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BUYING A BUSINESS – TAKE CARE

If you have never been in business before buying a business can be daunting and perilous if you do not get it right. Before you start you must first honestly ask yourself whether you are the type of person who is “cut out” to handle the stress and pressure of successfully operating a business. An absolutely positive attitude is essential.

Once you have identified and researched the business you wish to purchase it is then critical to take expert legal and accounting advice prior to making your offer and signing an agreement to purchase. The essential elements to examine, apart from establishing the right price, are:

- The goodwill of the business which is the value of profitability, loyal customers, good staff, good location and premises, long and fair lease and good reputation. Try to negotiate your goodwill as low as possible and pay more for assets as there are tax advantages in this with depreciation.
- Due diligence (an investigation of the business) should be completed either prior to signing or as a condition of the purchase agreement. This should include all legal and accounting aspects relating to the business. Full annual accounts for the business should be reviewed by your advisors as should all contractual obligations of the business such as the lease, employment contracts and contracts with customers and suppliers. Some of these may be lost with a change of ownership.
- If possible a full employee audit should be undertaken to ensure you can retain key employees and to assess the skill levels and any difficulties with the staff, some of whom you may wish to be dismissed prior to settlement.
- The ownership structure to acquire and operate the business should be established (ie. sole trader, partnership, company or trading trust).
- How you will finance the purchase of the business.
- Tax and GST issues need to be assessed and discussed with your accountant.
- Consideration to be given to conditions of the purchase and other clauses to be inserted in the agreement to protect your interests.

Geoff Shearer is a partner in one of our commercial team at Govett Quilliam and has experience in advising buyers and sellers of existing businesses and in assisting with the setting up of new businesses. You should contact Geoff as early as possible for advice on business purchases or sales.



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