PROJECT Choose a Form of Ownership

Project Objectives

- Consider the purchase of existing businesses
- Research franchise opportunities
- Learn more about partnerships and S corporations

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Getting Started

Read the Project Process below. Make a list of any materials you will need.

- Using the business opportunity you decided upon in Chapter 1, make a list of the businesses that would compete with you within a 10-mile radius of where you are thinking of locating your business.
- If there are no businesses of a similar nature to yours, write a statement telling why your business is unique and why there is no competition for it.

Project Process

3.1 You are considering developing your business idea by purchasing an existing business. Using the list you developed in Getting Started, write down the reasons you would or would not consider buying each company.

3.2 Find franchise opportunities available in your business field. Gather information such as franchise fees, royalties, projected earnings, and operating costs. If you start your own business, assume you will franchise it. Write an advertisement offering to sell franchises to prospective owners.

3.3 You have a friend who is interested in being your business partner. Write the partnership agreement for the two of you. In addition, list the advantages and disadvantages of becoming an S corporation.

Chapter Review

Project Wrap-up Decide whether you will purchase an existing business or a franchise or start a new business. Prepare a report explaining your choice.

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3.1 RUN AN EXISTING BUSINESS

GOALS

Explain the steps involved in buying an existing business

Recognize the advantages and disadvantages of joining a family business

KEY TERMS

business broker, p. 62

valuator, p. 64

JUMP START

On graduation day from the Culinary Arts Institute, Abbie and Kaito realized that they had decisions to make if their dream of opening their own bakery was going to happen. Kaito saw an ad about a bakery for sale owned by the Holcombe family. Abbie was familiar with the bakery. She remembered that the last time she visited the bakery, no one was waiting on the customers, and people were becoming upset. What are some other problems that an existing business might have?

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Choose an Existing Business

Before making the decision to purchase an existing business, an entrepreneur must determine why the business is for sale. Business owners sell their businesses for a variety of reasons. These can include insufficient sales or profits, worry about new competition, fear of new economic conditions, retirement, a dispute between partners, the death or illness of a partner, and the owner's desire to do something different.

There are many ways to find out which businesses are for sale. You may find advertisements in the local newspaper, or you may use a business broker. A **business broker** is a person who sells businesses for a living. People in your industry may know of businesses for sale. You may also find businesses for sale through other sources, including landlords and leasing agents, lawyers and bankers, management consultants, the Small Business Administration, Chamber of Commerce offices, and bankruptcy announcements.

Advantages of Buying an Existing Business

There are many advantages of buying an existing business.

1. **The existing business already has customers, suppliers, and procedures.** The business may also have built up goodwill or customer loyalty. Of course, the new owner may want to change some of the policies and procedures established by the former owner. But fine-tuning systems that are already in place is likely to be much easier than creating systems from scratch.
2. **The seller of a business may train a new owner.** Also, experienced employees may be available to help the new owner learn about the company.
3. **There are prior records of revenues, expenses, and profits.** Having these records means that financial planning will be easier and more reliable than it would be for a completely new business.
4. **Financial arrangements can be easier.** The seller of the business may accept an initial partial payment and allow the rest to be paid off in monthly installments. This type of arrangement can reduce or eliminate the need for bank financing. If bank financing is needed, getting it may be easier because banks are more likely to lend to an established business.

TEAMWORK

In small groups, brainstorm a list of reasons business owners may decide to sell their businesses. Put a check mark next to the reasons that would affect the buyer's chance for success.

Disadvantages of Buying an Existing Business

Buying an existing business sounds like an easy way to become an entrepreneur. However, buying a business can be risky.

1. **Many businesses are for sale because they are not making a profit.** Owners frequently try to sell businesses that are not financially viable.
2. **Serious problems may be inherited.** A business can have a poor reputation with customers, trouble with suppliers, or a poor location.

When it comes to customers, what are the advantages and disadvantages of buying an existing business?

COMMUNICATE

Use the Internet to research businesses for sale in your area. Make a list of five to seven questions you have about the sale of the business. Compose an e-mail to the seller asking for answers to your questions.

3. **Capital is required.** Many entrepreneurs just do not have the money to purchase a business. Starting a small business of their own may be their only option.

Steps in Purchasing a Business

Buying a business is a complicated process that requires much thought. If you are considering buying a business, you will want to follow these steps.

1. **Write specific objectives about the kind of business you want to buy, and identify businesses for sale that meet your objectives.** Writing down your business objectives will help you find the right business for what you want to do.
2. **Meet with business sellers or brokers to investigate specific opportunities.** Ask about the history of the business, the reason it is for sale, its financial performance, and the price the owner is asking for the business.
3. **Visit during business hours to observe the company in action.** Inspect the facility closely to make sure that it meets your needs. Observe the number of customers who visit the business and how many make purchases. Look at the layout of the business.
4. **Ask the owner to provide you with a complete financial accounting of operations for at least the past three years.** Analyzing these reports will help you see how much profit you can make and how much you will probably be paying out in expenses.
5. **Ask for important information in written form.** Get a list of all assets to be transferred to the new owner, a statement about any past or pending legal action against the business, a copy of the business lease or mortgage, and a list of all the suppliers. Have an accountant and a lawyer help you review all of the material. Be suspicious if the owner refuses to provide all of the information you request.
6. **Determine how you would finance the business.** Contact lending institutions, and ask the seller if he or she would be willing to finance part or all of the purchase.
7. **Get expert help to determine a price to offer for the business.** An accountant or a **valuator**, an expert on determining the value of a business, can help. Present the offer in writing to the seller. If an agreement is reached, have a lawyer draw up a sales contract.

CheckPOINT

What should you consider before purchasing an existing business?

Enter a Family Business

The United States economy is dominated by family businesses. According to some estimates, as many as 90 percent of all businesses, including the vast majority of small- and medium-sized companies, are owned by families. Even many large companies, such as Chick-fil-A, continue to be owned and operated largely by people who are related to the company founder.

DID YOU KNOW ?

According to the University of Southern Maine's Institute for Family-Owned Business, 35 percent of Fortune 500 companies are family-controlled. Family businesses account for 50 percent of U.S. gross domestic product. They generate 60 percent of U.S. employment and 78 percent of all new job creation.

Advantages of a Family Business

Entrepreneurs who work for their family businesses enjoy the pride and sense of mission that comes with being part of a family enterprise. They also enjoy the fact that their businesses remain in the family for at least one more generation. Some enjoy working with relatives. They also like knowing that their efforts are benefiting others whom they care about.

Disadvantages of a Family Business

Family businesses have several drawbacks. Senior management positions are often held by family members, regardless of their ability. This situation sometimes means that poor business decisions are made. It also makes it difficult to retain good employees who are not members of the family. Family politics often enter into business decision making. Plus, the distinction between business life and private life is blurred in family-owned businesses. As a result, business problems end up affecting family life as well.

If you are not a family member, why might it be difficult to work in a family-owned business?

Entrepreneurs who do join their family business must be prepared to make compromises. Unlike individuals who start or buy their own companies, people who work for their families lack the freedom to make all decisions themselves. They may also be unable to set policies and procedures as they would like.

CheckPOINT

What are some of the advantages and disadvantages of entering a family business?

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