CHECKLIST FOR PURCHASING/STARTING A BUSINESS
THINKING OF PURCHASING/STARTING A BUSINESS

Business is an opportunity to increase (or lose) your capital wealth over time. It is important to recognise that few businesses are a ‘licence’ to print money.

Your chances of success will be greater if you understand and prepare yourself for the problems you will encounter as a business owner. It is also important to match a business with your strengths and interests.

The following self examination is the first and most important step towards starting a business. It can also help to eliminate potential causes of failure.

PERSONAL APPRAISAL

BE HONEST

Be honest about why you want to go into business for yourself. It will, very likely, place greater demands, responsibilities and stresses on your lifestyle.

BE REALISTIC:

Consider the disadvantages and the advantages of being your own boss. While it may provide self satisfaction, independence and the opportunity to earn more money, you must also consider that it may mean:

- Loss of regular income
- Long and irregular hours
- Competition, possible failure and loss of your resources
- Changes in your lifestyle and personal relationships

BE SELF CRITICAL:

Assess your personal strengths, weaknesses and your general suitability to run your own business.

Are you:

- a self starter and hard worker?
- organised?
- confident, with a pleasant personality?

Have you:

- the necessary skills and experience?
- the ability and drive to learn the skills needed to run a business?
### PERSONAL CHARACTERISTICS – ARE YOU SUITABLE?

<table>
<thead>
<tr>
<th>HOW DO YOU RATE YOUR:</th>
<th>RATING (tick one)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to handle stress</td>
<td></td>
</tr>
<tr>
<td>Business/accounting/legal experience</td>
<td></td>
</tr>
<tr>
<td>Knowledge of the industry/profession</td>
<td></td>
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<tr>
<td>Drive and energy</td>
<td></td>
</tr>
<tr>
<td>Organisational ability</td>
<td></td>
</tr>
<tr>
<td>Level of self confidence</td>
<td></td>
</tr>
<tr>
<td>Commitment to the longer term</td>
<td></td>
</tr>
<tr>
<td>Ambition</td>
<td></td>
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<tr>
<td>Leadership ability (Could you ‘fire’ someone? Can you motivate staff?)</td>
<td></td>
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<tr>
<td>Level of determination and the ability to solve problems</td>
<td></td>
</tr>
<tr>
<td>Ability to set clear and attainable goals</td>
<td></td>
</tr>
<tr>
<td>Ability to take moderate, calculated risks</td>
<td></td>
</tr>
<tr>
<td>Perseverance (when necessary)</td>
<td></td>
</tr>
<tr>
<td>Willingness to seek and take advice</td>
<td></td>
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<tr>
<td>Willingness to take personal responsibility</td>
<td></td>
</tr>
<tr>
<td>Negotiating skills</td>
<td></td>
</tr>
<tr>
<td>Ability to cope with crisis</td>
<td></td>
</tr>
<tr>
<td>Ability to communicate</td>
<td></td>
</tr>
<tr>
<td>Objectivity</td>
<td></td>
</tr>
<tr>
<td>Overall chances of success</td>
<td></td>
</tr>
</tbody>
</table>

### WHY DO YOU WANT TO GO INTO YOUR OWN BUSINESS

<table>
<thead>
<tr>
<th>?</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frustrated in your present job?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To earn a better living?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To be independent?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To be your own boss?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To do something different?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To have flexible hours?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To lead a group of people?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out of work?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>You saw a market need you can fulfil?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### CONSIDER BUSINESS OWNERSHIP

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal satisfaction</td>
<td>Financial insecurity</td>
</tr>
<tr>
<td>Independence of decision making</td>
<td>Long/irregular hours</td>
</tr>
<tr>
<td>Financial reward</td>
<td>You are on your own</td>
</tr>
<tr>
<td>Sense of achievement</td>
<td>Risk of failure</td>
</tr>
<tr>
<td>Social recognition</td>
<td>Pressure on family life</td>
</tr>
<tr>
<td>Opportunity for leadership</td>
<td>Isolation/frustration</td>
</tr>
</tbody>
</table>

### FINANCIAL CHECKLIST

When going into business it is essential that your finances are in order. Begin by being thoroughly aware of your personal assets and liabilities.

#### YOUR PERSONAL WORTH

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing loan(s)</td>
<td>Cash and bank deposits</td>
</tr>
<tr>
<td>Investment loan(s)</td>
<td>Shares and investments</td>
</tr>
<tr>
<td>Personal loan(s)</td>
<td>House</td>
</tr>
<tr>
<td>Credit card(s)</td>
<td>Other real estate</td>
</tr>
<tr>
<td>Hire purchase contract(s)</td>
<td>Car(s)</td>
</tr>
<tr>
<td>Store account(s)</td>
<td>Insurance and superannuation</td>
</tr>
<tr>
<td>Any other monies owing</td>
<td>Other</td>
</tr>
<tr>
<td>TOTAL</td>
<td>TOTAL</td>
</tr>
</tbody>
</table>

You need sufficient assets to provide equity and/or to support your loan application. The lender will expect you to bear the risk.

(LESS) LIABILITIES: $  
YOUR NET WORTH: $
**YOUR PERSONAL NEEDS**

This is the sum of all the expenses you have and includes all bills (monthly, quarterly and yearly), plus your regular living expenses. These expenses should be calculated on a monthly basis and will include: house, car and loan repayments, insurance premiums, phone and power, rates, taxes and any other bills peculiar to your circumstances. Your living expenses include food, clothes, entertainment, education, sport, transport, etc. By totalling all of your living expenses you have an amount that represents the net (after tax) monthly income you require.

<table>
<thead>
<tr>
<th>REGULAR MONTHLY BILLS</th>
<th>OTHER MONTHLY EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>House payments</td>
<td>Food</td>
</tr>
<tr>
<td>Car payments</td>
<td>Health</td>
</tr>
<tr>
<td>Credit cards</td>
<td>Clothes</td>
</tr>
<tr>
<td>Insurance premiums</td>
<td>Entertainment</td>
</tr>
<tr>
<td>Phone, electricity</td>
<td>Transport</td>
</tr>
<tr>
<td>Rates, taxes</td>
<td>Education</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
</tr>
<tr>
<td>TOTAL</td>
<td>TOTAL</td>
</tr>
</tbody>
</table>

**TOTAL MONTHLY BILLS** $  

**(PLUS) TOTAL MONTHLY EXPENSES** $  

**(EQUALS) MONTHLY INCOME NEEDED** $

The new business, especially during the start-up period, will make a heavy demand on your funds. As it would be unwise to expect that you could withdraw your regular income from the business for some time, you should plan for funds to provide for your personal needs.

**BUSINESS STRUCTURE**

There are three main types of business structure you can choose from: company, partnership and sole trader. You should decide carefully, weighing up the advantages against the disadvantages in each case and the suitability to your circumstances.

The legal form of your business has implications for your tax position and your personal liability for debts etc. The form of business you choose deserves close consideration and you should seek advice from your accountant and solicitor.

**RESEARCHING YOUR CHOICE OF BUSINESS**

Will you start your business from scratch or buy an established business? Will you buy a franchise? You should weigh up the pros and cons of each.

If it is a totally new type of business you will have virtually no competition. An existing business may cost more but offers the advantages of instant income that sales to existing clients provide. Also contact with banks and suppliers and the advice of the previous owner are usually available.
STARTING A NEW BUSINESS FROM SCRATCH

If you plan to start from scratch, consider the following:

- Is there a real need for your product/service?
- What have you got that the others do not?
- What particular marketing advantage(s) will you have?
- Why has it not already been done?

BUYING AN EXISTING BUSINESS

If you decide to buy an established business, some of the things you should consider are:

- Why is the business up for sale?
- How long has the business been operational?
- Is there anything that might make the business a bad buy?
- Past sales and profits (tax records will show some details).
- Competition and potential competition in the area.
- Are you satisfied that you have thoroughly checked the amount and value of stock, the accuracy of the books, any liabilities or limitations in the lease, etc?
- Have you talked with customers, suppliers and staff?
- Have you consulted a solicitor, banker, accountant, accredited business agent?
- What is the overall outlook for the industry?
- Does the vendor have unique personal attributes/relationships which benefit the business?

<table>
<thead>
<tr>
<th>CHOICE</th>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a</td>
<td>Choose your own pace</td>
<td>High risk and uncertainty</td>
</tr>
<tr>
<td>business</td>
<td>Can be less competitive</td>
<td>No immediate income</td>
</tr>
<tr>
<td></td>
<td>Don’t have to buy goodwill</td>
<td>Lenders may be apprehensive</td>
</tr>
<tr>
<td>Buying a</td>
<td>Higher likelihood of success</td>
<td>May inherit existing problems</td>
</tr>
<tr>
<td>business</td>
<td>Immediate income</td>
<td>Exit of past owner may affect business</td>
</tr>
<tr>
<td></td>
<td>Finance may be easier to obtain</td>
<td>Location may be inadequate</td>
</tr>
<tr>
<td></td>
<td>Stock and suppliers are established</td>
<td>Premises may be inadequate</td>
</tr>
<tr>
<td></td>
<td>Operational ability is a known factor</td>
<td>Landlord may be difficult</td>
</tr>
<tr>
<td></td>
<td>May obtain valuable employees</td>
<td>Need to pay goodwill</td>
</tr>
<tr>
<td></td>
<td>Vendor may provide experience</td>
<td>Danger goodwill is overvalued</td>
</tr>
<tr>
<td>Buying a</td>
<td>Training is usually provided</td>
<td>Franchisor exerts control</td>
</tr>
<tr>
<td>Franchise</td>
<td>Investment risk may be lower</td>
<td>Profits shared with franchisor</td>
</tr>
<tr>
<td></td>
<td>Lower start-up funds</td>
<td>Franchisor is often your only supplier</td>
</tr>
<tr>
<td></td>
<td>Benefit of franchisor’s goodwill</td>
<td>Lack of freedom to compete locally</td>
</tr>
<tr>
<td></td>
<td>Facilities of proven performance</td>
<td>Franchise terms may be unfavourable</td>
</tr>
<tr>
<td></td>
<td>Volume purchasing benefits</td>
<td>Franchisor may have leverage over you</td>
</tr>
<tr>
<td></td>
<td>“Big brother” advice</td>
<td>You may feel like an “employee”</td>
</tr>
<tr>
<td></td>
<td>Structured advertising</td>
<td>You will share in franchisor’s errors</td>
</tr>
</tbody>
</table>
BACKGROUND TO THE BUSINESS

An important first step is careful research into all aspects of the business.

- Talking to customers and suppliers can help you find out how viable the business might be, and give you a feel for what is actually happening in the marketplace.
- Reading relevant publications, attending seminars and taking business courses, all are part of the research process.
- Obtaining specialist advice from the relevant professionals, lawyers, bankers, accountants, accredited business agents, etc. is critical.

LOCATION OF THE BUSINESS

For most small businesses, site and type of building is one of the critical decisions. The nature of your business will determine what characteristics you should seek in a building and in location.

- Do you know what is the best site and/or building for your business?
- Have you compared several buildings and sites?
- You should employ a solicitor to detail the pros and cons of any lease arrangements.
- Is any building you have in mind adequate without large investment for alterations?
- Is the building and site adequate for future growth?

OPERATING THE BUSINESS

Knowing your customers’ needs and creating in your customers the awareness that you can meet their needs requires knowledge of product range, methods of distribution, pricing and promotion. In all businesses marketing is critical and you should consider attending courses provided by your industry or commerce association or your local education institutes to obtain a thorough understanding of the subject.

ADVERTISING

- Do you know what kind and how much advertising you should buy?
- Do you know how your competitors advertise?
- Do you know where you can obtain help to establish your advertising/promotions policy?

PLANT AND EQUIPMENT

- Do you know what equipment you need and what it will cost?
- Have you considered the pros and cons of buying, leasing or purchasing through hire purchase?
- Can you obtain plant second-hand?
- Does it conform with relevant legislation and regulations?
PRICES

- Do you know how to price each product to make a profit?
- Do you know your competitors’ prices?
- Are you aware of the uses of loss-leaders and seasonal or special sales?

CREDIT SELLING

- Do you know how credit sales affect your cash flow?
- Do you know the costs and benefits of credit sales?
- Do you know what information you will need before you offer credit?

YOUR RECORDS

Complete records are important for you, your creditors and Government agencies. Do not leave the record-keeping task completely to others. Records for businessmen are as important as maps for tourists.

- You will need to keep adequate records for lending bodies, taxation and other regulatory agencies.
- Can you plan or obtain and operate a system for keeping records of:
  Debtors and creditors?
  Stocks?
  Cash receipts and payments?
  Payroll and tax contributions and various deductions?
- Can you prepare and understand cash-flow statements and balance sheets?
- Do you know how to use financial and managerial data to help you plan?
- Do you know a professional accountant who can advise you?

STOCKS

Suppliers can offer substantial assistance. They need your business and they will endeavour to assist your growth. Examine and choose your suppliers carefully.

- Do you know the range of supplies and the quantity of supplies needed?
- Have you compared prices and credit terms of different suppliers?

INTERNAL CONTROLS

- How can you monitor and manage activities?
- Do you know how to protect your supplies from theft by shop-lifters or others?
- Have you considered how to check to ensure all supplies arrive and in good condition?
INSURANCE

- Have you discussed insurance for your business with a professional accountant and obtained quotes from several insurance brokers?
- Insurance against loss, fire, theft, public liability and personal sickness/death needs to be considered

REGULATORY BODIES

- Do you know the federal, state and local government laws and regulations affecting your business, eg planning, health, weights, factory and liquor licences, business name etc? (The Victorian Business Centre Network can assist.)
- Are you aware of the requirements for proprietors of unincorporated enterprises to pay provisional tax?
- Do you have some means of obtaining assistance with these matters?

Government regulations concerning your business can be complex. If you contravene these regulations, lack of knowledge is no defence. Consequently you should approach a solicitor or the small business development corporation in your state for assistance, if necessary.

STAFFING

- Do you know how to attract, retain and if necessary dismiss employees?
- Do you know industrial award and union requirements?
- Have you established criteria for selecting, motivating, developing and managing staff?
- Do you know the functions of each employee?
- Do you know how to help your employees improve their productivity?
- Do you know the labour regulations concerning your employees (workers compensation, awards etc)?

BUSINESS KNOWLEDGE SUMMARY

DO YOU KNOW AND UNDERSTAND THE BUSINESS FUNDAMENTALS?

What previous experience do you have relative to the same type of business?

- Have you spoken to a professional accountant to:
  - Help research and assess the business?
  - Validate historical financials?
  - Propose a budget?
  - Prepare Cash Flow Plan?
  - Prepare Business Plan?
  - Value goodwill, stock and all other assets?
  - Verify vendor’s statement?
- Are you dealing with an accredited business agent?
• Have you contacted the appropriate trade association?
• Have you contacted the Small Business Development Council?
• Have you talked to others already in the type of business?
• Prior to signing anything, have you sought advice from your solicitor:
  • To peruse and explain contracts?
  • To peruse and explain leases?
  • To peruse legal structures?
• What industry material/publications are available for dealing with the type of business?
• Have you sought the opinions of potential customers or suppliers?

It is essential to get a full understanding of your business environment. Knowing why some in your industry fail while others succeed, whether your industry is growing or contracting and what the critical points are for success, will give you an edge. Time and effort acquiring this (mostly free) knowledge before you commit yourself is a sound investment.

WHAT SETS YOUR BUSINESS ABOVE THE COMPETITION?

• Do you have a better product or service?
• Will your price/location give you a competitive advantage?
• Is your method of delivery/distribution better?
• Will you be relying mainly on capacity for hard work and enthusiasm for success?
  Energy and dedication are essential but alone are not sufficient for success. **If you have no advantage over your competitors you will find survival difficult.**
THE BUSINESS PLAN

Ultimately, the consideration given to all the points raised within this checklist should provide

<table>
<thead>
<tr>
<th>ARE THE FOLLOWING ELEMENTS PRESENT IN THE BUSINESS PLAN?</th>
</tr>
</thead>
</table>
| 1. **THE BUSINESS**  
  A description of the business, reasons for being in the business |
| 2. **AN OPPORTUNITIES STATEMENT**  
  Are trends and outlooks for the market, the business and its overall performance identified? |
| 3. **A STRATEGIC AUDIT**  
  Has the business a “mission”, directions for growth, identifiable advantages over competitors? |
| 4. **OBJECTIVES**  
  Have performance measures and targets been identified and established? |
| 5. **BUSINESS STRATEGIES**  
  Have these been identified for marketing, production, personnel and financial matters? |
| 6. **ACTION PLANS**  
  Have plans for “making it happen” been identified – the who, when, what and how of being in business? |
| 7. **THE TOTAL PLAN**  
  Has provision been made for learning from the operations and experiences? |

DOES YOUR BUSINESS PLAN SUPPORT A LOAN APPLICATION?

FINANCING REQUIREMENTS

You need to determine the costs involved in starting and operating your business. Some of these can be:

**CAPITAL COSTS**

- Building and renovations
- Plant and equipment
- Goodwill
- Motor vehicles

**STARTUP COSTS**

- Cost of stock (takeover and/or purchases)
- Deposits, bonds and connections
- Licenses and fees
- Promotional costs
- Legal costs
GROWTH COSTS

- Ability to fund/finance business growth
  (a mix of extra capital and debt is needed)

OPERATING COSTS

- Wages/commissions (staff and your own)
- Rents/leases and other occupancy costs
- Administration/accountancy
- Telephone/fax etc
- Transport and selling

FINANCING COSTS

- Interest and loan/lease repayments
- Bank and legal fees
- Debtors, factoring etc

Will you have sufficient capital, loan funds and revenue to cover all costs and expenditure? It is vitally important you are able to meet all of your obligations as they fall due.

BUSINESS EQUITY

Owners’ equity is an important consideration for borrowing money to start a business because the lender will expect you to contribute part of the total amount required.

Other considerations include:

- Degree of risk of the industry
- Ability of the business to repay
- Financial history and record of the people wanting to borrow

You need to determine what the cost of servicing/repaying the required level of borrowing will be. Now look carefully at the returns you can expect from the business.

To calculate whether your business will be viable or not you need to establish an initial target figure. This helps you determine the amount of sales required to break even.
To determine the initial target figure we need to look at the relationship between capital, borrowed funds, estimate of gross profits and cost of sales.

Expected level of sales $ 

**Less** cost of purchases or manufacture $_______________

Gross profit $ 

**Less** operating costs $_______________

Net Profit $ 

**Less** tax $ 

**Less** loan repayments $___________ $_________________

Surplus $ 

Which equals the sum available for principal repayment/contingencies. 
ie loan can be repaid within ........... years.

**SUPPORTING SECURITY**

You need to determine what security is available to be offered to the lender to support borrowings. You need to be aware lenders are likely to place a conservative value on assets offered as security.

**SOURCES OF OUTSIDE HELP/ADVICE**

- Accountants
- Accredited business agents
- Lawyers
- Consultants
- Trade and professional associations
- Employer associations
- Government
- Teaching institutions
- Other small business owners
- Customers and suppliers
- Victorian Business Centre Network
  For more information contact
  Victorian Business Line 13 22 15
  Fax: 03 9651 8108
  E-mail enquiries@iird.vic.gov.au
  Website: 222.business.vic.gov.au
  Or visit your local Victorian Business Centre
CONCLUSION

In summary, is the business likely to:

- Provide an adequate wage?
- Provide a return for your capital (commensurate with the risk)?
- Help you meet your other goals and ambitions

When satisfied that you fully understand the foregoing, you are in a position to contemplate the purchase and prepare a suitable application to finance.

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