia survey found more than 80% of potential buyers would have paid too much for their business if they hadn't carried out financial due diligence.</p> <p>Valuation should include: Valuation of goodwill • Inspection and valuation of premises, fixtures, fittings and equipment, valuation of stock and work in progress (use Section 52 statement and seller's tax returns to assist with this) • Valuation of intellectual property (ideas) • Liabilities of the seller</p>	
Occupancy of premises:	<p>All premises should be checked for the following: • licences and permits such as planning, building and/or health inspections.</p> <p>If the business has a rented premises check the following: • Rights of assignment • Term of lease • Subletting</p>	
The contract of sale:	Terms and conditions of payment • Apportionment of price between goodwill, fixtures, fittings and equipment • Implications of capital gains tax, depreciation, stamp duty • Stock • Assessment and valuation of work in progress • Adjustment of outgoings and statutory charges under the lease • Restraint of trade clause e.g. the	

Checklist for buying a business

	seller cannot set-up business within 5km of your business for five years • post settlement support (if agreed upon) • Brand and website transition • Transfer of business name, copyright, trademarks, and patents
Formal searches:	Business name and trademark • Title search of premises • Water authority and local council regarding rates and planning • Other relevant licences, registrations and permits
Website	Is there a website and if not, is the domain name available and protected? If there is what processes are in place for web hosting and content updates? Will you need new hosting? If you're going to use the same domain name, when is it up for renewal? Will you need to organise a web designer?
Human Resources services (and payroll)	Is a new HR system needed or can the existing one be used? Review all existing staff contracts and check if there is any leave planned. Make sure Super funds are transferred. Are there any WorkCover claims and are the premiums up to date? Are there any staff issues such as discrimination claims, pay/leave disputes? Any occupational health and safety issues? Make sure the sale contracts prevents the seller from poaching staff from the business you're buying.
Marketing	Get a copy of the current marketing plan and all promotional materials (e.g. samples of all ads, flyers, emails or newsletters etc). Has there been any market research or competitor assessment done? Can you get results tracking (if any) on campaigns that have been run? If based in a shopping centre the landlord must provide the tenant with a written audited statement that details all expenditure by the landlord in each of the landlord's accounting periods for advertising and promotion costs.
Sales	Get a sales breakdown by wholesaler and customer segment. Is the data complete and useable? Is it easy to update and can be it used to produce letters for mass mailing purposes (mail merging)? How far back does it go?
Business planning (including continuity and disaster recovery planning)	Get a copy of current business plan. What are the key success drivers? Is there data on repeat business and referrals? Is there a process in place for existing sales and customer service? Get samples of business reports e.g. weekly sales reports, monthly business performance reports. Is there an existing business continuity and disaster recovery plan in place and could you use it as a base template if needed?
Other suppliers	What contracts are in place for cleaning (e.g. inside and windows), IT support, security and telecommunications (fixed, mobile and broadband plans). Are there any assets you need to buy for the business prior to taking over e.g. office equipment, hardware, white boards etc.
Final premises inspection	Check off all assets against the register and make sure they are working. Get all instruction manuals. Change the locks on day one (liaise with landlord). Change the codes on the alarm.
Ownership change launch plan	Notify all existing customers of the change of ownership. Have face to face meetings with all larger clients especially business clients – even those who have done business once or twice.

Checklist for buying a business

Documents involved when you buy a business

When the different documents are needed	Which documents are needed and other tasks	Tick (✓) when done
Before you sign the contract:	Seller has to supply contract of sale, copy of lease, Section 52 statement • Prepare proposed assignment of lease • Obtain title search • Obtain search of business name or company name	
When you sign the contract:	Seller has to supply signed contract • Return signed copy of contract to seller • Pay preliminary or full deposit and seller to supply receipt for deposit	
Immediately after settlement:	Lodge applications for transfer of registration of business name • Transfer all necessary permits, licences, registrations and certificates	

Things to watch out for

Failure to disclose information:	You should be wary of a seller who is failing to disclose important information such as why they are selling, the lease, licences and permits; and staff
Poor business performance:	Be wary of sellers who are subject to pending litigation, have a record of customer complaint, talk up the cash trading and drop the sale of their products or services to bump up gross sales before selling the business. Make sure the business you buy is not overvalued by completing financial due diligence (having an accountant analyse the financial information provided by sellers to see if a business is profitable)
Sellers behaving badly:	Watch out for sellers who won't allow a trial period, won't introduce you to suppliers, the landlord or estate agent, make the deal seem too good to be true (it probably is), are keen to close the deal quickly and give in too easily to an offer
External issues:	Look out for a business that own rights over copyright or other intellectual property, landlords who only give short leases and leaseholders who offer the business for sale at reduced price but then offer you the lease at a premium

For more information:

- call Business Victoria on 13 22 15
- visit the Business Victoria website at www.business.vic.gov.au
- visit a Victorian Business Centre (VBC). For a list of VBC locations, go to www.business.vic.gov.au/vbc

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