

Reasons for Buying an Existing Business

The reasons for buying an existing business can be condensed into three general categories:

1. To reduce some of the uncertainties and unknowns that must be faced when starting a business from the ground up
2. To acquire a business with ongoing operations and already established relationships
3. To obtain an ongoing business at a bargain price—a price below what it would cost to start a new business

Reduction of Uncertainties

A successful business has already demonstrated its ability to attract customers, control costs, and make a profit. Although future operations may be different, the firm's past record shows what it can do under actual market conditions. For example, the satisfactory location of a going concern eliminates one major uncertainty. Although traffic counts are useful in assessing the value of a potential location, the acid test comes when a business opens its doors at that location. This test has already been met in the case of an existing firm. The results are available in the form of sales and profit data. Noncompetition agreements are needed, however; to discourage the seller from starting a new company that will compete directly with the one being sold.

Acquisition of Ongoing Operations and Relationships

The buyer of an existing business typically acquires its personnel, inventories, physical facilities, established banking connections, and ongoing relationships with trade suppliers. Extensive time and effort would be required to build these elements from scratch. Of course, buying an established firm is an advantage only under certain conditions. For example, a firm's skilled, experienced employees constitute a valuable asset only if they will continue to work for the new owner. The physical facilities must not be obsolete, and the firm's relationships with banks and suppliers must be healthy. Also, new agreements will probably have to be negotiated with current vendors and leaseholders—a fact that could impact negatively on the decision to buy an existing business.

A Bargain Price

An existing business may become available at what seems to be a low price. If the seller is more eager to sell the business than the buyer is to buy it, the firm may be available at a discounted price. However, whether it is actually a good buy must be determined by the prospective new owner. The price may appear low, but several factors could make a "bargain price" anything but a bargain. For example, the business may be losing money,

the location may be deteriorating, or the seller may intend to reopen another business as a competitor. On the other hand, the business may indeed be a bargain and turn out to be a wise investment.