

## Don't Lose Your Life Savings When Buying A Business

Many of the things that need to be considered when deciding to buy a business apply to any purchasing decision. It is all about striking a sensible balance between risk and reward. Consider a situation where you go into a store and buy something for £5, you get it home and find that it does not quite match your expectations. You could take it back and get a refund or an exchange or you might just put it down to experience and write-off the £5. After all, most people squander at least £5 on every tank of fuel by the way they drive and waste similar amounts in other areas of their lives without even knowing it.

So, you are now considering buying a business. You may well be raising funds from the bank, probably secured on your assets such as your home or your pension plan, you may borrow money from friends and relatives and you will put in as much money as you can from your own resources. You are now definitely into a high risk activity. If it does not work you cannot just write it off, move on and put it down to experience, it could change your life forever.

I have often heard it said that many successful business people have had one or more failures in their past before becoming successful and as Friedrich Nietzsche said *“That which does not kill us makes us stronger.”* While I am sure this is true and it is a great line to quote while licking your wounds over some failure or disaster, would it not be better to avoid the mistakes and move straight to your success story?

When considering buying a business you really need to know why you are doing it and to help you need to think about a few key things:

- Why buy a business – what will it do for you? For example, if you have just lost your job, you might consider buying a business to replace the lost source of income. If this is the reason it is fine, as long as you are frank with yourself that this is your main motive. So step one, be very clear why you are doing this.
- Prevent macho emotions influencing your thinking. It may be a great feeling to boast at the golf club that you have made an acquisition but it won't feel so great a few months later to leave the club because you can no longer afford the fees. If you are buying a business, make your first hard headed business decision the one about making the acquisition.

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- Keep it very clear in your mind that you are making an investment. Two of the most important things to consider when making an investment are; “*Can I get the investment back with some upside?*” and “*Could I earn more by doing something else with the money?*”
- Assess the risks and the rewards. If you are going to risk £250,000 then you need to do some sums to see what you will get back. If you are giving up a job paying £50,000 a year and you are spending £250,000, your total investment over three years will be £400,000. If the new business venture can only give you back £400,000 over three years why bother? One reason to still make the investment would be a business plan that shows year four giving you say £200,000 and year five and beyond giving you at least £300,000 per year. However, it is notoriously difficult to forecast a business even two or three years out let alone four or five years. So, does the business plan show you getting back the whole investment (including loss of salary from your current job) plus enough upside to warrant the risk of making the acquisition?
- It is likely that you will need to inject additional funds into the business, over and above the purchase price, to deal with unseen issues in the business. Nothing is ever completely trouble free so you need a contingency fund.

This all comes down to having a proper strategy for the business, undertaking the risk assessment and considering the reward potential. Of these the reward potential is the hardest to get right and it often suffers from over optimism - you want it to work out so in your mind it will work out. This is a good time to get some cold independent advice from your bank manager or accountant or perhaps a relative or friend who is already in business.

The last thing to do before making the big leap into the unknown is the cold hard reality check.

**Phil Shipperlee**  
**CEO**

Performative plc, St Mary's Court, The Broadway, Amersham, Buckinghamshire, HP7 0UT  
Tel: 01494 582 084 Fax: 01494 582 020  
Web: [www.performative.net](http://www.performative.net) Email: [enquiries@performative.net](mailto:enquiries@performative.net)  
Registered Address: 30 City Road, London, EC1Y 2AB  
Registered in England. Registered Number: 4204369