

Buy a business or start your own- which is a better bet?

If you are a budding entrepreneur in search of a business, will you do better starting your own company from scratch or buying an existing operation?

As any chartered accountant will tell you, that question is academic unless you have abundant financing. As a rule, start-ups cost far less than purchases of successful businesses; however, there are basic costs involved in any start-up that can't be ignored, and covering them may be difficult if your financing is limited.

If your pockets are deep enough to allow you a choice, remember that in purchasing a business, as in purchasing anything else, you get what you pay for. The vendor of the business you may be eyeing has a good idea of what the business is worth and likely has sought a professional opinion for corroboration. As a potential buyer, it is essential that you call in your own independent valuator.

You should also get professional advice on exactly what you are buying and on financing

options. Typically, when you purchase a business, you can purchase the assets of the business or, if it is incorporated, its shares. Assets generally include tangible property, such as plants and equipment, as well as goodwill. If you purchase shares, you buy the company's assets and goodwill but you also become responsible for unrecorded liabilities, such as unassessed taxes or environmental claims against the company. Thus, buying assets is usually recommended.

The more successful the business, the higher its selling price. In determining whether it's worth the price, you must try to determine the extent to which goodwill built up in the company is transferable.

Service-oriented businesses tend to be valued largely on their goodwill. If you purchase a business in which goodwill is tied more to the existing owner than to the business itself, you run the real risk of losing the customers you thought you had bought. We can all think of a

favourite restaurant that just wasn't the same after being sold by the original owner. On the other hand, a company that manufactures widgets will be valued largely on its tangible assets and secondarily on its goodwill.

If the goodwill of a business is not easily transferable, you may be better off starting your own company and building up your own goodwill.

If you purchase a company, you should negotiate to have a high proportion of the purchase price allocated to tangible assets. In this way, the cost of the purchase can be quickly written-off.

Bear in mind that the "buyer beware" caveat is particularly apt in today's business market. Customers are more demanding and more fickle than ever. And liability problems may come with any business purchase you make; they don't necessarily remain with the former owner.

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