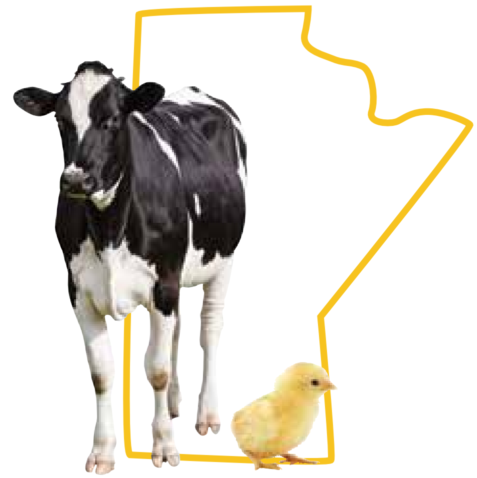
An individual going into business will face many important decisions. One of the more complex is whether to start a new business or buy an existing one. An analysis of the many factors involved requires careful personal research. Additionally, the financial and tax consequences of a decision will necessitate appropriate professional advice.

The following is a number of factors to consider when going into business:

» Personal Satisfaction
» Market
» Location
» Financing
» Capital Assets
» Goodwill
» Staff

Talbot & Associates has the expertise to help ensure you've considered all aspects of the decision and help lead you in the right direction.

BIG FIRM SMARTS
small firm hearts



We give your business **the best of both.**

Ashern, MB
7-1st Avenue South,
P.O. Box 220 R0C 0E0
204.768.2346

Birtle, MB
907 Main Street, P.O. Box 40
R0M 0C0
204.842.5301

Notre-Dame-de-Lourdes, MB
P.O. Box 391 R0G 1M0
204.248.2557

Oak Bluff, MB
100-105 Fort Whyte Way
R4G 0B1
204.269.7460

Steinbach, MB
9B-90 Brandt St. R5G 0T3
204.326.6871

Winnipeg, MB (St. Boniface)
201-160, boulevard Provencher
R2H 0G3
204.987.4875

Winnipeg, MB (St. Norbert)
3553 Pembina Hwy. R3V 1A5
204.269.7460

talbotcpa.ca

TALBOT
ASSOCIÉS • ASSOCIATES

CHARTERED PROFESSIONAL ACCOUNTANTS
COMPTABLES PROFESSIONNELS AGRÉÉS

GOING INTO BUSINESS: STARTING VERSUS BUYING

talbotcpa.ca

Personal Satisfaction

When starting a new business, there is a substantial degree of freedom to engage ideas and organizational skills. Should the business become successful, the accomplishment produces a high level of personal satisfaction. However, the individual may have little experience on which to build, making careful planning a prerequisite to starting a business. Errors in judgment can result in quick and substantial losses.

When buying an existing operation with a proven track record, the possibility of failure is reduced.

Market

When a new business is started, one can only estimate their potential share of the market. At best, this yields a calculated guess. If, on the other hand, an existing business is purchased, there is already an established clientele and, therefore, the overall risk in acquiring a share of the market is reduced.

Existing service and competition in the area will also have a bearing on the market factor. Where competition is weak, starting your own business may be an advantageous way of attracting a good share of the market without the cost of buying someone else's share of the market. Conversely, where competition is strong, buying a business may be necessary to ensure that a share of the market local market is obtained.

Customer loyalty carries considerable weight in the start/buy decision. When loyalty to a specific business is weak, there may be little advantage in buying it. But When customer loyalty is sub-stantial, purchasing the business may be the only way of insuring a strong market position.

Location

When starting a new business, it is obviously ideal to pick a site in the best possible area. However, the best location may not be available and the cost of setting up in the wrong location can have a profound effect on the overall profitability of the venture. Furthermore, extra costs may have to be incurred to upgrade new premises to meet the requirements of the business. In some cases, the effect of the location on an existing business may be easy to determine. Buying such a business may eliminate some of the risks involved in establishing a location.

An existing business may have a favourable lease already in place, and will probably have complied with all municipal by-laws and requirements. However, the terms of the lease and the actual location may not be the best, and in fact, may be the reason the previous owner is trying to sell.

Financing

A new business can begin modestly and avoid the significant amount of initial cash required to purchase an existing operation. Financing startup equipment may have a higher cost, but the expenditure can often be advantageous, when compared to paying for an established business with used equipment.

Suppliers are naturally more reluctant to supply new businesses on a credit basis, which might place a strain on initial cash flow.

Purchasing a business may provide the option of obtaining financing assistance from the vendor. In addition, institutional lenders may feel more secure about lending to a company with an existing record. The actual costs of the used leasehold improvements and fixtures may result in less capital debt needing to be serviced out of the cash flow of the business.

Capital Assets

With a new business, all necessary equipment, leasehold improvements, and inventory may be selected from new stock. Acquiring such assets and installing them, however, takes time, and the limiting factor is the acquisition cost.

Buying an existing business provides equipment that is already installed and available at a reduced cost. Inventory will usually be in place as well, and ready to meet current customer demands.

Goodwill

The acquisition of an existing business provides an automatic customer base. As a result, there is literally no build-up time to maintain a market that the business has already established. However, past management policies (those that attracted customers in the first place!) may hinder the implementation of new ideas. It is important to consider the value placed on goodwill as a comparison with the cost of the build-up of a new customer base.

A new business has to attract a new set of customers. If these are readily identifiable, a new business will be better equipped since fresh management policies can be developed to meet client needs. The time it takes to build a solid customer base is hard to predict, though; a period of low cash flow could result and should be planned for if possible.

Staff

With a new business, the selection and training of new employees is one of the highest priorities. Experienced staff can greatly aid in the transition of an existing business, but may not be compatible with new management. Staff reorganisation may produce problems and expenses.

Summary

The variety of factors affecting the decision to start new or buy an existing business makes it imperative that a proper analysis of the situation be made. This will probably be one of the most important decisions you'll ever make.