



# BUYING A BUSINESS

Things you need to know before your  
next big business venture

Paul Martin Chartered Accountant Limited  
[www.pmartinca.com](http://www.pmartinca.com)

# TABLE OF CONTENTS

---

- 01 - **AN OVERVIEW**  
*Buying a Business*
- 02 - **PART 1**  
*Starting the Process*
- 04 - **PART 2**  
*Start-up Costs*
- 05 - **PART 3**  
*Creating the Business Plan*
- 07 - **PART 4**  
*Creating the Marketing Plan*
- 10 - **PART 5**  
*The Legislative Requirements*
- 11 - **PART 6**  
*Enhancing Business Survival*
- 13 - *Protect Your Business with  
Accountancy Insurance*

# An Overview

## BUYING A BUSINESS

Buying a business, big or small, is one of the biggest decisions and financial transactions you might ever make. It is not as simple as buying a product or service. There are many things to consider, processes and procedures to undertake, and different financial and legal requirements to think about. So, whether you are a businessman or a budding entrepreneur, you need a comprehensive guide to follow to ensure a successful transaction.

With many years in the industry, at Paul Martin Chartered Accountant Limited we have encountered many different clients aspiring to engage in the buying and selling of businesses. As trusted business advisors and chartered accountants in Auckland, we have helped them every step of the way - from due diligence right through to successful business sale.

As many people don't know where to start when first looking at a business purchase option, we are here to provide you with all the things that you need to know. Bringing them together in this guide, we will discuss the whole process of purchasing a business, the costs and expenses that you need to consider, how to create an effective business and marketing plan, key legal requirements and tips on how to enhance your chances of business survival.

After reading this guide, you are expected to have a better understanding of buying a business. However, keep in mind that buying a business is a huge decision and it is important not to let your emotions override rational thinking.



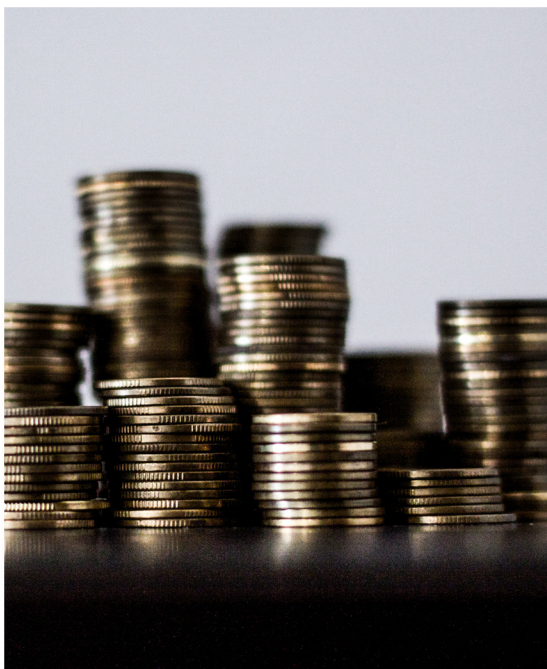
# 01 STARTING THE PROCESS

Starting a business from scratch is not that easy. You need to deal with building your customer base, marketing your new business, hiring your staff, establishing your cash flow the list goes on. There are endless tasks and high risks, not to mention the time you need to wait for your investment and hard work to pay off...

...which is the total opposite of buying an existing business.

Purchasing a business for sale is easier, faster and less risky than starting from scratch. When you buy a business, you simply take over and continue its operation. As long as you are making a wise purchase decision, it should already have an established brand, customer base, and cash flow.

But before you get excited about the benefits of acquiring an existing business, you need to know where to start, what to do, and be aware of the whole purchasing process. You need to be warned that the process can be exhausting and heart-wrenching.



## It is a **CRITICAL** investment decision

No one should go ahead and buy a business without evaluating if it is a 'good deal'. You are investing big money, so you should know if there will be an adequate return considering the nature of the business and the degree of risk involved.

We often advise our clients to invest an hour with us so we can introduce them to the methodology we use in evaluating business opportunities. We discuss and provide them examples to assess the real and future value of the business being sold. We also take time to answer any questions they may have. We do this to help them make the best investment decision.



## It is a DUE DILIGENCE process

Buying an existing business is a time consuming process. You will be required to schedule appointments with various advisors and with other people involved in the deal. Often these are given with little notice. This will be a time of great uncertainty, so you have to be patient and cool during the whole negotiation process.

*As trusted business advisors and chartered accountants in Auckland, we make sure that our clients know what they are getting themselves into. We take them through the process and help them consider all the issues involved.*

## Chances of success

You need to be aware that 80% of businesses fail within the first 5 years. So you need to be brave and extra patient. On the other hand, if the existing business you are purchasing has good systems and does not rely too heavily on the outgoing owner, you are more likely to be successful.

## The need for adequate working capital to get started

You will require access to ready capital for six or more weeks after buying the business. This capital is to pay for the due diligence process and set up costs such as stationery, marketing, etc. While you are waiting for your cash to flow, you should have enough funds to support your personal living needs.

## Be clear about what you are buying

Is it shares in an existing company? Or is it the whole business? A business consists of many components. The vendor should be clear about all the things that they are selling to you. We recommend that fixed assets with their corresponding amounts are listed in detail.

## Evaluate carefully the business

Some of the most commonly overlooked items when buying a business include: depreciation of fixed assets, interest costs, leasing expense, and wages for working proprietors.

# 02 START-UP COSTS

As consumers, one of the things that really matters to us when making a purchase is the cost of the product or service. We want to know the price so that we can analyse our capacity to buy and if the price is reasonable for the item being sold. We can also use this information to make comparison to other products and services. And once we make the decision to buy, we make necessary adjustments to our budget.

To give you a general idea of the establishment costs involved in buying an existing business, here is a list of some of the types of expenses that may be incurred:

## Legal Fees

There are contracts and agreements that need to be prepared and signed to legally transfer and bind the business to its new owner. In addition, there are many documents, requirements and agreements that need to be considered. As your accountant in Auckland, we can work alongside your lawyer to thoroughly evaluate all legal documents and avenues required to protect you as a buyer, as well as the future prosperity of your business, including:

- \*Completing company name search and registration
- \*Reviewing intellectual property
- \*Reviewing contract of sale
- \*Checking the lease of premises
- \*Consideration of restraint of trade clauses
- \*Clarifying your obligations in regard to employee entitlements - annual leave, long service leave and other human resource policies
- \*Understanding contractual relationships with key suppliers and customers
- \*Checking for royalty payments

You may need to look at getting some of your finance for the business purchase from your bank. With many years of experience in the industry, we have good partnerships with many banks so we can introduce you to different bankers and help you evaluate which bank is best suited to your business needs.

- \*You need to factor into your calculations:
- \*Overdraft establishment fees and monthly interest
- \*Loan establishment fees
- \*Loan principal and interest repayments
- \*Monthly account fees

## Setting up a new business structure

It is recommended you have a Chartered Accountant on board to help you set up your new business structure and systems. Remember to allow for annual account and tax return preparation, GST and other taxes, ACC administration, costs for a cloud accounting system such as Xero or MYOB and more. As an accounting firm, we provide all these services packaged into convenient monthly service plans.

# 03 CREATING THE BUSINESS PLAN

Once you've successfully purchased the business, you need to create or structure a business plan that will help you sustain it and facilitate its growth.

So, what are the components of a detailed business plan?

In drafting your business plan, here are things that you need to consider and include:

## 1. Executive summary

This is the very first item in your business plan. It contains the general detail of what your business entails. It should be clear, simple and not longer than a page. The aim of this part is to give the person reading your plan a broad overview of what you are setting out to achieve.

Even though it appears at the start of your plan, the executive summary is usually the last section you prepare after you've finished writing the rest of your business plan.

## 2. Business objectives

The objectives are a detailed description of your business strategy. You should list all the possible objectives or aims that you want to achieve with your business. What is the business of your business? What are you going to do? What is your mission statement?

## 3. Product/service profile

This is where you provide a detailed description of the product/s and/or service/s your business is offering. You should also supply details of any key machinery or equipment involved in business production processes.

## 4. Marketing plan

This contains the detail of your marketing objectives, projections, and sales forecast.

This will also include analysis of the marketplace you will be entering and customers you are targeting, details of competition, historical information about the industry and channels you will use to promote your products or services to name a few.

## 5. Financial plan

This includes both the short term (one year) and long term (three to five years) financial projection of your company. Make your forward projections as conservative as possible. Don't predict a 50% increase in sales each year if you cannot solidly support it. An impossible financial projection is difficult to believe and take seriously.

This part of the business plan also covers details of the capital required to both start up and run the business and where the capital will be used.

It is recommended to also have projected cash flow and profit and loss statements. These can be complicated to prepare and you usually will need the help of an expert to accomplish this – such as a Chartered Accountant.

## 6. Loan repayment

If you are trying to present your business plan to a prospective financial institution, your business plan should have this section. In





here, you need to disclose how and when you will repay any loans. Your repayment strategy should tie in with your cash flow projections. Remember that banks are unlikely to be interested in proposals from businesses that simply want to borrow money with no indication of how they will repay it.

## 7. Security for loans and guarantees

In connection with the above, you should also outline the details of any assets which are going to be used as security. You should be able to present that you are viable and that the interest and capital repayments can be discharged during the normal course of business. Financiers will not generally lend capital without adequate security.

## 8. An organisational plan

This section will include the outline of the management structure, responsibility and accountability of office holders. This will also include the type of business structure, e.g. company or partnership. You should also list the names of directors and the location of the registered office.

## 9. Appendices

Appendices will cover any information or further details needed to back up or expand on any of the above. This can be your company brochures, market research, press clippings, etc.

Preparing a detailed business plan will help you trace the flow and the future of your business. It will also help you acquire outside finances, if you are thinking of getting a bank loan or an overdraft facility. It should also be updated regularly - we recommend annually to ensure you stay on track to achieve your goals and react to changes in the market.

As your business plan is so important to the future prosperity of your business, it is important to have a trusted advisor when drafting and reviewing your business plan. They will review it in terms of completeness, financial soundness, objectivity, logic, presentation and its ability to communicate your vision.

***As business advisors and Chartered Accountants in Auckland, we specialise in providing strategic business advice to people who are starting a business or purchasing an existing one. We help them understand that business planning is not just to raise finance but also the blueprint for the business' future.***



# CREATING THE MARKETING PLAN

Now that you have a strategic plan for your business, it is time to introduce your brand to the market.

The next important step is to create your marketing plan.

We have invited Jo Martin, Marketing Manager for Paul Martin Chartered Accountant Limited to answer some of the many questions you may have and to give us some tips on how to create the most effective marketing plan for your business.

## What is marketing?

Marketing consists of identifying the need for your product or service and then presenting your goods and/or services, at the right time, at the right place and at the right price to satisfy a customer's needs.

It also includes analysis of your target market in order to identify your potential customers and select the right advertising and promotional activities to make your target market aware of your goods and/or services.

## What is the first step in creating a marketing plan?

The first step in creating a solid and effective marketing plan is to list your marketing goals. What do you want to achieve with your marketing activity? Are you planning to increase your sales by 50 percent? Are you trying to boost your brand image? Or are you trying to reach a new or slightly different target market?

Whatever your marketing goals are, it is important that you make them measurable and specific which will help you track your progress.

The next thing you need to do is to analyse your business so you can align your

marketing activity. You can do this by developing a SWOT analysis. SWOT is an acronym that stands for Strengths, Weaknesses, Opportunities and Threats.

## How do you do a SWOT analysis?

You simply get a sheet of blank paper. Draw a line down the middle. On the first side of your paper, you list all the strengths of, and opportunities for your product or service. What is it about your product or service that makes it stand out from the crowd? Are you personally well-known and respected by the marketplace? Are there any unique selling points? List any unique selling features or benefits that you will have over your competitors.

On the other side, list your weaknesses and any threats to the ongoing health and viability of your venture. Weaknesses could be limited capital, brand or product is unknown in the marketplace, limited buying capacity, etc. On the other hand, threats could be things like removal of tariff protection, changes to government legislation that could affect your trading, among others. Threats are usually external factors that you need to keep aware of.



List down all the strengths, weaknesses, opportunities, and threats that you can think of and then analyse and refine the list down following your brainstorming. The result of your SWOT analysis will help form the main core of your final marketing plan and will guide your marketing activity.

## What are the likely costs associated with marketing?

You need to be prepared to allocate some portion of your budget to marketing. How much you allocate will depend on the marketing tactics you choose to use. Here are some common marketing tactics you may like to consider:

### **Print media**

*This is the most common marketing medium. This includes placing an advert in newspapers, magazines, directories, etc. Layout, design, copywriting, printing and/or publishing are some of the expenses that you will incur when releasing a print advert.*

### **TV commercial**

*This is usually a more expensive marketing platform. Costs include the creation and production of the commercial as well as the placement of the ad with different TV channels.*

### **Radio commercial**

*This tactic is not as expensive as TV commercials but it involves the same process of creation and production as well as radio channel placement.*

### **Out-of-home advertisements**

*These include billboards, banners, flyers, brochures to name a few. A billboard will cost you quite a bit while a small banner will not. The cost will depend on the creation, production, type and quantity of your advertising material.*

### **Social media and website**

*This is probably the cheapest form of advertising. Setting up a social media account is free. There are also free website creation sites on the internet. However, there are limits to using these free websites. If you want to increase your exposure or want unlimited control and a customised website and social media platforms, you would need to pay a website developer and social media manager to assist.*

### **Email marketing**

*This is another form of digital marketing where you directly connect and send the product or brand information to your market or prospect. There are free email marketing tools available that you can use, such as Mailchimp. Again you will need to pay for extra features and add ons. You must also be aware of antispam laws.*

### **Trade shows**

*Trade shows, fairs, or expos are events organised for businesses to showcase their products and services. They are often run annually. You need to consider costs for your booth display, rentals, promotional material, etc.*

Your marketing plan is critical to the success of your business. You should dedicate time and effort to creating it. Your marketing plan should be thorough and well-researched. It should include targets and goals and have clear measures of success so you know what is working and what is not. Often you will need a combination of marketing tactics to reach your target market and achieve your stated business goals.





## **Jo Martin**

*Jo Martin has considerable marketing experience, although her career started in the banking world as a Relationship Business Manager. From there she worked in the executive conference industry in both Auckland and Sydney, before spending nearly 10 years with Auckland Regional Transport working on projects such as the openings of Britomart, the Northern Busway and Newmarket Station. She then returned to business to business marketing working for TNT Express and was very involved in their sponsorship of the Vodafone Warriors. She now works in marketing and communications in the supply chain industry. She is also Paul's wife.*

*If you are thinking of starting a business or planning to buy one, we can help you build a business plan or marketing strategy to help ensure the success of your venture.*

*Our team at Paul Martin Chartered Accountant Limited is composed of highly skilled and professional business advisors and chartered accountants who can help you with your business strategy and marketing plan.*

*We can give you assurance that you are covering all bases when you are starting or buying a business, from business planning and marketing, to preparation of tax returns, GST, annual accounts and more.*

## 05

# THE LEGISLATIVE REQUIREMENTS

After understanding the business acquisition process, preparing the projected costs and expenses and creating the business and marketing plans, it is now time to understand some of the key legislative requirements businesses and their owners must comply with.

Whether you are starting a business from scratch or have acquired an existing one, as a business owner you need to be aware of the legal environment you are operating in. Here are some laws you may need to know about so you can legally operate your business, regardless of what line of business you are in:

## Employment agreements

Employing staff automatically creates legal obligations for the employer and the employee. The acts relevant to this are The Employment Relations Act 2000 and the Holidays Act 2003.

All employees are required to have a written employment agreement which should contain details of employment including a job description, work location, work hours, salary, holiday and other leave entitlements, and more. Wages cannot fall below the minimum guaranteed hourly rate, currently \$15.25 per hour for adults.

Employers must keep accurate records for all employees of the hours worked each day in a pay period and the pay for those hours, as well as leave accrued, entitled leave and leave taken.

## Fair Trading Act

This act covers the prohibition of misleading or deceptive conduct and trade as well as false representation of goods, services, land and employment. Any entity proven to violate this act is subject to civil remedies such as injunctions, damages, corrective advertising at the defendant's expense and other orders of the court directing compensation or restitution. The most important section of this act that business owners need to remember is:

***Fair Trading Act Section 9 - No person shall in trade, engage in conduct that is misleading or deceptive or that is likely to mislead or deceive.***

## Commerce Act

Commerce Act protects the vendor and the consumer by fair pricing. It also covers fair market competition by prohibiting the abuse of market position, contract provisions that lessen competition in the market and restriction of goods or services to another competitor, among others.

## Consumer Guarantees Act

This act aims to provide consumer protection in the supply of goods and services to ensure they are fit for the intended purpose. A set of statutory standards called "guarantees" are attached to any goods and services being sold to consumers, acquired for domestic or personal use. It does not apply when goods and services are acquired for re-supply in trade, or to be consumed in production or manufacture.

## Health and Safety in Employment Act

This act covers all work situations. It aims to promote excellence in terms of health and safety performance. It also aims to improve hazard identification and control methods, health and safety training and education and regulation of specific hazardous situations, to name a few.

Furthermore, employers must take all necessary practicable steps to ensure safety of employees while they are at work. Employers must be able to provide and maintain a safe working environment. This also applies to external contractors working on your site.

## Privacy Act

This act aims to proactively require businesses to be wary of sharing information. A breach may arise when information is shared for the purpose that is not intended or without express permission.

The act covers the collection of information, storage and security of information, access by the individual and correction of the information, updating and disposal of information, as well as the use and disclosure of information and unique identifiers.

Business owners should comply with these and other legislative requirements for the protection of their business, their employees and their customers. Non-compliance may result in costly consequences for the business.



# ENHANCING BUSINESS SURVIVAL

The business industry is very competitive and unpredictable. Your business may be booming one day then the next day it isn't. There are many factors that can affect your stability including the economy, politics and technological advancements.

In New Zealand, about 10% of all small businesses fail in their first year of operation, while a significant number (80%) will fail in their first five years. Some of the most common reasons why businesses fail include poor management, sloppy records, too much or too little stock, failure to plan, misuse of time, neglecting marketing, and general management incompetence among others.

That is why business owners need to have a solid business strategy to help them stay on track and not get lost along the way.

Some of the most important factors that a well-managed business will possess are:

- Proper financial information.
- Uses a written business plan with future development and expansion guidelines.
- Has an adequate product mix.
- Does not rely too heavily on one or a limited group of customers or clients.
- Understands its operating environment.

But how can you be prepared if your business fortunes start to turn?

How can you be ready when the economy becomes sluggish?

How can you recover when there is a dramatic change in technology that has affected your sales?

There are many warning signs on the road to failure that you need to understand and address to ensure that your business can weather any potential storm.

As a trusted tax accountant and dedicated

business advisor to many small and medium businesses in Auckland, we have listed some of the problems we see clients facing, along with recommended solutions.

## Insufficient capital

If you are starting a business, you should allocate ample budget for operations, marketing and other expenses. If you don't have sufficient capital, you may have difficulty purchasing stock and supplies, which in turn could mean lost sales. Invariably you will also fail to meet your other financial commitments as they fall due.

## Partnership problems

Business partners can contribute to the failure of your business. That is why you should be very selective in choosing your business partners. Select your partners the same way you select an employee. Make sure they have the ability to contribute effectively to the business and help achieve its goals.

Too often a partner is selected simply because he/she is a relative or friend or is willing to contribute an amount of capital.



### **Lack of management expertise**

It is not enough that you have a business strategy. It is important that you have the right management expertise to execute all the strategies in your business plan. Don't think that you can get away with learning while on the job. Seek help and direction from a trusted business mentor to guide you in unfamiliar areas.

### **High gearing**

Borrowing money usually cannot be avoided when you start a business. Make sure to keep it to an amount which you are capable of repaying. If you borrow more than you can repay, chances are a greater portion of your gross profit will be directed to paying these financial costs. Cash flow may also be drained by repayments.

### **Incorrect pricing policies**

Too often prices are set to market determinants rather than based on cost recovery and profit generation. Efficient service or added value may be more important than price alone.

You need to make an adequate profit margin to ensure success.

### **Marketing**

Many businesses neglect the importance of marketing. Marketing is important to attract new customers, as well as keeping your current customers updated and engaged.

### **Cash flow**

Cash flow forecasting is very important if you want your business to survive. Without proper and accurate cash flow projections, you won't be able to identify future cash requirements, hence you will be lacking vital information about the financial direction of the business.

### **Breakeven point**

Business owners should know when the business will breakeven. Breakeven is calculated by gross margin (revenue less variable costs) = total fixed costs.

*As a trusted business advisor in Auckland, we can discuss these things with you and provide solutions that fit your business needs. We are also tax accountants who can help you with GST, tax returns, annual accounts and more, using the best accounting software in NZ to provide fast and accurate results.*





# Protect Your Business with Accountancy Insurance

As a business owner, you want to secure the future prosperity of your company and protect it from any financial misfortune. With this in mind, have you considered what would happen if you were subject to an audit by the Inland Revenue Department (IRD)?

As a trusted business advisor and Chartered Accountant in Auckland, we offer clients the option to purchase Audit Shield Accountancy Insurance.

Fundamentally, Audit Shield covers you for professional fees that are incurred as a result of us responding to post lodgment queries from the IRD and other government authorities in New Zealand. 'Audit' is broadly defined under the policy to include any official enquiry, review, investigation or audit (including phone enquiries) instigated by the government authorities in relation to lodged returns.

We fully understand that many people do not appreciate the value of accountancy insurance, seeing it as costly and unnecessary. However, we have had a number of clients who have been audited by the IRD recently and have claimed on their insurance. The IRD is currently quite active so anyone could be audited at any time.

## **It can happen to you!**

In one case we have heard about from Audit Shield, the IRD initially undertook a Client Risk Review of a financial services business. Later, this expanded into a full audit in respect to Income Tax and GST compliance matters. The total professional fees of \$17,850 were fully covered by Audit Shield.

As Chartered Accountants and business advisors, we can discuss with you anything you need to know about accountancy insurance. Just call us on (09) 576 4166 for more information, or book an appointment online at [www.pmartinca.com](http://www.pmartinca.com)

## **We can help you have a peace of mind.**

*Audit Shield is offered by Accountancy Insurance - tax audit insurance specialists who assist over 1800 accounting firms throughout New Zealand and Australia. Established in 2003, Accountancy Insurance currently employ over 60 members of staff across both countries with each and every team member passionate about providing the market with a tax audit insurance product that is simple and effective - Audit Shield. The team at Accountancy Insurance has the depth of knowledge to ensure Audit Shield covers accounting firms and importantly, you, when it matters.*





# NEED HELP PURCHASING A BUSINESS?

**Talk to us today on (09) 576 4166 or  
book an appointment online to get started  
[www.pmartinca.com](http://www.pmartinca.com)**

## **We help our clients succeed!**

- ✓ Annual Accounts, Tax Returns and GST
- ✓ Business Planning and Development
- ✓ Online Accounting
- ✓ Rental Properties, Trusts and more