

Choosing the Best Business to Buy

Franchise, business opportunity or going it alone? Weigh the pros and cons of each before making your choice.

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Q: I am considering either buying a business or starting my own, so I'm in the process of researching different opportunities. A friend suggested I look into purchasing a franchise. What are the advantages and disadvantages of buying a franchise versus starting a stand-alone business? Wouldn't starting my own business give me more control?

A: In essence, you are facing three different opportunities: 1) buying an existing business, 2) investing in a franchise opportunity or 3) starting a business from scratch. I'll discuss each option individually, and then provide a brief outline of the pros and cons.

Purchasing an Existing Business:

This option can provide a degree of comfort nonexistent in a new venture, as the company will have a tangible operational and financial history that can be evaluated. This history allows an entrepreneur to learn from the past mistakes and successes of the business, eliminating the need for the trial-and-error processes inherent in a start-up. Vendor relationships, employee base, customers and operational processes are all in place.

Sellers are often required to remain with the business during a transition period, which helps in the "training" of a new owner. That being said, significant operational changes may be difficult to instate when procedures are well-entrenched. Finding the right business to purchase can be difficult as well. It is generally wise to leverage your past experience and expertise when purchasing or starting a company, which may limit the number of potential acquisition targets within your geographic region.

Pros

- Known quantity/proven formula
- Owner transition/training available
- Full control of strategic direction
- Ability to thoroughly review past records/history

Cons

- Integration/ownership transfer issues
- Purchase financing may be difficult to find
- Significant changes may be hard to instate
- Difficult to find the right opportunity
- May have unknown "warts" from previous owner

Buying a Franchise:

This route provides a nice compromise between starting your own business and purchasing an existing one. Franchisors have established a set business plan for their franchisees, offering cookie-cutter-type guidelines for new business owners. Financing may be available through the franchisor to help you purchase a franchise. Training and operational support are provided, albeit at varying levels, depending upon the franchise.

Franchisors have an incentive to aid their franchisees because they receive a royalty fee based upon the sales or profitability level of the franchisee. Franchisors may provide help-not only in starting a new franchise, but also in the assessment of existing franchises to help promote operational improvement. On the flip side, the formulaic nature of franchises can create boundaries with regard to the ways a franchisee is allowed to run his or her business. The UFOC (Uniform Franchise Offering Circular), when reviewed in detail, will give you a thorough understanding of the franchisee/franchisor relationship.

Pros

- Step-by-step guidelines
- Training, professional guidance
- Financing may be available
- Continued "consulting" relationship
- Access to other franchisees for help/ideas

Cons

- Operational boundaries (geographic, financial, vendors and so on)
- Limited industry choices-may not be available in specific geographical areas
- Must pay royalty fee

Starting a Business from Scratch:

This option provides the highest level of flexibility to an entrepreneur, as he is able to control every aspect of the business to create a business to his own specifications. The entrepreneur directs every detail, such as product or service positioning, branding, marketing, finding the location, locating vendors and selecting the employee base. This option works best for someone who already has a specific idea for a business.

One of the biggest hurdles faced by a start-up is financing. If the business requires a significant level of initial capital, the entrepreneur will need to solicit sources of funding from angel, venture capital and traditional financing sources to support his investment. Although starting a business generally presents the highest degree of risk of the three options, the rewards for this risk are generally the highest as well.

Pros

- Good option if you have a specific business idea
- Control of all decisions
- Higher return

Cons

- Financing
- Uncertain formula/idea
- Hardest road for inexperienced entrepreneur