# Buying a Business or Building your own

*Deciding whether or not to buy an existing business or start your own comes down to three things: what experience you have, what kind of business you want, and how open you are to taking financial risks. Once you weigh these things you can make a decision on how to proceed.*

## How much experience do you have?

There is much more risk involved with starting your own business versus buying your own. Michael Gerber, author of *The E-Myth Revisited*, estimates that 40 percent of new businesses fail in the first year and 80 percent fail within five years. If you have little experience with business or with the industry that you are planning on entering, buying an existing business is the safer route, as starting your own requires expertise in the areas of financing, infrastructure, and cash flow. Even if you are buying a business, it will take time to learn how it operates and where its weaknesses lie in order to craft a proper growth strategy.

One advantage that purchasing an existing business provides for the inexperienced owner is the relationships with the former owner, employees, and vendors. When you purchase a business, the owner will most likely assist you in the transition process, explaining the business plan, strategy and relevant market conditions. You will also have employees who are experienced and trained in the business who can inform you about policies and practices. Lastly, vendors that have an established relationship with the business will know the specialized orders that the business requires and other such needs. These relationships will provide you with important insights during the beginning stages of your ownership.

## What kind of business do you want?

The second question that you should ask yourself when deciding between buying an existing business or starting your own is what kind of business you want. If you want a business that is strongly identified with your personalized brand, it may be better to start from scratch. This way, you will be able to design the structure, write the operating policies, and handpick the staff. You also won’t have to deal with past problems with the business such as its poor performance in certain areas or troublesome employees. If you would prefer focusing your efforts on business growth rather than laying the foundations, then acquiring an existing business is the better option.

## What kind of financial risks are you willing to take?

Compared to starting your own business, acquiring an existing business requires a larger initial payment—usually a lump sum. At the same time, banks are more likely to loan money to an established business with a track record rather a start-up that only have projections, which is a greater financial risk. You also forgo the costs of hiring employees, developing a customer base, and developing a product. It is also easier to know how the business will fare beforehand by looking at its current traffic.

In the case of an existing business, cash flow will be immediate whereas for start-ups it is more unpredictable and often requires cash infusion from the owner. For most start-ups, the owners do not make money for the first three years. Thus, while the amount of cash that you have to put out in the beginning is less, it also means that you may have to forgo taking a salary for the first couple of years. This is not the case in an acquisition, where financing usually allows for a salary, loan payments, and business investment. Nonetheless, even in the case of an acquisition there are other fees to be prepared for other than the initial payment, including professional fees or places in the businesses that are underperforming.

Becoming an entrepreneur requires an immense amount of time and effort in the beginning stages without a lot of payoff. There is no guarantee that the business will even succeed, and it requires substantial financial risk, even though it requires less capital than a purchase. If you are willing to sacrifice the time, effort, and money in order to make a business that bears your personal signature from the very base of its foundation, then starting a business is the better option.

However, if you consider yourself to be risk averse or lack experience in business or the industry that you are interested in entering, purchasing an existing business will offer quick financial payoff and allow you to avoid grunt work associated with the first three years. Assessing your level of experience, the type of business you want, and the details of financing will help determine which option will be best in the long run.

**Sources:** 1) BusinessMart.com: “The Advantages of Buying an Existing Business”

2) Calhoun: “The Benefits of Buying a Business versus Starting a New Business”

3) WiseGeek: “What are the Advantages and Disadvantages of Buying an Existing Business?”

4) Encyclopedia of Business: “Buying an Existing Business”

5) Helium: “Advantages to buying an existing business”

6) FindLaw UK: “Advantages and disadvantages of buying an existing business”

7) The Company Warehouse: “Buy an Existing Business or Start Your Own Company”

8) Business Link: "Buy an Existing Business"