

Is buying an existing business a viable option rather than starting from scratch?

This is a question that every person thinking of starting their own business should consider before committing their efforts to starting a brand new business from scratch.

Before looking at the pros and cons of starting from scratch verses buying an existing business, we have tabulated the statistics compiled by the Australian Bureau of Statistics on the total number of Australian businesses, including new entries and exits for the financial year 2007.

	No of Business Start of FY07	No of New Business Entries	No of Business Exits	No of Business End of FY07
Non Employing	1,156,326	227,697 (19.7%)	212,191 (18.4%)	1,171,832 (58.2%)
Employees				
1-4	494,196	84,384 (17.1%)	527,445 (10.4%)	527,445 (26.2%)
5-19	227,373	18,372 (8.1%)	228,313 (7.7%)	228,313 (11.3%)
20-199	80,215	3,663 (4.6%)	17,432 (7.0%)	78,304 (3.9%)
200+	5,797	573 (9.9%)	494 (8.5%)	5,876 (0.3%)
Total	1,963,907	334,689 (16.6%)	286,689 (14.3%)	2,011,770 (100%)

Based on these statistics, it shows that:-

1. More than 84% of small businesses in Australia employ 4 or less employees.
2. Smaller businesses have a higher failure rate as inferred by the business exit numbers.

While there is limited evidence on the exact failure rates of small business, it is widely accepted that business failures are the highest in the first two years in the startup phrase, and the probability of failure reduces from then on.

Some of the reasons for the improvement in survival rates over time are:-

- Found a market for its products or services
- Has an established customer base
- Relationships develop with suppliers and customers
- Core business processes are in place for day to day operations
- Growing goodwill and market reputation
- Establish profitability and cash flows

Buying a Business?

Unless you are looking at selling something unique into the market place, or you have previous experience to take a start business from scratch to a stage where it is profitable, buying an established business would normally be more attractive and financially rewarding. The immediate benefits from purchasing the right business could be:-

- An income from day one as all assets and business structure are in place to generate the income.
- Trading history with customers, employees and supplier relationships already in place.
- Typically it costs less to buy a business when compared to the funding required to establish a startup, particularly when you consider the time it takes to set up operations, develop a sales pipeline, streamline the service delivery and make the sales before reaching a breakeven scenario.
- It's generally much easier to secure finance to purchase an established business when compared with seeking finance by way of a commercial loan for a new 'start up' with no track record.

What businesses are available for sale?

Most people think that typical small businesses offered for sale are businesses such as cafes, and other food or retail outlets, however almost all types of businesses come up for sale at some point in time. For example businesses that may suit persons with a professional background include:-

- Professions with specialist qualifications - Accounting practices, Engineering, consultancy, etc.
- Business to business consulting services – Marketing and Sales, Advertising, Human Resources, IT.
- Niche consultancy - Executive coaching and Mentoring services etc.

Don't make a decision about **starting a business** until you have investigated the market to see if there are businesses available within the areas that you are interested in. You can then "jump" into a profitable business and leverage off the hard work already undertaken by someone else.

Determining Business Value

Understanding the "market worth" or "enterprise value" of a business can provide an objective starting point to determine how you can "Value Add" to an existing business by creating a business plan and developing strategies to make a business "Investor Ready".

The Table below provides an overview of the major factors impacting on business value.

Financial Performance	<ul style="list-style-type: none">• Turnover• Profitability (GP & NP)• Normalised Profits (remove personal items)• Cash Flow• Trends
PLUS Risks Factors	<ul style="list-style-type: none">• Industry Trends• Customer retention/acquisition• Sustainability• Competition
PLUS Perceived Value	<ul style="list-style-type: none">• Synergies gained by purchaser• Strategic advantages• Purchaser specific values such as IP, location, staff, client list
EQUALS Value to Purchaser	