

Know when to fold?when NOT to buy a business

So after long hours of searching, you think you've finally found the business that's right for you! But is it really? Too often, buyers get carried away by their hearts, ignoring the warning signs and red flags right in front of them. Remember?this is a business deal. By learning some of the potential problems to watch out for, you can arm yourself with the knowledge to make wise choices from the beginning.

Of course, the first step after you find a business you like is to get a professional valuation report. Compare the company's worth with the price the seller is asking for. If those two prices are not in line, find out why. This might seem obvious if the seller's price is much higher than the valuation, but be wary if the asking price is much lower than the valuation as well. How did the seller come up with his asking price? What evidence does he have to support it? If his valuation is wildly different than yours, something isn't right.

Find out how many times the business has been sold in the past. If a company has had multiple owners in a relatively short period of time, there may be a difficulty with this business that your research hasn't turned up. If many others have failed before you, be realistic about your own chances of success. Ask the current seller why he's decided to sell, and why now. Those answers alone could be very revealing.

If there are any inconsistencies or abnormal transactions on the books, investigate them further. Review numbers for the last three to five years, and look for any inexplicable increases, decreases, or drastic changes, and uncover a credible explanation. Review the company's debt and make sure it's manageable and realistic for you to take on.

There are a number of factors that can influence a business' profitability that might not be evident in the valuation report. Contact the Better Business Bureau to find out about complaints that have been filed against the business you might buy. If the company already has a negative reputation, overcoming that could be virtually impossible in spite of your best efforts. Similarly, do a little research about the neighborhood. Everything from a nearby school with rowdy children to lack of available parking can affect how much business you can expect. Furthermore, meet with the landlord and make sure the lease is in good standing, and that you'll have the opportunity to renew it if you desire.

And more than anything, if you feel too much pressure, chances are the seller is hoping you'll sign before you discover a problem. If you feel like something isn't right, it probably isn't. Not all red flags are a compelling reason not to buy?but your instincts definitely are. Trust them, and trust you'll find another business that will be more suitable to your needs.