

THE REPORT

by Bradbury Corporation LLP

Desperately Seeking Business

Harry (not his real name) came to me for help and got annoyed, for a while. As I introduced myself and told him about my lengthy experience, my qualifications, the references he could see and my guarantees, I could see his eyes glaze over and his mind wander off. His body language said, "Aw heck, just give me an accountant ... any accountant will do."

Harry was a middle aged, skilled man who had been made redundant three months before. In a desperate attempt to mend the huge hole in his pride and the hole in his quickly-dwindling savings account, he had verbally committed to buying a business, which we'll call Caesar's Commercial Cleaning Co. It turned out that Harry just wanted me to blame if it went wrong. I don't care what people say or think about me but I do care about them having all the information possibly available and that they take their action with their eyes wide open. What Harry got annoyed about was that I insisted on him getting a set of accounts from Caesar.

"Waste of time," said Harry, "he's only been going six months and can't produce accounts till he's been in it a full year."

"Absolute rubbish, "I told him in my most subtle manner, "he can produce accounts if he's only been going six weeks. That's a cop-out and he's probably hiding something from you." Harry, desperate to save his poor ego and money, wanted no delay (and nor did Caesar, it seemed) but I convinced him to ring Caesar that evening to ask for a set of accounts.

Harry rang back the next day: "Can't do it, Philip. Caesar's accountant can't drop everything and produce a set of accounts just now."

"Oh yes he can," I explained. "If his accountant says he can't, there is one of two reasons. Firstly, he may not because Caesar has not paid his previous account ... and if he hasn't paid his accountant it's usually because he can't afford to and a business that cannot pay its bills is not a good buy. The second reason could be that his accountant is so disorganised and so tell Caesar to find another one - there are plenty of good, capable accountants in town. And, no, I won't do it. Accountants won't act for both buyer and seller - it's unfair on both parties and our rules forbid it."

Harry was getting more annoyed by this stage and just wanted to get on with it. Desperation is a harsh and relentless master and so I painted a picture of his future - he'd spent all his remaining savings on a failing business and, after a year, had worked day and night and had ended up with another "failure" and penniless ... and a six week stand down before he could go on the dole. Was that worse than being on the dole for another year?

"I suppose so," Harry grudgingly agreed.

I then suggested that if he had, say, a car for sale, he'd clean

it inside and out, have the motor humming beautifully and have all the paperwork (WOF, registration, ownership papers) up to date.

"I suppose so," he grudgingly agreed.

"Well, the same with a business," I said. "If the paperwork isn't available to buyers, it's for one of two possible reasons: either the seller has something to hide or they have no idea about presenting their business in the best possible way. There is never, never, NEVER a good reason to have no accounts available for genuine buyers. Now, ring Caesar back and ask for them again ... or ask him for his accountant's name and I can ring him."

Harry rang back two hours later with the story that it wasn't possible as some of the information in Caesar's accounts contained private financial information. I explained to Harry that, as standard accounting practice, he wouldn't be getting the accounts of Caesar's that went to the Tax Dept. Caesar's accountant would, as a matter of course, take out items that were unique to Caesar's situation - interest, vehicle expenses, home office expenses etc. With those "adjusted" accounts, I would then sit down with Harry, work out his financial situation and personalise the cleaning business accounts, as if he owned it.

Caesar's excuse number three was gone and Harry was starting to transfer his annoyance to Caesar. However, I had to annoy Harry once more.

"The most critical thing, and often the hardest to verify, is income," I said. "So, when you get the accounts, ask for some kind of verification. For example, you can get copies of last month's invoices, multiply the total by twelve and see how that relates to the promised annual figure. It won't be exact but it should be close and will give you a feel about the accuracy of everything else in the accounts. Also, get the contact details of Caesar's main customers so that you can ring them to verify the length of the existing contract, if it is likely to be renewed and if they've had any outstanding problems with Caesar. This will give you a good feel for the future of the business."

"Cor blimey," said Harry, "this is like a CSI program!"

"Just the same," I said. "We're not dealing with dead bodies but we can be dealing with broken hearts, families and life savings if we don't do it right."

"Agent 007 calling HQ," said Harry on the phone three hours later. "Caesar didn't know about all the private stuff coming out of his accounts and giving me his customers' names to me, so I explained it all to him. He reckons I should be an accountant! Anyway, he's getting his accountant to ring you to get the stuff to you. So we're all done, huh?"

"Not quite," I said. "What we'll get is the 'Statement of Financial Performance' (Income Statement) and it's a good idea to spend, say, a week with Caesar to see how he operates the business and to see if the expenses (wages, materials etc) stack up. Also, we'll get a 'Schedule of Fixed Assets and Depreciation' - these are the assets you are buying with the business - and you need to satisfy yourself they're in good working order and a reasonable

value."

"But he won't want me tagging along for a week," said Harry, "he'll think I'm interfering."

"Not at all, Harry," I said, "he'll get a week's free labour from you and he will also know you're an absolutely genuine buyer ... unless he has something to hide. This week's work, for nothing, could be the best investment you ever make."

I received Caesar's accounts a week later, Harry worked with Caesar for a week and then came to my office, happier than I'd ever seen him. He had a good idea of how it operated, met all the staff, met some of the suppliers and equipment repairers and realised that Caesar had nothing to hide - he was just unaware of how to present and sell a business. Also, because Caesar got a free week's labour from Harry, Harry got a free six weeks from Caesar - the sale and purchase agreement specified that Caesar remain available to Harry if he needed advice or information on things he'd forgotten or didn't know. Of course, it also contained a standard business exclusion clause, with Caesar promising not to set up or buy another cleaning business in the area for at least two years, which suited Caesar as he wanted to retire and go fishing.

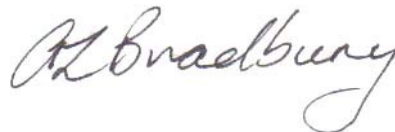
So now we have two happy men (neither called Harry or Caesar) - one gone fishing and the other working harder than he's ever worked before, not without stress, but with pride and bank account slowly improving.

If you have any questions about this report, please email is at info@bbcorp.info - we'd love to help you.

Yours sincerely



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