



[Buying a Business as an Investment](#)

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We typically find two types of business buyers. The first and most common is the business buyer wanting to replace their income from employment with a business that reflects their current skills and abilities. The second type of business buyer is the investor looking to add to their investment portfolio. This type of buyer is usually looking for solid business investments that will not command a significant time commitment on their part because management and business systems are in-place to deal with the day-to-day operations. But, how do you know if a business investment will meet the expectations required to generate a return commensurate with the risk involved?

First, we need to identify good business candidates for investment purposes. Not all businesses should be considered an investment. For instance, convenience stores and restaurants usually command too much attention from the owners. These types of investments must have “hands-on” daily to monitor income and expenses. Of course they could be good investments; however, because of the poor labor pool where unethical behavior is the norm rather than the exception, most of these types of businesses have become candidates for family run enterprises only. Any business can be considered a candidate for an investor but, in my experience, businesses which require low skilled labor tend to be poor investments.

Second, good management is a crucial factor necessary for considering a business as an investment. Although new owners will want to get familiar with the entire business operations, they do not want the business to get out of balance because of a management “learning curve” requirement. Let’s face it, most investors are not looking to revamp management—only to tweak it for maximum efficiency and profit. That being said, business investors will want to interview current managers to discover their future goals and plans. Ideally, current management should be very receptive to new ownership and willing to continue employment.

Finally, a good candidate for investment is usually a business which has had several years of growth to build upon. These businesses have established “systems” of operations which have been perfected over the years allowing the business to run on “auto-pilot”. Systems play a very important role in business. Take for instance franchises, why are they so successful compared to non franchised start-ups? Did you know over 80% of franchise businesses are still in operation after five years compared to an 80% failure rate after five years for start-up businesses? What is the secret? Yes, most franchises have a marketing advantage because of name recognition; however, the

most important part of any franchise business is the “systems” which are in-place to guide new owners to success.

The investor should consider these recommendations as the “basics” necessary to give the business a second look. Naturally, there are many other factors to consider such as financial, inventory control, equipment, marketing, rent, and anything else specific to the business being reviewed. Nevertheless, all of these factors will be scrutinized thoroughly during the “due-diligence” process.