The Benefits of Buying a Business versus Starting a New Business

By Gary Papay, M&AMI

So you want to be your own boss. Consider the options – work as an independent contractor…start your own business…buy an existing company.

Certainly there are pros and cons to each option. If you do a careful analysis, you'll learn what many seasoned entrepreneurs have discovered…the risk-to-reward ratio is tipped in your favor when you purchase an existing business.

Admittedly, as an independent contractor, your risk is minimal. The up front investment and overhead costs are limited. However, without the ability to leverage the work of an employee base, the returns are limited by your own personal capacity.

Starting a business of your own can pay great dividends, but it's important to understand that the risks are significant. Most start-up businesses will falter and eventually die. According to Michael Gerber, author of *The E-Myth Revisited,* 40 percent of new businesses fail in the first year and 80 percent fail within five years.

On the other hand, purchasing an existing business reduces an entrepreneur's risk while creating opportunities for tremendous profit.

There are a number of reasons to consider the purchase of an existing business rather that starting one:

- **Proven Concept.** Buying an established business is less risky – as a buyer you already know the process or concept works. Financing a purchase is often easier than securing funding for a start-up business for that very reason—the business has a track record. A bank will be able to look at the historical results for the business, not just rely on projections.
- **Brand.** You're buying a brand name. The on-going benefits of any marketing or networking the prior owner has done will transfer to you. When you have an established name in the business community, it's easier to place cold calls and attract new business than with an unproven start up. That's an intangible benefit that's difficult to put a price on.
- **Relationships.** With the purchase of an existing business, you will also be buying an existing customer base and vendor base that took years to build. It's very common for the seller to stay on and transition with the business for a short time to transfer those relationships to the buyer.
- **Focus.** When you buy a business, you can start working immediately and focus on improving and growing the business immediately. The seller has already laid the foundation and taken care of the time-consuming, tedious start up work. Starting a new business means spending a lot of time and money on basic items like computers, telephones, furniture and policies that don't directly generate cash flow.
- **People.** In an acquisition, one of the most valuable and important assets you're buying is the people. It took the seller time to find those employees, develop them and assimilate them into the company culture. With the right team in place, just about anything is possible and you will have an easier time implementing growth strategies. Plus, with trained people in place you will have more liberty to take vacation, spend time with family, or work on other business ventures. When start-up owners and independent contractors go on vacation, the business goes too.
- **Cash flow.** Typically, a sale is structured so you can cover the debt service, take a reasonable salary, and have some left over to take the business to the next level. Start up owners, on the other hand, often "starve" at first. Some experts say start-ups aren't expected to make money for the first three years.

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- **Risk.** Even with all these advantages, some entrepreneurs believe it is cheaper, and therefore less risky, to start a business than to buy one. But risk is relative. A buyer may pay $1 million, for example, for an established business with strong cash flows of approximately $200,000 to $300,000. A lending institution funds the transaction because historical revenues show the cash flow can support the purchase price. For many people, however, that is far less risky than taking out a $300,000 loan with an unproven concept and projections that may or may not be realized.

Becoming your own boss always involves a risk. When you buy a business, you take a calculated risk that eliminates a lot of the pitfalls and potential for failure that come with a start up.

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