



Know What You are Buying

By Jo Anne Hagen

If you have considered going into business for yourself, you may have considered purchasing an existing business, but what is it worth? Most existing businesses will want to capitalize on the value of "intangibles" such as customer loyalty, supplier contacts, and copyrights, patents, trademarks and trade secrets.

Let's say that restaurant you long for has a great local reputation but few tangible assets... real estate, furnishings, kitchen equipment, tableware. Everything is leased on long-term leases, including the kitchen pots and pans. But, the Chef has a trade-secret... her recipe collection, culinary wonders that are imitated

but never duplicated. The price is \$1,000,000. \$600,000 is allocated to goodwill and trade secrets. Can a recipe for flan really be worth that much? Could you not create your own original flan recipe?

Where to begin? First, you must absolutely get a peek at the financials. The financials include not only that Quickbooks® P&L (profit and loss statement) but the business tax submissions for the last three years. The fact is that this will cost you money, a fact that many people overlook in their business search. Most business sellers will not take their time to reveal this private information without earnest money on the table, and you absolutely cannot value intangibles without seeing the financials.

What's the moral of this little story? When you begin the search for a business opportunity, be prepared to spend some money to get the information you need. Five to ten thousand is not too much to pay to avoid a \$1,000,000 mistake or worse yet, miss that real bargain.



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