

HBR Guide to

Buying A Small Business

Think big Buy small Own your own company

By Richard S. Ruback and Royce Yudkoff



HBR Guide to Buying a Small Business

Harvard Business Review Guides

Arm yourself with the advice you need to succeed on the job, from the most trusted brand in business. Packed with how-to essentials from leading experts, the HBR Guides provide smart answers to your most pressing work challenges.

The titles include:

HBR Guide to Better Business Writing

HBR Guide to Building Your Business Case

HBR Guide to Buying a Small Business

HBR Guide to Coaching Employees

HBR Guide to Data Analytics Basics for Managers

HBR Guide to Finance Basics for Managers

HBR Guide to Getting the Mentoring You Need

HBR Guide to Getting the Right Job

HBR Guide to Getting the Right Work Done

HBR Guide to Giving Effective Feedback

HBR Guide to Leading Teams

HBR Guide to Making Every Meeting Matter

HBR Guide to Managing Stress at Work

HBR Guide to Managing Up and Across

HBR Guide to Negotiating

HBR Guide to Networking

HBR Guide to Office Politics

HBR Guide to Persuasive Presentations

HBR Guide to Project Management

HBR Guide to Buying a Small Business

Richard S. Ruback Royce Yudkoff

1 HITÜNG MAI HOSEÓNG NUHIÉP NÀ HỘI
1 RUNG TẬM THỐNG TIN THỦ VIỆN
07 - 07
03291



GIFT OF THE ASIA FOUNDATION NOT FOR RE-SALE

HARVARD BUSINESS REVIEW PRESS CỦA QUỸ CHÂU Á
Boston, Massachusetts KHÔNG ĐƯỢC BÁN LẠI

HBR Press Quantity Sales Discounts

Harvard Business Review Press titles are available at significant quantity discounts when purchased in bulk for client gifts, sales promotions, and premiums. Special editions, including books with corporate logos, customized covers, and letters from the company or CEO printed in the front matter, as well as excerpts of existing books, can also be created in large quantities for special needs.

For details and discount information for both print and ebook formats, contact booksales@harvardbusiness.org, tel. 800-988-0886, or www.hbr.org/bulksales.

Copyright 2017 Harvard Business School Publishing Corporation

All rights reserved

Printed in the United States of America

1098765432

No part of this publication may be reproduced, stored in or introduced into a retrieval system, or transmitted, in any form, or by any means (electronic, mechanical, photocopying, recording, or otherwise), without the prior permission of the publisher. Requests for permission should be directed to permissions@hbsp.harvard.edu, or mailed to Permissions, Harvard Business School Publishing, 60 Harvard Way, Boston, Massachusetts 02163.

The web addresses referenced in this book were live and correct at the time of the book's publication but may be subject to change.

Library of Congress data is forthcoming

ISBN: 978-1-63369-250-3 eISBN:978-1-63369-251-0

The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Publications and Documents in Libraries and Archives Z39.48–1992.



Contents

Prefa	ace	ix
	You can buy a small business—right now—and run it as CEO.	
PART	ONE	
Thir	nk Big, Buy Small	
1.	The Opportunity: Entrepreneurship Through Acquisition	3
	An attractive professional path that combines financial rewards with a flexible and fulfilling career.	
2.	Is Entrepreneurship Through Acquisition	
	for You? What it takes, and who does it well.	21
3.	The Acquisition Process	33
	An overview.	

PART TWO

Preparing for Your Search

4.	Anticipating the Cost of Your Search	45
	How much you'll spend depends on specific choices you make.	
5.	Paying for Your Search	63
	Raising capital to fund your effort.	
6.	Identifying the Characteristics You Want	
	in Your Business	79
	Look for a business that is established and enduringly profitable that you have the skills to manage.	

PART THREE

Finding the Right Small Business to Buy

7.	Managing Your Search Effectively: An Overview	95
	Juggling sourcing opportunities and filtering prospects.	
8.	Sourcing Prospects Using Brokers	103
	Focus on companies that are explicitly for sale.	
9.	Sourcing Directly	115
	Finding prospects on your own.	
0.	Enduringly Profitable Small Businesses	125
	The key is recurring customers.	

11.	Using Financial Information to Gauge	
	Enduring Profitability	137
	A few simple calculations that tell you a lot about a business.	
12.	Filtering for the Owner's Commitment	
	to Sell	143
	How to avoid sellers who abandon the sales process after months of your time and money.	
ART	FOUR	
Mal	king an Offer	
13.	Preliminary Due Diligence	161
	Learn more about the company and begin building a financial projection.	
14.	How Much Should You Pay for a Small Business?	175
	The art of small business valuation.	
15.	Deal Terms	191
	Deal structure, financing, timing, and other fundamental points.	
16.	The Offer	199
	Take the big step with a letter of intent.	
PART	EIVE	
cor	npleting the Acquisition	
17.	Confirmatory Due Diligence	209
	Cross-check what you (think you) know about the company.	

Contents

18. Raising Debt	231
How to get a small business loan.	
19. Raising Acquisition Equity	247
Finding the right equity investors for your deal.	
20. Negotiating the Purchase Agreement	261
Defining essential deal terms.	
21. The Closing Day and Beyond	273
The transition to ownership.	
Conclusion: Parting Thoughts	277
Appendix A: Indication of Intent (IOI) for Zeswitz Music	279
Appendix B: Letter of Intent (LOI) for Zeswitz Music	283
Index	289
About the Authors	301