Benefits of Buying an Established Business

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"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years." - *Warren Buffett*

So you want to be your own boss — no superiors, no shareholders, and no board of directors. Consider the options — work as an independent contractor, start your own company, or buy an existing small business. Each option has pros and cons. If you analyze the risks-versus-rewards carefully, you'll learn what many seasoned entrepreneurs have discovered… the scale tips in favor purchasing an existing business.

Admittedly, as an independent contractor (including sole practitioner professional practices and consultants) your risk is minimal and the initial investment and overhead costs are relatively low. You can make a comfortable living; however, without the ability to leverage the work of others, your personal production will probably limit financial returns and equity growth.

Starting a business may pay great dividends over time, but it's important to understand that most start-up businesses falter and eventually fail. According to Michael Gerber, renowned author of The E-Myth Revisited, 40 percent of new businesses fail in the first year and 80 percent fail within 5 years. Poor planning (choice of location, market, product or service) and being undercapitalized are common causes of failure.

On the other hand, purchasing an existing business, when done correctly, reduces an entrepreneur's risk and provides the opportunity for a return on equity. There are a number of reasons to consider purchasing an existing business rather that starting one:

Cash Flow on Day One. Acquisitions are often structured so that you can take a reasonable salary, cover the debt service on acquisition financing, and have some money left over. Owners of start-up businesses, on the other hand, often starve for months or years.

Proven Business Model. Buying an established business is less risky — as a buyer you already know the process or concept works, and the products, services, location and markets are proven. Lots of expensive mistakes have already been made in order to get it right.

Acquisition Financing. Existing businesses have a track record of viability. Securing financing for a business acquisition is far easier than funding a start-up for that very reason. A bank can rely on actual historical results for that specific business, not just plans and wishful projections.

Recognized Brand. Chances are the seller spent years building a brand. That brand recognition and any marketing the seller has done should transfer to you. When you have an established name and presence in the business community, it's easier to make cold calls and attract new business than with an unknown, unproven start up.

People & Relationships. In a small business acquisition, one of the most valuable and important assets you're buying is established relationships with people and allied businesses. It took the seller time to find employees, develop them and assimilate them into the company culture. With the right team in place, you will have an easier time implementing growth strategies, and more opportunities to spend time with family, take vacation, or work on other business ventures. In start-up mode, when you go on vacation, the business goes with you. When you purchase an existing business, you also usually buy an existing customer base, vendor base, and other strategic relationships that took years to develop. It's common for the seller to stay on with the business for some time to ensure that these relationships are properly transferred.

Ten Advantages of Buying a Business

1. Actual financial results vs. projections
2. Immediate cash flow
3. Proven products, services and markets
4. Customers, lead flow & market awareness
5. Established suppliers and credit
6. Employees - hired and trained
7. Proven location, facility and equipment
8. Established systems and procedures
9. Availability of financing
10. Seller training, knowledge and experience

Focus on Growth. You may be wondering if buying an existing business leaves enough room for innovation and creativity. Experienced entrepreneurs know that starting a new business means spending a lot of time and money on basic necessities like computers, telephones, furniture and equipment, policies, insurances, permits, recruiting, and numerous other infrastructure and tasks that don't directly generate cash flow. When you purchase an existing well-run business, because the seller has already laid the foundation, made and corrected the mistakes, incurred the usual string of start-up losses and dispensed with the time-consuming and tedious start-up work, you should be in a position to focus on business improvements, innovation and growth soon after you take the reigns.

Becoming your own boss involves risk, but by successfully purchasing an established business, you can reduce the risk of failure associated with a start up and enjoy the opportunity to build enterprise value over time.

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