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Starting a Business: Buying a Business

Buying a business presents you with unique opportunities and challenges. This section includes the pros and cons of buying a business, finding out if you're really cut out for running a business, how to value a business, what 'warning signs' you should look out for, and the various legal and statutory obligations surrounding a transfer of ownership.

The three main ways that people get into small business ownership are:

- Starting a business from scratch
- Buying an existing business (or part of a business)
- Buying a franchise

The immediate benefit of buying an existing business is that it's already in operation and so will provide you with an immediate cash flow. However, a common problem is that the departure of the owner may adversely affect the business and so the current takings cannot be guaranteed.

Advantages

Buying an existing franchise or existing business has advantages and disadvantages over starting a business from the ground up. These include:

- Existing customers and contracts
- Existing suppliers
- Existing staff and management
- Acquire goodwill associated with the name and location of the business
- Acquire existing plant, equipment, stock and material
- Acquire knowledge of current owner
- Premises are set up
- Lease on the premises already negotiated
- Financiers lend more readily to an existing business with a trading record

There is a sense of security that comes with buying an existing business - and you can see what you are getting for your money. But that sense of security comes with a price tag that doesn't apply when you start a new business.

Disadvantages

The disadvantages of buying a pre-existing business or a franchise can include:

- Customers may leave when a new operator takes over the business
- Staff may leave when the new owner takes over and you may inherit staff problems
- Staff resentment at the change to a new owner
- Staff entitlements, such as impending long-service leave payments
- Business may have a bad image which is difficult to change
- Plant and equipment may be obsolete or faulty, with potential costly repair bills
- The business may have no real intellectual knowledge that is transferable
- Premises may prove to be inadequate and the cost of improvement as the business develops may be prohibitive
- There may be difficulties in getting the lease assigned with existing entitlements, with the landlord only prepared to offer a new lease
- Previous bad relationship with the landlord may impact business
- Business may be overpriced
- If land or buildings are part of the sale, then as the purchaser you will also have to pay duty to the State Revenue Office

Other Points to Consider

With an existing business there will always be surprises. You may never know the real reason why the business is up for sale, but you can reduce the potential for surprises by insisting on working in the business for a time prior to sale to see how staff and clients really view the business. You also need to make sure you're suited to running a business - just because you're buying an existing business doesn't mean you won't need business skills.

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