
Overview

Buying an existing business may be a viable option for anyone who wants to run a business but doesn't have their own business idea. It is advisable to carry out a considerable amount of research into the business you are looking to buy; to make sure you can make it a success. This includes learning about the matters that make buying an existing business different from starting a business from scratch.

You might do this if you are:

1. looking for an opportunity to become a business owner and don't want to set up a business yourself

This unit involves evaluating an existing business opportunity:

1. deciding what you want to gain from the business
2. researching and understanding the nature of the business you are looking to purchase
3. assessing the value of the business
4. assessing all the costs involved in the purchase of an existing business
5. understanding your legal responsibilities

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Evaluate an existing business opportunity

Performance criteria

You must be able to:

- P1 consider the type of business you want to purchase and the business sector you want to join
- P2 consider what skills, assets and investment you can bring to a business
- P3 decide what you want to get out of the business
- P4 identify a number of suitable business options and assess the strengths and weaknesses of each of the potential options
- P5 investigate why the current business owner is selling the business
- P6 evaluate whether you are the right person to take on the business
- P7 assess the financial health, and potential for growth of the business
- P8 consider the value of the intangible assets of the business
- P9 seek advice from appropriate professionals to help you negotiate arrangements that are based on an appropriate valuation of the business
- P10 make detailed records of all contract negotiations
- P11 understand your commitments to any existing employees and their value to the future of the business
- P12 take into account your responsibilities to begin due diligence, and consider taking assistance to help you identify risk areas
- P13 make sure you understand all the conditions of sale, including existing obligations, and that you are in a position to meet them
- P14 seek legal and other professional advice before signing contracts, leases and other legally binding documents
- P15 do not allow yourself to be hurried into making a purchase before you have all the information you need, and decide it is what you want
- P16 make sure you consult any employees and employee representatives about changes you plan to make

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Knowledge and understanding

You need to know and understand:

Business focus

- K1 what type of business you want to buy
- K2 where to find information about the business sector you want to join (for example, market trends, competition, and issues and opportunities the sector is facing)
- K3 how to value intangible assets of the business such as reputation, relationship with suppliers and goodwill of customers (for example reputation, relationship with suppliers and goodwill of customers)
- K4 how to assess the value of existing employees to the business

Yourself

- K5 what assets you can bring to the business that will be of value including an existing customer base (for example investment, existing customer base and relevant skills)
- K6 your motives for wanting to own a business (for example make more money, be your own boss, or spend more time doing the things you enjoy)
- K7 your own strengths and weaknesses as a potential business owner and how these may affect the type of business you seek to purchase

Buying a business

- K8 how to assess the strengths and weaknesses of potential business options including any responsibilities or liabilities you will inherit from the previous owner (for example location, cost, projected income, investment required, existing staff, and responsibilities or liabilities you will inherit from the previous owner)
- K9 why the current owner is selling and how that may influence your decision to buy
- K10 the additional costs that will be incurred if you decide to buy the business (for example, legal costs, repairs to premises or new equipment required)
- K11 how and when to consult with existing employees about your future plans
- K12 what Transfer of Undertakings and Protection of Employment (TUPE) Regulations are and how they might affect your future plans
- K13 What due diligence entails and where to get assistance to manage the process
- K14 the conditions of sale and all your contractual responsibilities (for example verification of financial statements and transfer of leases, existing contracts and licences and for the financial liabilities of the business)

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Information and advice

- K15 where to get advice on assessing the value of a business and its potential for growth (for example, business advisers, property advisers, accountants, valuation experts and solicitors)
- K16 what assistance you will need to negotiate contracts

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Additional Information

Links to other NOS

1. BD1 Check the likely success of a business idea
2. BD3 Plan where your business is going
3. YS1 Explore your own business motives
4. MN1 Decide on the financial needs of your business
5. MN6 Invest capital in your business

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Developed by	CFA Business Skills @ Work
Version number	1
Date approved	May 2008
Indicative review date	May 2010
Validity	Current
Status	Original
Originating organisation	Sfedi
Original URN	BD9
Relevant occupations	Business, Administration and Law; Managers and Senior Officials
Suite	Business Enterprise
Key words	success, business, idea, social, enterprise, customers, products, service, support, creative, idea, skills, needs, suppliers, cash, flow, legislation, marketing, market, trends, competitors, health and safety, VAT, equipment, costs, profit, staff, product