

Lessons Learned: Buying your First Business

By Bethany A. Grazio on June 20, 2023



Buying an existing business is exciting, but also stressful, especially when it is your first business. Each business is unique, and specific considerations for purchasing a specific business may vary depending on the industry, size, and location of the business. In addition, the acquisition process itself can be daunting. Below are some lessons learned by first time business buyers in recent transactions concerning the acquisition process.

1. Expect the process to take longer than anticipated. Once the target business has been identified, the process to close on the sale will take longer and likely be more expensive than anticipated. It can take several months to perform all the diligence and negotiate all of the legal documents. There will likely be obstacles you had not considered or that are out of your control (for example, a third party consent to the assignment of a contract or arranging financing for the purchase). If you are financing the purchase with a bank loan, the process can be long as the bank does its diligence as well. As discussed below, you don't want to rush the process simply in the interest of finishing the process.
2. Seek trusted advisors for guidance. Engage professionals early on in the process (before any documents are signed, including a letter of intent). These advisors should include business brokers, accountants, qualified business attorneys, bankers, and insurance agents. You should carefully select these professionals with the guidance of mentors, industry experts and referrals from other professionals. Once you have selected an advisor, trust their guidance and listen to their advice. Utilize their expertise throughout the acquisition process because while it may be your first purchase, if you selected the right professionals, it will not be theirs.
3. Don't be afraid to say no. You are eager to purchase the target business, but you won't agree with everything the seller has requested. You will need to push back during negotiations at times and come up with creative solutions. There are times, however, where you will need to stand firm. The professionals you have engaged will be able to assist you in negotiations, which will be ongoing during this process.
4. Conduct thorough due diligence and carefully review all documents. You will want to conduct a comprehensive due diligence process to validate the information provided by the seller and to uncover any hidden liabilities or risks. You should engage professionals, such as lawyers and accountants, to assist you in the due diligence process. This process can take longer than expected, but rushing through the process or overlooking key aspects of the business can have severe consequences after the closing. The same is true for the legal documents. While these documents can be long and you may not understand all of the language, it is important for you to read them and ask questions about what you don't understand.
5. Avoid entering into partnerships without written agreements. If you are acquiring the business with one or more partners, you should have one or more agreements among the partners and/or the company with respect to rights and obligations of the partners

after the purchase. Some things to consider include what happens upon the death or disability of one of the partners, who the officers and directors or managers of the company will be going forward, whether any of the partners will have an employment agreement, and the obligations of each partner with respect to any seller note or personal guarantees. These agreements are often overlooked while focusing on the purchase itself and if not completed at the time of the purchase can be forgotten or “saved for later.”

Buying a business presents exciting opportunities, but it is not without its risks. By learning from these takeaways as you start the process and diligently navigating the acquisition process, you can increase your chances of a smooth business acquisition.

Bethany A. Grazio is a shareholder in RIW's **Corporate & Business** Department and **Hospitality Practice** Group. She can be reached at (617)-570-3572 or bag@riw.com.

POSTED IN: **ARTICLES & QUOTES, CORPORATE & BUSINESS, HOSPITALITY PRACTICE GROUP, NEWS**