The benefits of buying another business

Successful business owners are those who are always looking for new ways to expand and grow their business. One quick way is to buy another business – such as a competitor, or a supplier - to grow your market share or complement your existing business.

Benefits of purchasing a supplier

If you have a supplier that is critical to your business, buying them will allow you to control the process and ensure you are given priority. There are several other benefits to buying a supplier, such as:

- Lowering costs by eliminating the mark-up they are adding to the price
- Quality control
- Fill orders faster to avoid running out of supplies or materials
- An increase in your overall profit
- The addition of synergies and efficiencies to improve profit across both businesses
- Preventing the supply of goods to existing or new competitors

If one of your suppliers comes up for sale, think about what the purchase could mean for your business. If you can tick all the above, it's probably going to be a wise and profitable investment if you can buy it at the right price.

Benefits of purchasing a competitor

Purchasing an established competitor enables you to grow your business overnight – while eliminating a rival that was eating into your market share.

Buying out a competitor can open new opportunities for business growth, such as:

- Increasing your market share. It's simple numbers, as you'll add their customer base and sales to yours.
- Boosting your operational capacity such as specialized machinery or expertise that can increase your output.
- Adding the expertise of competitors' staff that complements your skill base.
- Picking up assets such as premises, specific stock, or machinery. It could be cheaper to buy a competitor's second-hand equipment than to purchase brand new.
- A great location or long term lease.
- Increasing profits if you can rationalize admin tasks or back-end support to lower overhead, warehouse space, or anything that's duplicated.
- Ability to buy in larger quantities and get increased discounts for both businesses.
- Access to intangible assets such as business know-how and processes.
- Intellectual property or exclusive licenses to sell certain products in a particular area.

What are they really worth?

Deciding on the market value for any business can be tricky – the amount you're prepared to pay will be a combination of the business's worth to you, and the approximate market value.

You obviously don't want to pay more for the business than it's worth. To avoid this:

- Arrange a business valuation to determine a rough market price. Business brokers are experts in helping assess values. Ideally, find a broker with experience in your industry.
- Investigate the location of the business and any future plans for the area.
- Research likely future profits and risks.

Don't be worried by what the business made last year – you need to focus on the profit it's capable of producing in the future rather than the past.

Steps to take

As with any major purchase, doing your due diligence and conducting thorough research into your intended acquisition is essential. It's important that you:

- Have a clear idea of how they make their money, so you know what kind of profits to expect. This is the kind of task you should undertake with your accountant or business advisor, as they'll be able to pinpoint any flaws in the balance sheet.
- Understand their employee structure. Will all of them be included in the purchase, and if so, are they happy to move to you? Are there key positions you intend to retain or eliminate?
- Make sure their business culture is in line with yours. Clashes over operation and management can be stressful, time consuming and expensive.
- Are confident that the purchase makes sense from a financial standpoint. While nothing is guaranteed, you should be reasonably sure that your business will benefit from the purchase. There are always risks, and you should be confident that they're worth taking. Talk to us about your plans, so we can help with your financing decisions with our small business lending solutions.

It's also important to take your own capacity to manage the new business into account. Is it something you're going to do yourself, or will you appoint a key employee to run it on your behalf? Making sure you're capable of managing the new supply aspect of your business is a key responsibility.

Summary

Growing your business through acquisition is an effective method. Doing so by buying a supplier or competitor means you could reduce costs and have the opportunity to sell to other businesses, giving you a competitive advantage. It's a challenging process, so it's important to plan ahead for the increased workload and be sure that you have the capacity and ability to handle it. It's critical that your accountant and lawyer are involved throughout the process, as they'll keep everything on track legally and financially.

118303 (09/2017)