



Buy or
Create?

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Should You Buy Or Create Your Business?

By Helen Hirsh Spence and Debra Yearwood

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Becoming an entrepreneur is often associated with creating something from scratch; a new product, service or business. Within an organization it can also be about attitude or approach; then it's referred to as the intrapreneurial spirit. Entrepreneurial activities can be businesses or services built on innovative ideas or an aspiration that people rally around. It can be as uncomplicated as putting out a shingle and offering services as a contractor or consultant. The truth is there are all kinds of entrepreneurs and many of them start by taking over an existing business. If you are uncertain what path is right for you, consider the following before making a decision.

The Benefits and Challenges of Buying

Benefits of Buying a Business:

- You are ready to go. All of the challenging and time consuming work of starting a business from scratch has already been done. The processes, staff, suppliers, tools or equipment, contracts and plans are already in place.
- It comes with a client base. One of the obvious benefits of buying an existing business is that it comes complete with an existing client base. Not only does this help financially, but it can also help you to focus on growth.
- Employees are already hired and they can share their experience with you. You can get up to speed much faster.
- Since the business has a financial history, it can be much easier to get loans. Existing assets will also help.
- Some owners will help the sale of their business by providing vendor financing.
- This is a useful strategy if you want to expand into a new market where you have no contacts.

Challenges:

- Finding the right fit can be challenging. You may find the perfect business but it may come with the wrong culture.
- Your vision may not be consistent with the previous owner and this can lead to conflict.
- The personality of the vendor may be a big contributor to the success of the business.
- The business might be in need of an overhaul to processes, equipment etc. which can be both time consuming and costly.
- It requires a large amount of money to get started.
- The very staff you were hoping to bring you up to speed may leave or there could be morale problems on the departure of your predecessor.

Tips for Purchasing

Although buying a business means you don't have to manage all of the challenges of a start-up, you still have to do a lot of preliminary work to ensure that your investment has a strong return on profit. You should:

- Find out why the business is for sale. The reason could be legitimate or there may be extenuating circumstances such as real estate issues or in-coming competition. Don't take the seller's word alone, ask local businesses or anyone who knows the business or sector.
- Take a good look at the financial statements, legal status and assets in advance.
- Examine the inventory and equipment, look at age and condition.
- Take a close look at the accounts receivable. How likely is it the bills will actually be paid? How long have the accounts been on the books? Use both external and internal assistance to do this.
- Make sure you get a detailed list of the inventory.
- Look at the customer base, how varied is it? Will customers stick around after the current owner leaves?
- What is the cash flow of the business? Will you be able to manage if the flow is slow?
- Are there outstanding loans that you may be responsible for once you purchase the business?
- Find out if you can spend time in the business before purchasing. See how they work, what the culture is like.

Resources

- CRA, Buying a Business: <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/changes-your-business/buying-a-business.html>
- Canada Business Network: <https://canadabusiness.ca/starting/before-starting-your-business/buy-a-business-or-start-your-own/buying-a-business/#toc2>