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Buying a business

There are many financial planning issues to consider when buying a business.

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For many immigrants the option of buying a business in Canada can be appealing, but there are many financial planning issues that need to be considered before making the decision.

Businesses are either operated as companies (the assets are owned by the company and the individual owns shares in the company) or as sole proprietorships or partnerships (where the individual owns the assets).

When purchasing a business operated as a company, the purchaser can either buy the shares of the company or the assets. Sellers will often prefer to sell the shares of the company rather than the assets, as this is normally more tax effective for them. So if you are purchasing the shares, it is usually possible to negotiate a reduced price with the seller. However, buying the shares has additional risk as any liability (such as lawsuits) stays with the company.

If you do not have the cash up front or cannot receive financing for the purchase price, determine whether the seller or vendor will agree to finance a portion of the purchase price by taking back a loan and having you repay him out of future profits.

It may be possible to have the amount of repayment based on future profitability of the business, i.e., if profitability reduces, then the purchase price reduces, which will place an incentive on the seller to ensure that there is a successful transition.

Ensure the value of the business is reasonable and that any financial statements have been reviewed by an accountant; if it is a large business you may consider having a formal valuation performed by a business valuator. The value of the business should not be dependent on the current owner being involved in the business.

Determine who the key employees are and whether they will remain with the business once the existing owner disposes of the business. Understand what you are paying for and ensure any value above tangible assets (such as equipment, building and furnishings), commonly referred to as goodwill, is quantified.

If the business is in a leased location, review the lease terms. Understand how the loss of the location would affect the business and what the amount of your liabilities would be if you chose to discontinue the lease.

Have a lawyer review the purchase agreement to ensure it contains all the legal safeguards so that your interests are protected, for example, a restraint of trade agreement that prevents the seller of the business from competing against you should normally be included.

If you are going into business with a "partner" or "partners," ensure that there is a partnership agreement in place to define the business relationship. Expensive disputes can often arise if there is no upfront agreement.

If you prefer a business that has a proven business model with support, then a franchise model may make sense, but the downside is less flexibility and ongoing franchise fees that can eat into profits.

So before you buy that business, do your homework and ensure you understand what you are getting into; this will reduce the chance of headaches and financial loss in the future.

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