How to Buy a Small Business in Finland: The Tools and Resources Needed

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The purpose of this thesis is to create a guide in English for buying a business in Finland and is aimed at graduate business students. The author chose to write a guide in English, since most of the secondary data for this topic is in Finnish. The topic was picked since the author has an interest in creating his own consultancy firm to help English speakers buy businesses in Finland.

The author of the thesis chose to use qualitative and practical research methods by using literature and online resources. The secondary data collected in the theoretical framework begins with the current state of businesses for sale in Finland and local resources that help entrepreneurs. The secondary data collected in the results section includes a guidebook with the basic resources and tools English speakers need to buy a business in Finland.

This thesis researched the basic steps of mergers and acquisitions deal flow for small business acquisition in Finland. The guidebook touches on the basics of the deal flow and the conclusion provides a summary of the thesis.

Keywords Acquisition, Buying a business, Guidebook

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1 INTRODUCTION

The purpose of this thesis is to create a guide of how to buy a business in Finland. Finland is a Nordic country located in the north-eastern part of Europe. Finland is part of the European Union and has been a full member since 1995 (Larson & Henriksson, 2022). The country has been ranked as the happiest country in the world for five years consecutively (McKeever, 2022). Buying a small business in Finland is an attractive way for entrepreneurs to run an existing business who don't have a new product or service idea.

The author does not have a commission company for this thesis. The author plans to launch a consulting business in Finland that will specialize in small business acquisition for English speakers looking to buy a company in Finland.

1.1 Objectives

The guide is aimed at international English-speaking students with an interest in moving to Finland with help buying a small business. The aim is to help these entrepreneurial minded individuals with the basic tools, knowledge, and resources. Many international students come to Finland to study and have trouble finding a job and would like to stay. Unfortunately, many have trouble finding a job or starting a business. Eventually a student visa expires, and they must leave the country. The purpose is to help these talented international students with another route towards entrepreneurship and keep these talented people in the country to flourish. This thesis helps to structure ideas and implement them. Thus, this practical guide is aimed at individuals who are first time buyers and have no experience in buying a business.

This thesis investigates the resources that can help buying a small business in Finland. Since this guide is focused on first time buyers, it is always a good idea to get familiar with the basics of business and management, and to learn about finish culture, language, and society. In general, to get familiar with the business industry and territory.

This is not a concrete guide to buying a business in general or in Finland. Buying a business is a risk and can have different outcomes for every individual. The reader should more in-depth research before buying a business.

1.2 Research question

Higher education institutions today place a strong emphasis on encouraging students to explore entrepreneurship, creating new business models and ideas, and becoming the next hot start-up. However, not everyone has the next greatest idea or concept that revolutionizes the way we live. In the next decade many business owners will retire and may not have a succession plan in place.

Therefore, the research question for this thesis is: How to buy a business in Finland? The research done in this thesis focuses on the basics of buying a business in Finland as an English speaker.

2 THEORETICAL FRAMEWORK

In research from Dollinger (2008) entrepreneurship is the control and sending of assets to make an imaginative financial association with the final objective being material growth under uncertain conditions. Entrepreneurship through acquisition means to buy a small existing business instead of creating a start-up and facing less risk (Rubock and Yudoff 2021).

According to Elisa Sipponen's thesis research from 2010 to 2011 there was 1,629 changes of ownership in Finland. After five years 81.5 percent of the companies continued to do business in Finland. In her research she found that the level education was a decisive factor in buying a small business. The median age for companies acquired

was 12 years. In 2016 Business Finland funded 141 million euros in small business acquisitions. an estimated 2000, to 3000 acquisitions are made in Finland each year.

In 2021 according the small and medium size barometer there will be 85,000 companies changing hands in the next five years. One and three business in Finland will transfer ownership or sell within the next few years (Koivikko , 2017).

2.1 Finding help

In Finland, there are many local or national business centres that can help with general business needs. Typically, each city, town, and municipality offer help to students and entrepreneurs with getting started with the basics of starting a business. They can help with business plans, marketing, sales, and financing. In this thesis the author focuses on the well-known business help centres in Finland.

Business Finland is a government organization funded by the state of Finland. It was established in 2018 to provide funding for trade, innovation, travel, and investments. The offices are located all over the country and have a staff of 600 experts. Business Finland has 16 reginal offices located in Finland and 40 offices located around the world. (Huittinen,n.a)

Ensimetri is a local business help centre located in Tampere. They help aspiring entrepreneurs with business plans, info sessions and advising. Ensimetri provides business sessions free of charge (ensimetri, n.d).

NewCo Helsinki is a business centre located in Helsinki. They offer free consultation, help new business or existing businesses with relative information and offer help for start-ups to meet there financing goals. They also offer coaching, info sessions and A newco accelerator program.

Red Brick Accelerator is a program located in Tampere that offers early-stage support with idea validation and guidance. Red brick helps with coaching in pre-accelerator and

accelerator programs. They connect early-stage start-ups with seasons professionals and work closely.

TE Offices Local Municipality help centres are located throughout Finland. TE offices are state funded office that provide general help for entrepreneurs, unemployed job seekers, and programs. TE offices can be found in every city or by searching their website page. TE office resources can help with starting a business and further guidance. They give instructions regarding local business centres. Local Municipality business centres are usually found in every city throughout Finland (TE offices, n.d).

In Finland local entrepreneurship offices are located in each town and municipality. These centres help entrepreneurs for free and provide guidance and help for beginning entrepreneurs.

A board of advisors is a unit of professionals and industry experts that have the knowledge and transactional experience. Board members can guide can provide advice throughout the business buying process (Board, 2022). Find board members by directly contacting individuals on LinkedIn, in academia or through a board member site. Board member sites such as Boardio provide board members that industry experts and professionals. The company has 4000 advisors or potential board member in over 100 companies all over the world. Board members can provide connections, advise, and expert knowledge in their field (boardio, n.a).

When buying a business at bare minimum the buyer and seller should have financial advisor for guidance. An accountant that can help the buyer and seller with reviewing and drawing up financial documents and projections. The accountant must be certified. As legal counsel a transactional lawyer that can work with contracts, records deal strategies. The transactional lawyer must assist in the negotiations and purchase agreement with the seller. This team should have a firm understanding of post-closing goals and the seller’s industry (Sherman, 2018).

Hermia Yrityskehitys helps companies with financing, consulting, finding product market fit and help with startups in the different stages of development (hermiayrityskehitys, n.d.).

3 METHODOLOGY

In this thesis the author used qualitative research such as secondary data from books and online sources. Secondary data is re-analyzing current data with the aim of using it to answer new research topics and questions (Smith, 2008).

The thesis author decided to take this approach because there is no guidebook in English for English speakers. Thus, the author investigated how to buy a small business in Finland using secondary resources. The results are a guidebook from the secondary data collected. A guidebook is a book that provides helpful information about a particular subject or topic (Guidebook, n.d). The guide touches upon the basic steps to buying a business in Finland.

4 RESULTS

4.1 GuideBook

The most important plan to have for an entrepreneur is a business plan. It’s difficult to receive any funding or reach goals if there is no business plan (Abrams,2019). A small business plan helps with defining the vision, the steps, and goals. The business plan should include an objective with business, the search process and what added value the buyer brings. An executive summary, financial aspects, opportunity sought, Market assessment, and exit route (Kroeker, 2013).

The executive summary should include what niche business will be acquisitioned and what are the future opportunities that can made. The financial section should include how the buyer will fund the search process. Including own cash, friends fool and family,

commercial lending, investors, and a total of the buyer resources. The buyer should prepare a plan to finance the acquisition and what type of financing and future projections. The opportunity sought section should include the industry, geography, range of the purchase price, Maximum multiple paid for the business, what type of financing (Kroeker, 2013).

The plan should include a section of added value. Assess the value of the business and what value the buyer can bring. The company is worth is future profits so it's important what value can be added. Value can be industry expertise, connections, sales and marketing or any future opportunities. (Uphill & McMillan,2007). Asses what value the company brings in terms of innovations, synergies, economies of scale, talented staff, and customers.

The business plan should include a SWOT analysis of strengths, weaknesses, opportunities, and threats of industry, market, and competition. Strengths are characteristics that create a business advantage. These characteristics can include strengths in teams, employees, services, and financial abilities. Weakness are characteristics that impact the organization negatively. Opportunities are positive conditions in the business environment where organizations can actively pursue. Threats are negative factors that may harm the organization ability to perform in the business environment (Koshy, 2018).

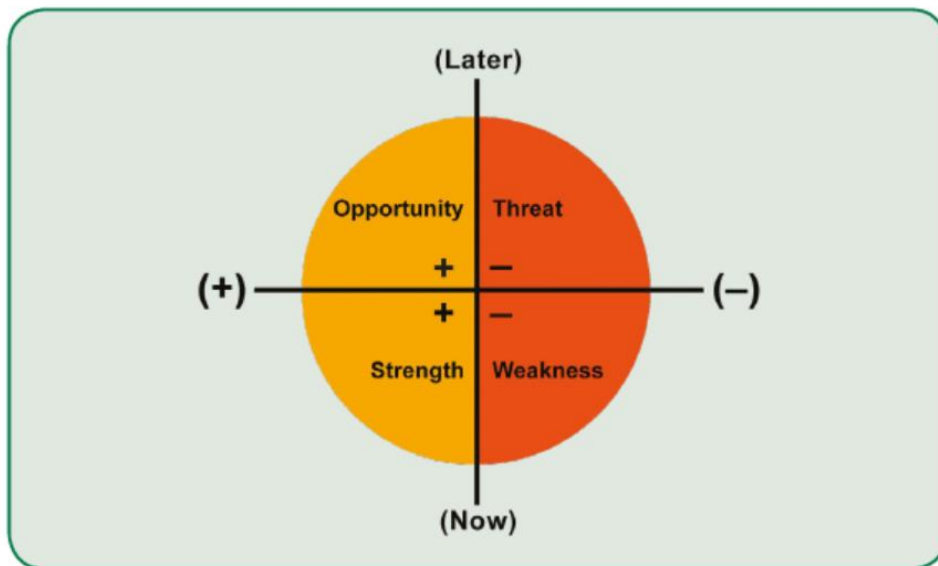

Figure 1. Swot Diagram (Koshy, 2018).

Before buying a business it’s good to ask the following questions. Who am? I and why do I want to buy a business? Am I willing to do the work needed to achieve this? Do I like the business I want to buy? The business needs to fit the lifestyle and personality of the potential buyer. Is the buyer an extroverted natural salesman and what skills can benefit the business? Is the buyer introverted and prefers not working with people directly and find numbers more comfortable? These are valid questions to ask before taking a risk and buying a business. Many businesses have a certain way to doing business and, in a way, must reflect the way the buyer’s traits. For example, retail business may differ from manufacturing (Kluger, 2004).

Does the buyer’s lifestyle fit? Many small businesses require the new owner to be on site and or may require lots of traveling. If a buyer’s lifestyle doesn’t meet the standard of how the business is ran than its important to choose a business that fits (Kluger, 2004).

When searching for a new business it’s important to look at the personality of the business. Does the culture fit with the buyer’s personality? The culture and personality of the business must fit with buyer persona. Employees are accustomed to the business being managed in a specific manner and the culture may not fit if the new owner doesn’t

understand the culture(Kluger, 2004). Many buyers make the mistake and buy the first available business for sale. It's crucial to look at many businesses and finding what business fits the buyer.

It is important to be qualified as a potential buyer before wasting the buyers and the seller's time. Talk with Banks, accountants, and lawyers about business plans and future acquisition plans. Many attorneys may require fees to be paid upfront whether the deal is made or not. Consult with a banker, and outside counsel and decide if buying a small business is the best option (Hill, 2011).

4.2 Important characteristics and Metrics

There are many important metrics to look at when buying but this thesis focuses on the key characteristics and metrics. Ideally starting the search with an established and healthy business with a great reputation. (Rubock and Yudoff, 2017). A business that has years or decades of profitability. A key element to look for is stable customers who continue to do business with the target company. Slow growth is another characteristic to look for as it usually carries less risk (Rubock and Yudoff, 2017, p, 83) The business must be a great fit for the buyers' skills and the buyer should know how the business works before the business is purchased, this means less risk post purchase (Rubock and Yudoff, 2017, pg, 85).

Acquiring a new customer can cost 5 to 25 percent more than keeping a current customer (Gallo, 2014). The metric used to discover the percentage of customers who discontinue doing business within an amount of time is known as the churn rate. It can be measured yearly, quarterly or monthly depending on the service or product sold. Calculating churn is done by dividing the customers who ended the relationship of the business to customers who started doing business in the beginning. The churn rate is an indicator of customer behaviour and not just a financial metric (Gallo, 2014).

CHURN RATE FORMULA

$$\frac{80 \text{ (customers who left)}}{1260 \text{ (customers at the beginning of the period (month/year))}} \times 100 \text{ (for \%)} = 6{,}35\% \text{ (your churn rate for the period (month/year))}$$

Figure 2. Churn Rate Formula (Snov.io, 2021)

A business metric to look at is the earnings before interest depreciation and amortization (EBITDA) Margin. A good margin for manufacturing companies is 15 percent and for service business is 20 percent. Calculating the EBITDA ratio gives the buyer a picture whether the company has enduring profitability and able to pay for future debt services. The figure below shows the calculation (Rubock and Yudoff, 2017).

$$\text{EBITDA margin} = \frac{\text{EBITDA}}{\text{Sales}} \geq \begin{cases} 20\% \text{ for services and manufacturing} \\ 15\% \text{ for distribution and wholesale} \end{cases}$$

Figure 3. EBITDA Margin (Rubock and Yudoff, 2017)

4.3 The seller

Buyers can go into the sales cycle with seller in a controversial manner. This approach can do harm especially when the seller has been the owner for a long time. The

cooperation during the transaction is very important and the buyer is dependent upon the seller after the transaction (Uphill & McMillan, 2007).

A motivated seller is ideal when searching for a business. Make sure the business is being the sold for the right reasons, like personal reasons and not because the business-related reasons. The model below can be used to grade and qualify the seller. It's important to remember, the sellers' motivations for selling are among the most important factors to take into consideration. It usually comes down to three factors: Personal reasons, the business isn't profitable and losing money, or tough times are coming ahead, and the seller want to get rid of it (Kluger, 2004).

Other factors why owners think about selling may be a lack of exit plan or no succession plan. Mny owners have family members that are not interested or may not want to give the business away without a return. Many owners have assets that have high value and without the sale they can't capitalize on their business. Under capitalization is a factor when owners don't have the resources to grow the business, but a potential buyer does (Uphill & McMillan, 2007). Below is a grading model that can be utilized to grade the seller and see if there's a match with the buyer.

Buying and selling a business for wealth

A. Basic grading model		
B. The good	C. Grade 1-10	D. The bad and the ugly
Motivated seller		The opposite is usually in the bad and ugly, but be wary of grading bad as a downside. Some bad elements in a business present opportunity. Look for negatives that can be turned around but also used as a bargaining chip.
Strong retainable management workforces		
Strong matching culture		
Strategic match with ideas		
Sustainable profit record		
Economies of scale obtainable		
Clear and unique brand		
Location or market limits potential		
Quality personnel		
Cost savings		
Strong track record		
Low cost of expansion		
Expandability		
Strong on-going customer relationships/contracts		
Affordability		
What barriers to entry are there		
Strong systems		

Figure 4. Basic grading Model (Uphill & McMillan,2007)

4.4 The search process

The search process may take from a few months up to two years. The two main ways of searching are usually a self-search or with search funds. Self- searching means the searcher pays for all expenses throughout the search process, this means any out-of-pocket expenses. This can include home expenses, travel expenses, professional fees, and other cost throughout the search process. Search funds is typically money loaned throughout the search process in hopes to get a return on investment by using an

Internal return rate. Search funds can come from private equity, angle investors and search fund investors (Rubock and Yudoff, 2017)

4.5 Searching with brokers

Firmakauppa is a free service created by Suomen Yritykaupat. The website assists small businesses owners with selling their business. All business sold on Firmakauppa are under 200,000 euros. The goal is to provide a platform for small business owners. Firmakauppa does not charge for transfer of ownership. The platform provides professional assistance for those who have further questions or doubts. (Firmakaupan Käyttöehdot, Tausta Ja Toimintatapa - Firmakauppa.fi, n.d.)

Yrityskaupat is Finland largest business broker. The first preliminary meeting is free of charge. Yrityskaupat charges 5 percent of the purchase price. They have agreements with largest banks in Finland and have the largest register of businesses (Yrityskaupan Välitys, n.d.)

4.6 Self Search

Self-search is the process of finding a business to buy without a third party. Usually, self-searching may take longer and is costlier without search funds because the searcher is paying for everyday cost. The benefit of a self-searching is the buyer is able to find the businesses wants and having full ownership of the business after closing (Rubock and Yudoff, 2017).

4.7 Sales and Marketing

Sales & Marketing is one of the most import aspects of buying a business. From the first call to the closing the deal. In this section the author outlines how to organize marketing and sales structure by setting up a website, leave behind brochure, prospecting, qualifying leads, and meeting with the potential seller. Below is a Sales Funnel, it shows the steps to be taken to close a sale from gathering to closing the deal.

According to James Stein Sharpe 2014 the visiting executive of entrepreneurship through acquisition at Harvard business school It is detrimental to have a website so the owner and future employees can learn about the buyer. Owners and brokers need to know that the buyer is qualified to carry out the transaction. James Stein suggests building a website by using website makers. Create a page with an easy call to action. It should have the buyer's information such as an email, phone, and the footer. The tabs should have the basic home, focus and Contact (Sharpe, 2014).

The focus page is where the buyer speaks directly to the seller. Do not use "deal jargon" and confuse the seller. Focus on industry, market, and size. The website is meant to qualify the seller and have the seller want to meet the dealmaker. The contact page should consist of an easy call to action where the seller can easily contact the buyer. It should have an email, address, and phone number (Sharpe,2014).

A brochure or leave behind document is way to personalize a message to the potential business owner and seller. The leave behind document should include a photo the buyer's photo, background, and why the buyer would like to own and run a business. It should include the business target with a short section of the criteria. A what to expect section with the following steps to buy the business. A source of funds sections that outlines how the acquisition will be funded and short description of the buyer (Sharpe, 2014).

Modern selling involves the use of a variety of different skills. Seller in todays must form relationships with customers and retain them. To become good at selling a key skill is to listen and be sincere, be honest and ask questions (Jobber, 2019). In Finland, prospecting can be done by using the online tools such as finder. Finder.fi is a Finnish website that can help find local businesses by location, revenue, website, phone numbers owners and industries. Finder provides company information such business Identifications, website addresses and business street addresses. The financial information of each company includes turnover, operating profit, EBITDA and financial results. The search can be done by typing the company, decision maker, service or location (Finder.fi Yrityshaku ,n.d.)

Qualifying a lead is qualifying a business that can become a potential customer and fits the qualities the buyer is intending to look for. (Connick, 2020) These are the best tools to prospect and find new leads. LinkedIn sales Navigator is the premium service offered by LinkedIn. It allows searchers to search for local or international businesses using location, revenue, people, titles, and industries, etc. It can send InMail's, an email within sales navigator, voice messages and videos. It can keep track of new positions being hired, any new news of businesses, changes in the community and users can engage with content (Callahan, 2021).

4.8 Qualifying

The seller is not a qualified until the buyer has a good idea why they would like to sell the company. The owner must fit all the criteria listed in Section 4 to be a qualified seller. For great salespeople qualifying must be a task that must have discipline. Time cannot be waisted with prospects not willing to purchase your offer. Qualifying at a high-level means to collect information during the prospecting phase and throughout the sales process. Thus, looking for any signals that could lead to disqualification of the prospect (Blount, 2017).

4.9 Cold calling and emailing

Cold calling is the act of calling a prospect who has no prior knowledge with the person to offer a sales pitch to everyone (Sobczak, 2013). Cold Calling is the fastest way to see if the potential owner would like to sell the business. Email the prospect and in the email and write the intention to call and have a follow up phone call or vice versa (Lajoux, 2019).

The first four seconds of the call are the most important, the buyer must establish that he's an expert on the business industry or field, enthusiastic and mentally acute. The Seller judges the buyer on these calls because they do not want to do business with a novice (Belfort, 2018).

Going into the call the buyer knows more information based on the research done. Thus, the buyer holds a better position. So, it's important to show expertise. This impresses the buyer. Give the seller some information and what is the intention. The goal is to set a meeting but before it would be good to have obtained the sellers financials (Lajoux, 2019).

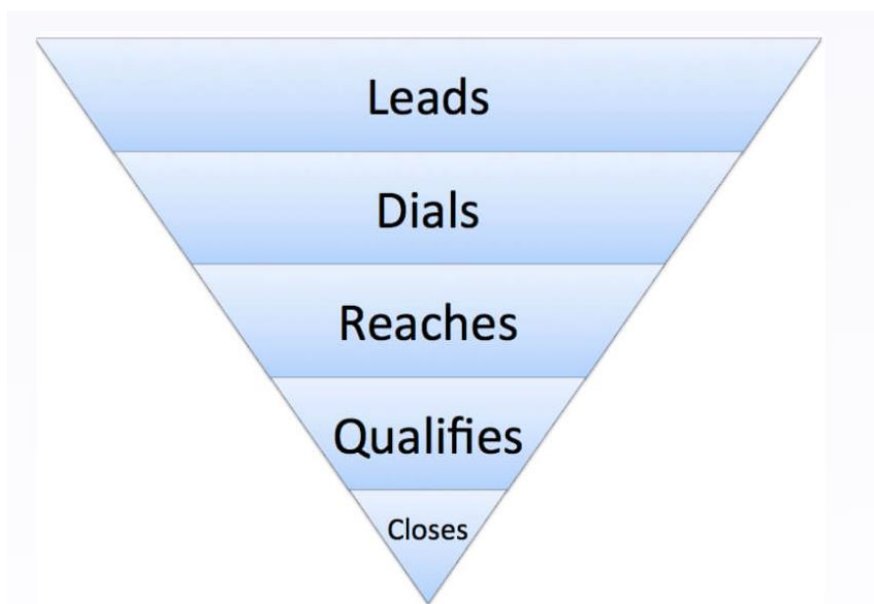

Figure 5. The Sales Funnel (Efti,2014)

The first document signed is the confidentiality agreement. The confidentiality agreement states that both parties cannot disclose any information to any third party. Both agree to use the information for transactional purposes only. At this point the seller must disclose certain information to the buyer but not classified information until the acquisition agreement (Miller, 2017).

4.10 The first meeting

The goal of the first meeting is to gain a further understanding of the company and its operational activities. The buyer and the seller have a connection and can build a good

relationship. Ask the seller for the past 5 years financial and taxes. These financials are used to make a valuation of the company.

Before making an offer, formulate questions that help to learn more about the business and its key relationships. (Pg163 buying a small business) If the business passes the criteria filters, it's time to conduct an onsite visit. During the onsite visit the buyer should learn more about seller motivations, any challenges the business if facing. (Uphill & McMillan, pg,166)

In this visit typically the buyer learns more about the products, suppliers' competitors, and employees (Uphill & McMillan, pg,165). The visit gives insights and a live view of the business during its operations. During this first initial meeting the buyer typically doesn't key members of the management team until later during the sales process.

4.11 Valuation and financial projections

Financial projections are evaluating the future of the business in a numerical projection. Typically, the projections estimate the next five years revenues, expenses, quality of earnings. As the buyer moves further within the sales cycle the financial model is looked at repeatedly (Lajoux, 2019).

In buying a business valuation means the process of discovering the value of a company (Hayes, 2021). Valuation is used to find the value of a company in economic terms. To find the fair price using different valuation approaches. There are dozens of Valuation approaches but in this thesis, only the valuation methods that fit with buying a small business are mentioned.

4.12 Discounted Cashflow

The discounted cash flow method is the most common method used to measure year to year cash flows. A review of the cashflows and the current interest rate is needed when calculating the discount cash flow model. Thus, the base of the calculations is dependent on the discount rate (Der, 2013).

Terminal Value

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

CF = Cash Flow
r = Discount Rate (WACC)

Figure 6. Discounted Cashflow Model

Performing a discounted cashflow analysis involves applying assumptions and calculating different financial statements. According to (Lajoux ,2019) there are four ways to approach the discounted cash flow method:

Analysing the free cashflows and forecasting. Reviewing and constructing and building assumptions of historical financial statements. Helps find synergies and appropriate forecast (Lajoux, 2019).

Determining the estimated cost of capital by analysing the weighted average of cost of capital (WACC) and calculating the equity and debt capital.

$$WACC = \frac{E}{E+D} * R_E + \frac{D}{E+D} * R_D * (1-T)$$

Figure 7. Weighted average Cost of Capital

determine the terminal value. The terminal meaning the future projected value of the business usually five years using integrating the discount cashflow method (Lajoux, 2019).

$$[FCF \times (1 + g)] / (d - g)$$

Figure 8. Free Cash Flow Model

All calculations are than discounted by each year and the terminal value (lajoux,2019).

4.13 Free Cashflow

After all investments are deducted the cashflow that is generated from operation is known as free cash flow (Koller, 2020). Free cashflow gives considerable insights into the worth of the company. Free cash flow is a more useful method than reviewing operating cashflow. It can be calculated after tax or before tax. A negative free cashflow can mean that the business cannot pay its debt service or cash obligations (Vernimmen et al., 2018).

Free Cash Flow

Free Cash Flow (FCF) refers to a firm's cash resources available for distribution to the owners of the company.

Free Cash Formula

FCF = Operating Cash Flow – All Capital Expenditure

OR

FCF = EBIT x (1-Tax Rate) + Depreciation + Amortization – Change in Net Working Capital – Capital Expenditure

Figure 9. Free Cash flow Formula

Ebitda is earning before interest, taxes or depreciation and amortization. EBITDA does not include investments in property, plants, and equipment. A good EBITDA ratio when

looking for a company is 15 to 20 percent (Rubock and Yudoff, 2017). Buyers can gauge the company's ability to pay off debt by applying the EBITDA to sales ratio. A high EBITDA ratio is better than a low ratio. A low EBITDA ratio is a sign that the company is having financial difficulties and may not be able to take on debt.

Figure 10. EBITDA to Interest Ratio (Investopedia, 2021)

4.14 Internal rate of return

The internal rate of the return of investment is known as IRR. If the investment is higher the set return than it's a good investment. A lower return rate serves no benefit and means it's a bad investment (Vernimmen, 2018). Financial analysis uses the internal rate of return to determine the profitability of potential investments. In investing banking, the internal rate of return is used often by comparing expected return to the investors metrics (Vernimmen et al., 2018).

$$IRR = \sum_{t-1}^{t} \frac{C_t}{(1+r)^t} - C_o$$

$\underline{Where}$:
$C_t = Net\ Cash\ Inflow\ During\ the\ Period\ t$
$r \ = Discount\ Rate$
$t \ = Number\ of\ Time\ Periods$
$C_o = Total\ Initial\ Investment\ Cost$

Figure 9. Internal Rate of Return

4.15 Add Backs

Expenses are added-back and transferred from the income statement into the company's net earnings, giving the buyer a precise and complete picture of how the company performed. There are several addbacks that can affect the valuation of the company (Bharucha, 2022).

Depreciation and amortization are expenses that are abstract expenses that are on the income statement but are abstract cost that haven't occurred (no cash movement) so they do not affect the owners' financial gains (Bharucha, 2022).

Interest on a loan: If agreed with the seller that the debt is not transferred than the interest can be added back. Sellers personal expenses or for family members can be added back to the earnings. Excessive remuneration to seller such as wages or family member wages. These can be added back to earnings. Any expense that will not be taken on by the new owner (Bharucha, 2022).

4.16 Quality of earnings

Dismissing any accounting techniques, one-time occurrences, that might change or affect revenue from the income statement. A deeper look at cash movement and its quality.

Reviewing the quality of earnings is an important step in the preliminary due diligence phase. It removes any bias in the seller reports and reviews any inflated numbers due to company accounting tricks (Touvila, 2019).

4.17 Making an offer

After building a three-statement model projection the next step is to draw up a letter of Intent. Making an offer is the first step toward purchasing the business. The offer is

done by sending a letter of intent to the seller. The letter of intent also known as an LOI is a preliminary document defining the engagement of two parties about two enter the agreement. the letter of intent is not a contractual agreement and is not binding. The letter of intent outlines the procedures that the two parties enter. (Lajoux, 2019) The letter of intent does give both parties confidentially and prohibits talks with a third party. (Lajoux, 2019).

The letter provides a description of how the transaction is organized. The purchase price, payment, terms of notes and other important details like the timeframe, representation and warranties and termination clauses. When the Letter of Intent is signed, the procedure starts. If the Loi stipulates a deadline, the buyer should finish most of the paperwork required within the first 30 days so there is enough time to negotiate the purchase agreement and finalize financing arrangements (Ruback and Yudkoff, 2017). The LOI should also specify working capital. Working capital is the

4.18 Due Diligence

Due diligence in an acquisition consists of investigating the risk of a proposed transaction by investigating all elements of the business. Due diligence includes financial review, management and operations review, legal compliance review, document review and transactional review. The cost due diligence can vary by cost of the transaction. According to the *Harvard business review* buying a small business can cost from anywhere from 20,000 to 50,000 dollars or more (Ruback and Yudoff). In Finland this cost might vary, the buyer should investigate the cost by inquiring local and international law and accounting firms.

The due diligence process begins when there is a willing seller starts analysing the business. At this point, the two sides are ready to move forward with the process. The time of due diligence varies. The phase may take a few weeks or a year. In small business transaction it usually takes a few weeks (Lajoux, 2019). It’s important to find any bad deals before contacting accountants and attorneys (Ruback and Yudkoff).

Due Diligence is usually done by outside counsel. Financial due diligence requires personnel with a background in accounting and finance. Legal due diligence requires personnel with expertise in legal review. In some cases, appraisers and cybersecurity personnel is needed. Any party involved in the due diligence phase must not have any conflicts of interest. Due diligence can last from a few weeks to one year. (Lajoux, Pg 468). Due diligence takes place on the seller's place or off-site. Onsite due diligence may include checking of financial records, real estate, assets etc. Due diligence of public records, former employees, suppliers any important relationships to the buyer maybe off-site.

When starting, in the first 10-days the due-diligence can be done by the buyer by checking the proof of cash. This is done by checking monthly bank statements and summing up all deposits and payments from the past 3-5 years to verify the past years financials. It's important to base the purchase price on the year the company has no projects that effect the next year. Compared to what was reported to the state, compare the pre-tax payments in the financial statements. Otherwise, the asking price will be too high (Ruback and Yudkoff).

In due diligence there are several hints that might make the buyer think twice about the health of the business. Big difference between taxes reported in financial statement and those reported in the tax statements. Huge differences in revenues, earnings before depreciation and amortization, and cashflow. Cashflow depicted in the bank statements against the cashflow reported for revenue, capital expenditures, and owner distributions (Ruback and Yudkoff, 2017).

After the proof of cash then it's time to do an analysis of quality of earnings. Now it's time to bring in the accountants to review this data. Start by asking the owner or whoever oversees the company's finances to show the components of each line item in the previous year's financials. Get a breakdown of sales by product and customer. (Ruback and Yudkoff, 2017)

4.19 Due diligence checklist

Due Diligence checklist should guide the buyer to ask the right questions. Legal due diligence must be diligently analysed by the buyer's team. Legal due diligence includes corporate records, minute meetings, articles of incorporation, owner and shareholder information. Any contractual agreements among shareholder and owners (Sherman 2018).

Key Intangibles

Intellectual property is an intangible such as patents, trademarks, business secrets, business names. Patents are intellectual property given to an inventor by a government organization. Symbols, words, and names are classified as trademarks. Copyrights such as literature, original works and software are protected under copyright law (Miller, 2017).

Key Tangibles

A tangible asset is an asset that is physical. It's important to examine real property, personal property, warehouses, real estate, and inventory. If the any assets are owned, then ask the seller for the title. It's important to check the contracts related with assets as they may expire soon (Lajoux, 2019).

Special due diligence like Machinery and equipment, software systems, environmental hazards, and special regulations and rules changes in most cases an expert need to be hired to have a thorough examination of business asset, risks, or any liabilities.

Contracts

Reviewing supplier, customer, partners, vendors, and employees' contracts. Reviewing the terms and agreements of every contract and which terms can affect the business

and align with buyer's plan. Any contracts that critical to the business and are difficult to review should be revied by an attorney. Most commercial contracts can be read by the buyer and are easily understood. Certain contracts that have a change- of- control consent require the consent to be transferred (Rubock and Yudoff, 2017).

Customers

Interviewing customer is an important step during the due diligence period. It can be agreed which customers to interviews with. Most often this is done at the end of the due diligence phase if it's not possible to interview key customers in the beginning of the due diligence period, it may be a good idea to call and ask similar companies in another location far from where the seller does business. (Rubock and Yudoff, 2017)

Employee Interviews

By now the seller has likely revealed the to key employees about the sale. At this stage it's important to conduct interviews with key employees and learn more the business. During the interview it's important to retrieve information about the capabilities of key employees as if it's a job interview. These interviews give the buyer insights about what matters to the customers and how closely in line they are with the current market (Rubock and Yudoff, 2017, pg, 24).

4.20 Raising money to buy the business

As soon as the buyer sings the letter of intent it is time to start to raise capital to finance the acquisition. Again, this is when the buyer inner salesperson kicks in. It's recommended to contact several financial intuitions and see which bank can offer the best deal (Rubock and Yudoff, 2017).

Typically, when buying a small business, the buyer borrows two thirds of the cost of the business. In small acquisition deals they are structured with a senior loan, seller financing and equity. The table below shows the typical way to structure capital for a deal (Rubock and Yudoff, 2017).

Raising large amounts of money may see surprising but there are more investors looking for investment opportunities than there are sound investments. There are many investors looking to invest at least a third in a small acquisition deal. Typically, the deal must have a return of invest of 25%. These investors can come from private equity, angel investors or search Fund investors but it's important to keep investors informed on how the search is going (Rubock and Yudoff, 2017).

When the Letter of Intent is ready it's time to reach out to investors. Email investors predictions and assumptions of potential deal targets. It is better to be more cautious than over optimistic since investors will doubt models that sound overly exuberant and can hurt the chances of the buyer raise money for the deal. If the investors are interest than meeting will take place. This meeting is a sales meeting, and the buyer should be fully prepared in answering any questions the investor may have (Rubock and Yudoff, 2017).

TABLE 18-1

Sources of capital for the acquisition of a small business

Senior loan	40%
Seller debt	25%
Equity	35%
Total	100%

Figure 11. Sources of capital (Rubock and Yudoff, 2017)

Equity refers to as the value of a company once the liabilities have been subtracted from the assets. It can refer to as shares or stock and can be sold. Stock or shares are financial instrument and are the value of the company (Lajoux, 2019). In buying a small business the equity typically comes from the buyer or an investor.

Debt capital is money that is owed with an agreement to pay at a certain (Lajoux, 2019). Debt financing can be acquired from different capital sources. This thesis we focus on the commercial lending and private equity funding. A commercial bank is known is a financial institution that lends, saves, and works with customers with deposits and business loans.

Debt capital or a senior loan may come from a commercial lender or private lender. Typically known as a loan. These loans come with interest rates. Interest rates are attached to a loan as a percentage to the loan. Usually measured as annual percentage rate (Rubock and Yudoff, 2017).

To raise capital, carry bank debt and borrow the buyer must establish an acquisition entity. Usually a limited liability company, in Finland known as an osakeyhtiö. (Rubock and Yudoff, 2017 pg, 262) With an osakeyyhtiö the shareholders are responsible for any capital put into the company unless they have agreed contributing their personal assets. It's a legal independent entity that shareholders contribute capital. An osakeyhtiö protects the owner from any risk from personal assets (Osakeyhtiö, n.d.).

Typically, when applying for loan lenders tend to borrow from two types of loans. Unsecured or secured (Ruback and Yudkoff, 2017). Unsecured loans mean they have no collateral and secured means they must provide collateral Companies can pick which loan suits them best. In this thesis the author briefly writes about two types of secured loans. Cash flow-based loans and asset-based loans

Asset based loans are the most common form of lending to small businesses. Asset based loans are a secured loan that must pay the principal and interest. Lenders have a lien on the company's assets if the company fails to service the debt. Assets under lien or collateral typically are real property, inventory, and cash. Cash flow-based loans are a secured loan of credit or loan based on the future revenues or cashflow of the company (Ruback and Yudkoff, 2017).

Private Investment firms

Private Investment firms are a private firm that invest and look for a return on their investment. (Lajoux, 2019).

Business Angels are private investors who invest their money. Typically, they are high net worth individuals with previous roles as entrepreneurs or executives. In the investment cycle business angels tend to invest in the early stages. Such as pre-see or seed. Known as informal investors, business angels invest 50,000 to 100,000 dollars. Business angles are geographical investors and look for close ventures. Business angles leverage their contacts and may be active in decision making with the entrepreneur (Schmidt, 2014).

Finnvera is a state backed bank that help start-ups, medium to small businesses in financing. They provide a loan guarantee. The risk is shared with Finnvera and the bank lender. The website has a dedicated page for buying a business. It has information about the transfer of ownership, financial planning, applying for financing and loan repayment (finnvera, n.d).

Owner Financing

Seller financing is when the seller loans the buyer to purchase the company. This is known as a take back. In this agreement the seller keeps the loan note and buyer makes a down payment. The collateral that backs the note are the assets of the purchased business. The seller has the right to call on the loan if the buyer fails to meet the debt obligations. The seller loan terms are based on the negotiations of both parties. This agreement both parties as they can finance the acquisition during strict lending periods. The finances the rest of the acquisition once the seller note is acquired (Sherman, 2018).

There two types of loans. A Finnvera loan which is a working capital loan for small and medium sized businesses. Usually this is used to purchase tangible assets such machinery, equipment, and investments for projects. The entrepreneur loan is a loan provided by the bank and guaranteed by Finnvera with a personal guarantee. A personal

guarantee is the promise to pay back the loan. Seller Notes are a way for to guarantee payment when the induvial does have enough credit or qualify for a loan The loan can be tied to the individual's personal assets (Lajoux, 2019).

4.21 Acquisition agreement

The most important piece of legal documentation in the deal is the acquisition agreement. The acquisition agreement negotiations determine if the deal moves forward or not (Lajoux, 2019, 559). It's crucial that the buyer hold leverage and maintains a level of control of the acquisition agreement. The buyer or drafter sets the pace of negotiations, conversations, and initial parameters. It's not out of the question that the seller tries to assume control of agreement and add the sellers' own wants. (Lajoux, 2019, 656). However, the buyer has the right to manage the documentation and must be aware that the more information included, the longer it will take to complete the transaction own (Lajoux, 2019, 656).

The purchase agreement also known as the acquisition agreement is always drafted by the lawyer hired for the acquisition transaction. Based on the previous preliminary due-diligence the purchase agreement coincides with earlier review (Ruback and Yudkoff, 2017).

A stock purchase vs asset purchase

A stock purchase is when a buyer purchases the stock of the company. This transfer may include all company owned shares. A stock purchase may be desirable for tax considerations or if the assets are difficult to transfer and third party must consent of the transfer. A stock purchase is more desirable to a seller as a stock purchase includes the companies' liabilities. The disadvantages of a stock deal may include difficulties in acquiring 100% of all stock if there an agreement with stock major stockholders. They may refuse to sell a percentage of their company stock (Lajoux, 2019).

Asset purchase

An asset purchase is the purchase of a company's assets. Assets being a tangible or intangible property owned by the company. Tangible assets typically include real property, inventory, plant and equipment, machinery etc. Intangible assets can be intellectual property, contracts, patents, licenses etc. (Lajoux 2019, pg, 341)

4.22 Major components of the purchase agreement

Introductory Material

The introductory materials describe each party's aims, intentions, and objectives. Each Material objective if stated in the agreement may help in case of a disagreement or future litigation. It describes the price and transfer procedures. In an event of an asset deal which assets are to be transferred to the new owner and which are assets are to remain with the buyer.

In the Representations and Warranties section there are detailed statements regarding the legal and financial standing of the seller's company. It provides information such as which property is transferred as well as a timetable of when all legal, financial, and business information must be handed over (Lajoux, 2019). Representations and warranties establish the foundation of due diligence making sure that they are true, and that business has no contingent debt, liabilities, and pending litigation. They are the basis for buyers to be able to receive compensation in case the seller violates any of the agreements.

It's vital to keep into consideration that certain lenders want representations and warranties about the target and certain guarantees from the seller to finance the deal. Certain lenders may want to insert certain language to cover areas to for less risk. Included, is language that both buyer and seller, in an event of untrue material may walk out of the deal. The less warranties and representations the less risk that the buyer and seller leave the deal. Most of the time in negotiating takes place over Representations and warranties (Lajoux, 2019).

If the seller violated the representations and warranties of the purchase agreement after the sale than the seller must compensate the buyer. The most important Representations and warranties are financial statements, any past or pending litigation, taxes and any liabilities that may have not been disclosed. It's important to try to confirm the truthfulness of the representations and warranties to have minimum legal issues. The representations and warranties are a legal way to allocate risk, not a way to show integrity (Lajoux, 2019).

Covenants

A covenant is contractual promise or agreement between two parties about ongoing activities. The covenants define and outline the buyers and sellers' agreements between signing and closing the acquisition deal. Typically, how the seller will carry out business post signing (Miller and Segall, 2017). Thus, how the seller will not make any major changes, withdraw funds, maintain the company's financial structure and in some cases have non-compete agreements (Miller and Segall, 2017). Any major changes to covenants must be accepted by the buyer (Lajoux, 2019 pg,586).

Working capital

Working capital is tricky to calculate as it fluctuates through the whole transaction. Working capital is current assets minus liabilities. In buying a small business the most common way to buy the company on a cash free, debt free basis. All debt is then retained by the seller. In the Letter of Intent, it must be specified that the amount of working capital that the buyer retains. It might be a good idea to explain this to the seller in the first phase of talks as it may come as a surprise that working capital cash is not staying with owner (Ruback and Yudkoff, 2017).

A mechanism explaining how working capital is distributed in the Letter of Intent is a good idea and takes away any concerns or confusion regarding working capital. Any positive working capital agreed also stays with the new owner. Between 120 to 30 days all working capital is adjusted after closing (Ruback and Yudkoff, 2017).

Conditions to closing

The condition to closing outline the issues that need to be addressed before signing or if it’s a deferred closing meaning the deal is signed but cannot close until certain issues are met and resolved (Miller and Segall, 2017 pg, 200). If the buyer and the seller are not pleased, then they are not required to close the deal. If Both the seller and buyer agree to waive any condition, they both can continue to close (Lajoux 2019 pg, 587).

Tax

In a stock purchase when shares are transferred the buyer must pay a transfer tax based on the purchase price. The buyer must make report the acquisition within two months after signing the deal. If there are several buyers everyone must file a report separately. Within two months of the acquisition deal the buyer or buyers must pay the transfer tax. The transfer tax is 1.6 percent of the purchase price. (Vero, n.d) In the event when the business is transferred to another entity assuming control of the previous business it is exempt from paying transfer tax if the meet the requirements in § 52d of the Act on the taxation of business income (EVL) (Vero, n.d).

Closing and Beyond

The closing day, lawyers collect all papers and signatures and hold them in escrow. The funds are transfer and released, and the buyer is the new owner (Ruback and Yudkoff, 2017). New owners are eager to get their hands dirty and make changes immediately. The best course of action is to not change anything. In most post purchases of businesses, the seller stays on for a period to transfer the business. Learn from the seller, ask questions, and prepare a list of questions to ask. Set up an office next to his office and observe and ask questions. Communicate to the employees about the new changes in how work with the owner will begin (Ruback and Yudkoff, 2017).

Post transaction business can run out of cash. The previous owner ran a debt free business but now the business has acquisition debt. Start by reviewing account

receivables weekly and all purchases should be approved to track cash flow. Initiate a 90- day cash flow forecast. Using receipts and expenses, forecast, the next three months to look at any cash crunches and identify any cashflow problems in the future (Ruback and Yudkoff, 2017).

Employees might be fearful of the new changes such as job losses and cost reductions. The previous owner might have sellers' remorse and may have trouble coping with new owners' strategies. Staff levels may arise as the company hopes to meet financial projections this can lead to job reductions to meet investment targets. Staff management levels is easier to examine as the management was reviewed during the due diligence phase (Sherman, 2018).

Leadership is a major part in the process of buying a business. To understand transformational Leadership, it is necessary to understand the origin of transformation. Coming from the word transform, to change in behaviour, character, or functions, or convert. According to Nissinen (2006), a transformational leader finds a way to recognize the wants and needs of subordinates or team members and works towards meeting those needs. Thus, makes followers more engaged in the in work (Nissenen,2006, pg.154).

Transformational leaders can guide their followers to perform at a higher level than they originally thought to do. They do this by meeting the aspirational needs and desires of followers by setting ambitious goals that bring together subordinates to the primary goal and their interest (Nissenen,2006, pg.156).

5 CONCLUSION

The author chose this topic to help graduates with another option in entrepreneurship. The information collected helps the author with plans with starting a small business consultant firm. The author plans to help English speakers with buying a small business in Finland. The sections in the thesis guide the author with information with the basic

steps and knowledge to buy and sell a business in Finland. The thesis touched upon the basics of buying a business and the data collected is meant for more research into the subject and help English speakers to buy a small business.

The research question “how to buy a business in Finland” was answered in this thesis by providing the local resources and guide to deal flow for a small business acquisition. The most important aspect in the research was the reasons why the seller wants to sell the business. The author believes evaluating seller motivations can save time for all parties. Through the research seller motivations can be easily found by qualifying the seller and evaluating the criteria.

The author believes that demonstrating the willingness, confidence, and leadership skills that any recent graduate can buy a business in Finland and this thesis is basic guide that recent graduates and the author can use to purchase a small business in Finland.

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