



SCORE column: Approach business purchase cautiously

By Tina Dettman-Bielefeldt • February 10, 2011

"Hey, I'm thinking about selling my business and, since you're my friend, wanted to give you the first chance to buy." Those are the kind of transactions that often provide an exceptional opportunity. But the winner is usually the seller, not the buyer.

Bob Fraik, manager of Green Bay SCORE's Marinette branch, has seen quite a few of these deals. Clients have visited SCORE to talk about buying an assortment of businesses. There have been opportunities to purchase a resort, trailer park, retail car-parts business and others.

"In most of the cases, the businesses were not openly for sale on the market, but the owners were in process of trying to sell on their own," Fraik said.

For SCORE counselors, that presents a unique challenge. Clients usually didn't have financial information or much detail about the business, but **trusted** the seller. Often, the seller had done such a good job talking up the business that the client was convinced it was great and was looking for confirmation. He didn't want the tough questions answered.

Fraik said that one client had been subject to a relentless sales pitch from the seller and wanted counselors to say that the business was a good deal. Since SCORE counselors are trained to ask questions and encourage clients to evaluate every aspect of their plan, Fraik followed the process. He even asked if the counselors could have a conference call with the seller.

"We wanted to get basic evaluation questions answered since we couldn't get the buyer to do that. He had so many ideas for storefront design, marketing, and advertising that he wasn't doing a good financial evaluation. He kept coming in and telling us what he was going to do instead of looking for advice. He was very pumped up about this business he was going to acquire," Fraik said.

The client went ahead and put all of his savings into the business, and lasted about one month. Since he had not done his research, the failure was predictable.

"We provide clients with printed materials and other tools, and educate them on the importance of writing a [business plan](#)," Fraik said. "The information will enable them to do a good evaluation and make an informed decision on whether or not the business makes sense."

In general, Fraik advises looking at [business opportunities](#) in terms of history. The potential buyer should look at tax returns, profit and loss statements, balance sheets and other financial information. They should be able to have an open dialog with the seller on business trends, inventory, marketing, customer base, and personal property that will be included in the sale. Beyond that, once a deal is made, everything should be in writing and clearly defined.

"Do your due diligence and analyze everything," Fraik said. "Often, the more thoroughly that a business is reviewed, the less attractive it becomes."

Tina Dettman-Bielefeldt is co-owner of DB Commercial Real Estate in Green Bay and assistant district director for SCORE, Wisconsin.