

**5-STEP CHECKLIST:  
QUESTIONS TO ASK WHEN  
BUYING A BUSINESS**





- What is the purchase price, and what assets are included for that price?

*Note:* There are a variety of ways to [value a business](#).

- Is the purchase price supported by the profits of the business?

*Note:* A good rule of thumb for most businesses is that the valuation should be no higher than 3 times annual net profits.

- Is seller financing available? If so, how much?

### **Questions to Ask Yourself:**

- Why buy this business and not just start one from scratch?

- Do I have interest and experience in what the business does?

- Is there a positive outlook for this type of business? What's the competition like?

- Do I plan to buy and run the business on my own or with a partner(s)?

- ❑ Can I afford to buy the business, given personal and family constraints?  
*Note:* Various financing options are available to fund a business acquisition, including [seller financing](#) and [bank and SBA loans](#).

- ❑ What parts of the business do you want to buy? What is the owner actually selling? (e.g. contracts, customer lists, land/real estate, equipment, inventory, debts/liabilities, etc.).

## STEP 2. FIND OUT HOW THE BUSINESS IS VALUED.

If, after initial discussions with the seller, you are interested in buying the business, you should dig deeper into how the business is valued.

### Questions to Ask the Seller

- How was the business' purchase price determined?
  - Is the valuation based on internal calculations or an independent appraisal?
  
- Is there room to negotiate the purchase price?
  
- What is the goodwill value of the business?

*Note:* Goodwill value is the value associated with certain non-tangible business assets, such as reputation and any patents or trademarks the business holds.
  
- How is the sale structured--is this an asset sale, stock sale, or a sale of membership or partnership interests?

*Note:* The way a sale is structured has tax and legal implications.

## STEP 3. THINK ABOUT FINANCING OPTIONS.

Once you and the seller decide on a fair price for the business, it's time to think about how you will come up with the money.

### Questions to Ask the Seller

- Is [seller financing](#) available? How much?
  - If you're also planning to get a [bank loan or SBA loan to buy the business](#), is the seller willing to take a standby position? For how long?  
*Note: Most lenders require the seller to take a standby position for 2 years, which means the seller won't receive any payments for 2 years.*
  - Is the seller willing to subordinate to a bank or SBA loan?  
*Note: Most lenders require the seller to subordinate to a bank or SBA loan, which means that the bank gets first rights to any proceeds of collateral if the buyer is unable to pay back the loan.*
  - What are the terms and conditions of seller financing? Interest rate? Length of loan? What happens if you're unable to pay back the loan?
- Will the seller wait for you to find external financing if no seller financing is offered?

### Questions to Ask Yourself

- Do I really need financing, or can I afford an all-cash deal?

- Do I have personal assets, such as [retirement funds](#) or [home equity](#), that I can use to finance the purchase?
  
- Do I have enough money for a down payment?  
*Note: Bank or SBA loans require a down payment that's 10-30 % of the total asking price.*
  
- Have I written out a business plan with financial projections to provide to lenders?
  
- Do I have a resume to provide to lenders which highlights relevant industry experience and/or business management experience?
  
- Do I have a good credit score (650+) that will allow me to qualify for bank financing?
  
- Is there collateral, such as equity in a home, that I can bring to the table?

## STEP 4. GATHER ALL NECESSARY DOCUMENTATION.

Serious buyers can work with the seller and the seller's broker to see financial and other documents for the business. We recommend hiring a qualified attorney to review the legal and organizational documents of the business you are planning to purchase. An accountant can help you evaluate the financial condition of the business.

- What documents should be examined before buying the business?
  - Organizational documents for the business (e.g. incorporation docs, certificates of good standing, business licenses, etc.)
  - Previous 3 years of business tax returns
  - Current year income statements, balance sheets, and cash flow statements
  - Information on existing business liabilities
  - Customer lists with proprietary information blocked out as necessary
  - Existing contracts - can these be assigned to the new owner?
  - Lease or other property documents
  - Rent rolls if the property has tenants
  - Uniform franchise disclosure document (if the business is a franchise)
  - Employee and manager information
  - Marketing and advertising materials

- Do financial documents show volatility in the business' financial condition?
  - If so, what explanation(s) does the seller provide?
  
- Will the owner sign a non-compete agreement to prevent interference with the business?
  
- What documents are needed at closing?
  - [Purchase Agreement](#) (the final terms of the sale of the business)
  
  - [Promissory Notes](#) (the loan document for seller financing and other loans)
  
  - [Security Agreement](#) (describes what and how the lender can access collateral).
  
  - The new lease for the commercial property (if applicable)
  
  - Transfer documents for any vehicles that may be part of the purchase
  
  - [Bill of sale](#) (transfers ownership of tangible business assets)
  
  - [Non-compete agreement from the seller](#) (if applicable)
  
  - [Bulk sale documents](#) (govern the sale of inventory)
  
  - [IRS Form 8594](#) (shows how assets are allocated during the purchase)

- ❑ [Consultation/employment agreement](#) (these are necessary if the owner will be staying on as a consultant or employee to aid with the transition of the business)

## STEP 5. LEARN AS MUCH AS POSSIBLE ABOUT THE DAY-TO-DAY MANAGEMENT OF THE BUSINESS.

Before signing the purchase agreement, find out as much detail as you can about how the business makes money and how it is run on a daily basis. This will help you avoid any unpleasant surprises after the purchase is complete.

### Questions to Ask the Seller

- Does the business currently lease space?
  - If so, will the lease end soon and need to be renegotiated?
    - How will this impact cash flow?
  
- What licenses or permits will I need to operate the business?
  
  
  
  
  
  
  
  
  
  
- Are business ratings, such as [Better Business Bureau](#) ratings, transferable with the purchase of the business?
  
  
  
  
  
  
  
  
  
  
- How does the business generate revenue?
  - One-time payments for goods and services? Subscription model? Long-term or short-term contracts?
    - If there are existing contracts, can they be assigned to the new owner?
  
  
  
  
  
  
  
  
  
  
- Does the business have a concentrated client base? *Note:* Proceed cautiously if the business is reliant on just one or two customers or on one specific industry.
  
  
  
  
  
  
  
  
  
  
- How quickly does the business get paid for goods and services?

- Will the seller stay for some period of time after the sale to ensure a smooth transition?

### **Questions to Ask Yourself**

- How will I be paid once I start running the business?
  - Will I take a salary from the business right away?
  
  - How will I afford my personal living expenses?
  
  - Does my household have additional income independent from the business that will help support personal living expenses if the business has a slow season or is slow to generate revenues?
  
- Is the business highly dependent on the personality of the owner, or is it fairly independent from the owner?
  
- Is there a good management team in place?
  
- Have I talked to employees, suppliers, and other third parties to get their perspective on the business and verify information that I've learned from the seller?

## **BOTTOM LINE**

One of the keys to buying a good business is to ask the right questions and uncover the right information about the business. This checklist will help you get at the information you need to feel comfortable about the deal.