THE BUYING PROCESS

1. **Identify the business and gather information**

Identify the business you are interested in according to the following criteria:

a. Skillset and interest
b. Price
c. Financial information

Complete a non-disclosure document in order to obtain additional information of the business. After an NDA is signed, you, the buyer will be produced with a business profile which provides the necessary information regarding the business.

2. **Complete a buyer's checklist**

The most effective way to evaluate all the aspects of the business would be to complete a buyer's checklist. This list would provide a quick assessment whether the business is viable or not. An example of such a list is available on our website to assist all potential buyers. This list can be completed and discussed with your advisors - lawyer and auditor / accountant.

3. **Value the business**.

Once you have identified a suitable business and completed a buyer's checklist, it must be determined whether the sales price is reasonable. There are basically two methods available:

a. Do it yourself
b. Acquire the services of an expert

If you have never valued a business before, it is advisable to hire the services of a professional. It may be expensive, but it could be worth your while. If you are working through a broker, you are in luck. Ask him/her to explain to you how they determined at the price.

The price of a business is usually determined by two factors being assets and stock:

a. **Assets**

   (i) **Intangible assets** – are assets that don't have a physical nature such as goodwill, brand recognition, patents, customer lists, trade secrets, contracts, software etc.

   (ii) **Tangible assets** – can best be described as physical items that add value to your business such as land, buildings, vehicles, machinery, furniture, equipment, cash, shares etc.

b. **Stock** – Stock can best be described as the goods that a business holds for the sole purpose to generate profit.

Methods to determine price. There are a couple of methods to determine the price when the abovementioned figures are available. These methods are usually in conjunction with each other. These methods are the following but not limited to:

a. **ROI method**. – ROI refers to return on investment. This method is based on the nett annual earnings divided by the ROI percentage, which is calculated according to the risk factor. A medium risk ROI is between 20-25%.
b. **The Asset base method** – This is usually the value of the stock together with both tangible-and intangible assets.
c. **Market based** – This method is not scientifically based but rather on the price that the market is willing to pay for the business. This price could be determined by industry ratios.

4. Determine a purchase price

Once you have a good idea what the business is worth, after the valuation process, it is time to determine a reasonable purchase price. Once this is done you may have a couple of questions which you would like to be answered by the seller. A meeting between you and the seller could take place at this stage. It is advisable that this meeting takes place in the presence of the business practitioner.

5. Letter of intent and deposit

Once you have decided on a purchase price, a letter of intent (LOI) is drafted. This letter is not a binding document but a mere intention from your side to purchase the business. If there are still any unanswered questions, these questions will be presented to the seller within the LOI. The LOI is a basic outline of the offer which is about to be made to the seller. During this stage you will have a good idea of the suspensive conditions required to be met for the sale to be concluded. The seller usually gives you an exclusive option to purchase the business with the condition that a deposit is paid into the trust account of the institution, conducting the sale.

6. Producing an offer to purchase (OTP) and concluding the sale

Once the price has been determined and the letter of intent drafted and presented to the seller an OTP is drafted. The OTP stipulates the terms conditions of the sale. Once this document is signed by both parties it becomes a legal binding document. Unless the suspensive conditions are not met this is the final stage of the process.

7. Hand Over

The previous owner hands over the business to the you on the effective date. This is your first day as the new owner. Before this date a final stock take is conducted, and you settle the stock amount with the previous owner. The previous owner usually stays on for an agreed period to facilitate a smooth transition. The process is hereby completed.