

# BUSINESS BUYER'S GUIDE

*“Be the captain of your own Ship”*



COMPANY SALES  
AND ACQUISITIONS

a division of Clyth MacLeod 2018 Limited

Licensed Agent REAA 2008



# IS THIS THE RIGHT TIME FOR YOU TO BUY A BUSINESS?

We have been selling businesses for over 53 years. Opportunity knocks, for those that seek.

We have taken the same advice we give to our successful buyers and created this easy-to-read, succinct *Business Buyer's Guide* so that you can start taking steps towards independence and wealth generation **TODAY**.

Don't put off educating yourself, every single day we have new enquirers – good opportunities go quickly.

It takes time to make the right decisions, but you can start as soon as you decide that you want to do something different.

**There is no time like the present to start on a journey that will bring you a new life!**



# WHY BUY A NEW BUSINESS?

## CREATE YOUR OWN FUTURE

Buying a business is vital for securing retirement funds and living comfortably once you have stopped working.

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*Many people who reach retirement age are dependent on family or social security.*

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## JOB SATISFACTION

Job satisfaction is the most common reason for buying a business. When the repetition of work, lack of reward and changing face of business becomes too much, many leave the top-down corporate world to buy and manage a business of their own.

Increasing frustration, stress, disconnection from family and an **overall dissatisfaction with the corporate world** drives people to do something more personally challenging and rewarding.

Owning a business provides a road to greater job satisfaction, security - and control over your future.

## WEALTH CREATION

Wealth creation is another reason why people buy a business. What if your corporate position DOES provide for your future - and benefits outweigh the sacrifices - but you still want to do more for yourself?

As an alternative, many senior business executives purchase a business to operate under management while they continue their corporate career as long as they can. This forms part of their personal investment portfolio and retirement programme, and creates the safe option to move fully into the business at a later date without having to jump ship too soon or without jeopardizing any long-term loyalty or reward programs at their firm.

As most of those working for companies know, the sense of security they feel from a regular salary is false. These days, jobs can vanish overnight.



# WHERE TO START

There has never been a better time to buy a business in our opinion, however it's worth asking yourself a few questions before taking the leap into business ownership...

## WHY AM I CONTEMPLATING BUYING A BUSINESS?

- Am I tired of working for someone else?
- Do I want to be independent, control my destiny?
- Will this give me more security and satisfaction?
- Do I want to be wealthy?
- Do I want to make better use of my abilities?

## WHAT TYPE OF BUSINESS SHOULD I BUY?

- What sort of business do my skills, education and business experience qualify me to run?
- Am I a retailer, manufacturer, importer or service provider?
- Will my family be involved?
- Is there a particular type of business I've always dreamed of owning?

If you love your product or service, going to work becomes a joy.

## HOW MUCH MONEY DO I WANT OR NEED TO EARN?

- What are my current commitments?
- What level is needed to service borrowings?

## HOW MUCH CAN I AFFORD TO INVEST IN THE BUSINESS?

This will be determined by the amount of cash you have available now, and what other assets you can provide as security.

## WHAT LEVEL OF DEBT AM I COMFORTABLE WITH?

A good idea is to talk with your Bank Manager early in the process and determine the level of support you can expect. Some are far more supportive than you may think, especially given the current market situation.

## WHAT IS MY EXIT STRATEGY?

You should be mindful of your exit strategy. This is made easier by buying in a popular industry sector. Don't underestimate the importance of this, as you never know when your circumstances will change and you need to sell.

## WHO SHOULD I DEAL WITH?

- Which Brokers can I trust?
- Which Brokers have the experience?
- Which Broker will treat me fairly?





# WHAT TO LOOK FOR WHEN BUYING A BUSINESS

## **BUSINESS TYPE**

The choice of sector - whether retail, wholesale, import, export, manufacturing or service - and then product/ market within this sector.

## **FUTURE PROSPECTS**

- In terms of growth, trends and demand, competition and product life.
- Requirements for earnings reinvestment
- Where funds are required for future investment - in areas like plant equipment or IP

## **PEOPLE**

Attitude, quality and length of service of staff and management. The degree of systematization in the business. The knowledge must not be all in the Vendor's head.

## **EARNINGS**

Sustainability of future earnings and quality of past earnings must be evidenced by reliable and available financial information. Vulnerability to a single customer or supplier is a problem.

## **OWNER'S SKILLS AND QUALIFICATIONS**

Are the vendors shoes "too big to fill" or specialist qualifications necessary. Will you be able to learn these skills or have to contract out.

## **BRAND**

Market perception, brand assets, positioning,

## **MARKETING**

Assets, tools and information - statistics and data from website, social media and digital advertising. Market research, insights and audience development strategies. What can they tell you about their customers and niche?

## **BARRIERS TO ENTRY**

Factors that limit or prevent competitive activity.

## **PRICE AND TERMS**

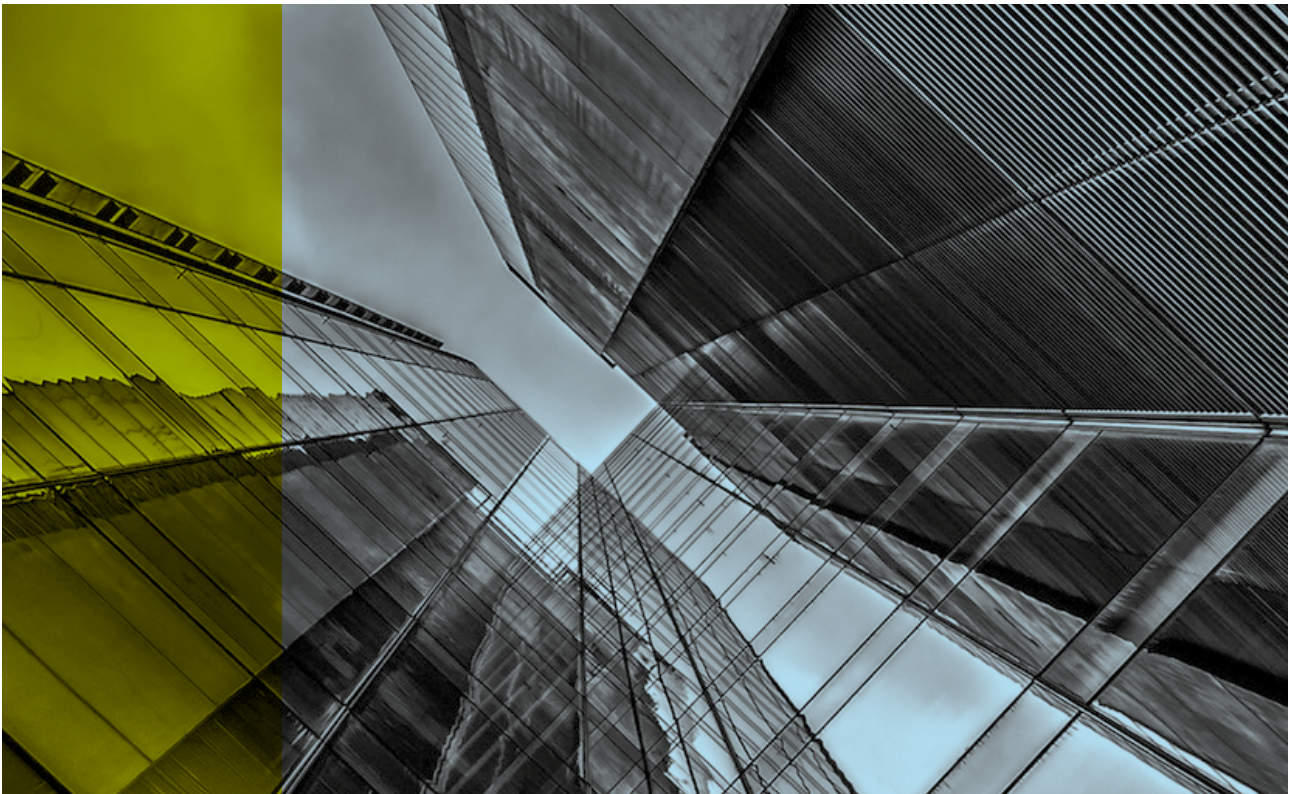
Ensure that the price is supportable in terms of key criteria.

## **ASSET BACKING**

What is the Asset Backing for this business? Are they assets of a quality that I can borrow against?

## **RATE OF CHANGE**

Need to introduce new technology to stay competitive.



# PITFALLS TO WATCH FOR WHEN BUYING A BUSINESS

While the benefits of owning your own business are therefore pretty self-explanatory, the hazards you will encounter are not so clear cut – or easy to anticipate – when you are coming from a corporate environment.

The hard facts are, being at the top of the food chain for many years also means that there are many functions and areas that are taken care of before the decisions land on your desk. To put it bluntly - running a multimillion-dollar company doesn't make you an expert businessman. It makes you a good bureaucrat.

Any organisation that has a middle-management level with multiple specialised departments filters out much of the real business information and decisions through the processes, systems and culture of the organisation.

When it comes to taking control of the whole business and understanding it from the ground up; you don't know what you don't know.

THAT is why it is so important to bring a trustworthy business broker on board. OUR business is YOUR business, before you have even bought it. Because we need to know exactly what we are selling, we make sure that we ask the questions from the business owner to share with you that you may or may not have the understanding, time or resources to do.

Ask yourself a few basic questions, and think about how you would literally go about finding out the following information:

- What is motivating the vendor to sell?
- Are they trustworthy to deal with?
- Is the business worth the price?
- Are there finance or management options?

Be realistic - if you don't know how you would go about doing this straight off the bat, you will have to spend time just **getting ready** to even start looking at buying. That time will, more than likely, drift into the 'too hard' basket, making the likelihood of owning your own business less and less a reality.

# SOME OF THE ISSUES YOU SHOULD CONSIDER WHEN BUYING A BUSINESS INCLUDE THE FOLLOWING:

## INFORMATION RELIABILITY

Your broker aims to provide you with a comprehensive **Information Memorandum**, including up-to-date financial documents. The more detailed the **IM**, the better able you are to assess the value of the business.

## GENUINE REASONS FOR SALE

Are the reasons you have been given genuine or:

- Is there an imminent loss of a major customer?
- Is the market about to change?
- Is the product near the end of its life cycle?
- Does the equipment need replacing?
- Is the competition launching a new product?
- Are new competitors about to enter the market?
- Are new threats emerging from existing competitors?

## VENDOR INTEGRITY

If possible, always look to obtain evidence that supports statements made to you. Statements made to you by the Vendor should be validated during your due diligence on the business with your professional advisors.

## SECTOR POPULARITY

Is the business vulnerable to:

- Shifts in consumer trends and tastes
- Changes in the economy
- Government regulations changing

## CALCULATION OF THE VALUE OF A BUSINESS

This is a very complex area and most buyers will seek independent advice from professional Advisors such as accountants and consultants. While the principles of valuation remain largely unchanged over time, the **business performance** may vary and this will influence an adviser's view of the value at the time of decision. Remember to ask questions of the Vendor they know their business well.

## TRACK RECORD OF THE BROKER

Perhaps the quickest way to assess whether a broker can help you buy a business is to find out about the ones they've [already sold](#).

## WATCH OUT FOR LINES LIKE THIS:

*"Don't worry about the figures for last year, next year's projected profit is \$1million"*

*"Sorry, the accounts aren't available, but here are the owners forecasts"*

*"Vendor has a dying mother and must return to the UK. Yours for only \$500,000"*







# NEGOTIATIONS

Buying a business is nothing like buying a house, where price is the only significant variable. **Price is only one factor in the purchase of a business.**

Even the components of price are themselves negotiable, and trade-offs can be made on values for:

- Goodwill
- Plant and Equipment
- Stock
- Furniture and Fittings
- Debtors
- Marketing assets

Purchasing a business is unlike the purchase of most other assets, where the price is the only factor and the objective of the negotiation is to drive it down as low as you can.

This may not pay off in business acquisitions. Most vendors have an emotional tie to the business they have created, and a genuine desire to see it grow. This should be capitalised on by the new owner.

Sellers may need to look out for the welfare of the staff and legacy they leave behind.

Price is only one factor in the sale, and a concession here by the buyer may be beneficial and help to secure more favourable terms on items such as an ongoing management contract or their availability for future help and consultation.

There are so many factors included in valuing a business that it is never possible to say that a business is 'worth' \$X.

## **OTHER NEGOTIABLE TERMS MAY INCLUDE:**

- The lease of premises
- The percentage of equity to be purchased
- Period of vendor assistance
- Vendor finance
- Earn-outs, where the goodwill may be payable on the achievement of future profit levels





# THE ROLE OF A BUSINESS BROKER

Finding a business broker who is qualified and experienced is the first step toward a new chapter in your business life – whether buying or selling, managing expectations is a core element of successfully buying or selling a business. The following are the ingredients of a good business broker:

## **INTEGRITY**

They need to earn your trust. After all, they are dealing with your livelihood.

## **EXPERIENCE**

It takes a long time to learn the ins and outs of the business sales game. It is complex; each transaction can be a lengthy process and involving skilled negotiation, accountancy, and business nous.

## **ASSESSMENT**

With knowledge gained from buying similar businesses in Auckland.

## **LATERAL THINKING**

A capacity for lateral thinking is essential to get around potential deal-killers which arise. Having been down the path many times enables a broker to see problems coming before they get bigger.

## **EMPATHY**

The ability to hold negotiations together in complex transactions.

## **NEGOTIATION EXPERTISE**

Probably the most important role. We know the virtually unlimited variations that are available in structuring a sale. This only comes with experience.

## **MARKET VALUES**

Every business is unique and appraising them is a complex skill requiring market knowledge.



# ABOUT US

**We are one of the oldest business brokerages in Auckland specializing in the larger private businesses, between \$500,000 and \$20 million in value.**

CSA was established in 1989 by Matt Gumbley, Matt a chartered accountant with a background in accounting, merchant banks and senior corporate rates, then became an M&A specialist with a merchant bank before becoming a very well respected business broker. Matt has recently retired. CSA is one of the longest established brokerages in New Zealand. We have thrived through the booms and the busts of the last three decades, and continue to broker numerous deals. In 2019, CSA amalgamated with Clyth MacLeod, another highly reputable and long-established business brokerage company.

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**We devote our time to handling each client personally, from preparation of the Information Memorandum and negotiating, right through to the Sale and Purchase Agreement.**

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## PROFESSIONALISM

Professionalism comes from experience; from knowing how to do a job well and what is expected.

Our team also knows what is expected of them throughout the business sales process. They are easy to deal with, which is why many of New Zealand's top accountants choose CSA when their clients want to sell. The fact that so many of their clients are repeat clients is also a great testament to this.

## HONESTY

CSA has operated perhaps for one of the longest times of any brokerage in New Zealand, and in all that time they have been free from litigation. We offer honest feedback, honest comments and, when needed, honest criticism.

Business owners deserve a fair calculation the first time. CSA delivers honest appraisals.

## TRUSTWORTHINESS

Often when you are selling a business, you don't want your staff to know until things are further down the track. We are incredibly careful about confidentiality. The marketing of a business is done anonymously and any interested buyers go through a strict confidentiality agreement first.

# OUR TEAM

We are a small but highly-effective team. CSA was established in 1989 and in 2019 was taken over by Clyth MacLeod 2018 Limited. It is now a division of Clyth MacLeod Business Sales. We've all got our individual skills, and we have experience owning and running our own businesses (more often, two or three).

What we offer is more than our individual experience – it's the way we work as a team. Many other brokerages

have their sales staff compete with each for every listing; instead we match up each business with the broker who has the most appropriate skill sets, then work together.

It's called partnership, and the key to getting the right results for our buyers and sellers. Our results speak for themselves, but so do our happy clients, many of whom have returned many times over the years to buy and sell with us. We pride ourselves on old-fashioned face to face business while utilising every modern tool and approach available.

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*We don't do hard sales tactics – we just take the time and effort to put the right people together for great outcomes.*

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**ALAN BILLINGTON**  
LICENSED SALESPERSON REAA  
2008

Alan's career began in the engineering world, and so because of that, and his wide business experience gained internationally as well as at home, his business broking focus lies in the manufacturing world. He's also spent several years running his own businesses both here and in England.

They include a recruitment agency and an import/distribution company. Alan joined Matt at CSA in 2003 and nearly two decades later, has a huge number of successful business sales behind him.

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alan@companysales.co.nz



**CRAIG MCDONALD**  
LICENSED SALESPERSON REAA  
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Craig has over 30 years of business ownership experience which enables him to readily understand the important issues in your business. Since joining CSA in 2013 Craig has successfully worked with a wide range of sectors incl manufacturing, training, hire equipment, temporary staff, retail, food, logistics, construction services, civil construction, import distribution and services. Craig believes that being proactive in all stages of a well managed process is the key to ensuring the best possible result.

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**AMANDA REALE**  
LICENSED SALESPERSON REAA  
2008

With 11 years of active experience in business brokerage, Amanda enjoys a Senior Intermediary role with Clyth MacLeod following her return to New Zealand from Canada where she had a long history of business ownership. Honing her skills over the years, her transactional experience is weighted around SMEs in Manufacturing & Distribution, Print & Sign Services, Tech & Online businesses and Boutique Food & Beverage (wine & spirits). Assisting and facilitating the critical transition of a seller or a buyer to their next venture.

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