

Crimson Cardinal *Healthcare Intermediary*

a division of Crimson Cardinal Realty LLC

Are You Qualified to Buy this Business?

So, you found an operation that excites you. You ran the numbers. The deal looks promising. Question – do you qualify to purchase this business? What conditions would immediately disqualify you? What issues can you overcome? What actions can you take today to avoid these qualification pitfalls? This article examines the primary qualifications buyers need to have to purchase most healthcare- related facilities or practices.

Credentials

Does the operation require a state license? Dental practices and medical offices are obvious. But adult care and family care facilities are different. The primary owner need not be a licensed professional, but medical aides and staff administering medications need certain clinical skills [validations](#). For home care agencies (NC), have you complied with the initial survey checklist and [licensure rules](#) (e.g., required training, satisfied the agency director requirements)?

Financial Strength

Do you have sufficient cash to invest in the operations? Most legitimate business opportunities require the buyer to put a down payment or equity injection into the purchase. Also, if you are getting bank financing or requesting the seller to carryback a note, you will need to put some of your own money into the transaction. A 20% to 40% down payment is a good starting point. In addition to the down payment, you will need working capital to keep the business operating. Working capital is the cash on hand you need to support your operation (e.g., paying employees, vendors, and yourself before customers pay you). If the transition to the new owner is bumpy (e.g., drop in customer receipts or patronage), you may need several months of cash reserves to help you through those rough times.

Financial Liquidity

How readily available is your down payment? Must you sell assets to come up with the down payment? Will you need to take out a home equity loan? If you cannot show that you are able to promptly get the cash to buy the operation, the seller may not see your offer as credible.

Personal Credit

How you manage your personal finances is a strong indication of how you will manage your new business's finances. Do you pay your bills on time? What is your FICO score? Do you have bad credit or have you declared bankruptcy in the past 7 years? You do not need to have a great credit score to buy a business. However, it is a reflection of your character. Did you ignore your past financial issues or try to manage them as best as you could at that time? Things happen (e.g., loss of job, divorce, medical emergencies). Just be prepared to answer questions about your credit history in an honest and straight-forward way.

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Timing

What are your expectations on timing? Do you want to immediately take over the operation after closing or do you need a transition period? Do you need industry-specific or franchise-specific training? Does the seller need to introduce you to key customers and vendors? Many owners are willing to provide some transition training but not too long. Sellers are ready to move to their next venture or stage in life.

Decision Maker

Who else will be affected by your decision to buy this business? Have you discussed the matter with these people, in particular your spouse? Will there be multiple new owners? If so, what is the process of arriving at a collective decision to buy or not buy the business? The more complicated your decision process is, the more cautious the seller will be.

Management Experience

Having relevant management experience will make the seller more comfortable with you. Are you familiar with this kind of operation? Have you spent any time in the industry as a worker, manager, owner, or supplier? What relationship, if any, do or did you have with this industry? In some cases, bankers, consultants, and other professionals that provide services to an industry have successfully bought and ran an operation, with some outside assistance, in that industry. Consider asking the seller in-depth questions about the operation that demonstrate you understand the key success factors in this industry.

Buyer Disqualifications

There are some behaviors and characteristics that may quickly disqualify a buyer from the seller's perspective. Here are a few:

- Buyer is secretive about the source of money or amount available to invest in the business
- Primary source of funding comes from non-banking, outside sources
- Buyer only has "sweat equity" and expects the bank and the seller to provide the primary financing
- Buyer wants to be an absentee owner. Expects to hire a manager to run the operation
- Buyer has declared bankruptcy within the last 7 years
- Buyer asks lots of questions and is uncertain or not clear on her reasons for buying the operation
- Buyer appears to be a competitor or tire-kicker seeking insider information
- Buyer wants seller to remain as an employee
- Buyer's personality clashes with seller's personality
- Buyer's management style not a good fit with the existing business culture