7 Mistakes to Avoid When Buying an Existing Business

Whether you're buying your first business or your 10th, entrepreneurs make avoidable mistakes when buying an existing business. Here are 7 of the top errors people make when buying a small business.

1. Insufficient Time Dedicated to Searching: There are many small businesses for sale, but there are likely only a couple businesses that are right for you. Finding, researching and due diligence before you buy an existing business can take 12-24 months, according to experts.

2. Not Understanding The Numbers: The financials are the key driver to whether or not you should buy a small business. If you don't fully understand the business' expenses, profits, debt and competition then you are not performing your due diligence - and you're more likely to make a bad, uninformed decision.

3. Going Into Serious Debt to Buy the Business: Will your cash flow cover your debt? It is not unusual to borrow money to fund the purchase of a business. However, if you do not have the funds to pay back your loan and operate the business, it may not be the right time for you to buy that business. You will need to assess if your loan agreement alots enough time for you to earn the money to pay back your loan while supporting yourself, and your family.

4. Signing Your Own Name: Experienced small business owners understand the need to protect themselves by not signing their own name to all ownership documents and taking personal liability for all the business liabilities. Consult a lawyer to determine the best way to protect your personal assets when you purchase an existing business, such as a corporation or an LLC.

5. Assuming the Business Customers Will Stay Loyal: Many customers are loyal to the business owner, not the business itself. When you lose these customers, you lose the cash they bring into the business as well. As part of your researching buying an existing business, learn about the business' customers: Are they contracted? Do they rely on street traffic? Are they referrals? Once you analyze the customer mix, you can identify ways to minimize customer loss and to identify new ways to customers.

6. Skimming the Fine Print: Every legal contract is not the same, and legalese can be confusing to understand. Its your business, your lawyer and accountant aren't legally responsible for the terms, you are. If you can't understand the documents, make sure you do fully understand them before you sign.

7. Making Emotional Decisions: Its easy to become excited about a new opportunity, and in your eagerness overlook negative factors about the business you're interested in acquiring. Similarly, its easy to become overly alarmed about standard business ups and downs and shy away from a good business opportunity. Ask for advice from people with expertise in the business field you're interested in. Never be pressured to make a fast decision. if you're not certain, don't get so excited by the opportunity that you neglect your due diligence and thorough research.

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