

# Examine Critical Issues & Make Important Decisions

**A**s you explore starting your own business, you will find there are many decisions which must be made and important issues to consider so as to minimize your risk and increase your success. Four important topics covered in this section are:

- Entry options
- Selecting and using professionals
- Selecting a business location
- Minimizing your risks

## ENTRY OPTIONS

You may be considering starting your own business as a result of a life situation triggering your entrepreneurial desires. Such events could include corporate down-sizing, an accident that limits your physical abilities, or receipt of an inheritance. There are many reasons why people want to go into business for themselves, and there are various options for entering a business of your own. The most common entry options are:

- Buying an existing business
- Purchasing a franchise business
- Starting a new business

### **Buying an existing business**

Purchasing an established business can lighten the burden of start-up costs, lag time without a salary, establishing markets, and other costs associated with the creation of a new business. Established businesses may have existing good will—intangible

## CHECKLIST FOR STARTING A BUSINESS

- Assess yourself as a potential business owner
- Determine concept feasibility
- Examine critical issues & make important decisions
- Investigate legal considerations & requirements
- Develop your business plan
- Arrange your financing

(non-monetary) assets such as reputation or historical value.

The decision to buy a business requires careful evaluation of many factors including pricing and financing your purchase.

The potential buyer must understand their criteria for selecting a business as well as the motivation for wanting to purchase the business.

*Consideration should be given to the following:*

- What is your experience with the industry and/or management?
- Does the business match your strengths?
- Is the business what you enjoy doing?
- Is it in a desirable location?
- What are you willing to invest?
- Can you get financing?
- What size business do you desire in terms of sales, profit, and employees?

- Is the business fairly priced?
- Is it profitable?

If the business under consideration has a product or service outside your area of expertise, it is important to make certain that the key employees will stay after the sale or that you can hire someone with similar experience.

### **Finding a business for sale**

Finding a good business opportunity is not always easy. Sources to consider:

- Printed advertisements
- Trade sources and suppliers in the industry
- Friends and acquaintances
- Intermediaries such as business brokers, real estate brokers or acquisition specialists

### **Evaluating the business**

As a buyer, first evaluate a business by reviewing its history and the way it operates. Develop an understanding of the business' method of acquiring and serving

its customers, determine how it generates its sales, learn its marketing strategy, and develop an understanding of its finance and operations functions.

## **Checklist of material for the evaluation process\***

Obtain the following information from the existing business:

- 3-5 years financial statements
- 3-5 years tax returns
- Interim financial statements
- Copies of all real estate, leases, or deeds
- Debt schedule
- Accounts receivable and aging schedule
- Accounts payable and aging schedule
- Inventory list
- Supplier list (including contracts)
- Customer list (including contracts)
- Projections
- Organizational charts and employee contracts
- Industry information to which the owners may have access
- Details of equipment leases and other contingent financial commitments

*\* Checklist provided by the SABRE Group—Confidential Business Sales and Valuations of Greensboro/Raleigh/Durham/Greenville*

## **Important questions**

Evaluate the business' potential according to your goals, employer responsibilities, product or service demand, market, and financial considerations. Ask and get answers to questions regarding all aspects of an existing business before entering any purchase agreements. Start with basic questions, like those listed below. Others may be required depending on the specific business:

- Why is the business for sale? Has it been making a profit? If not, do you have a plan to make the business profitable?
- What kind of reputation does the establishment have currently? How would you change that reputation? What is the price of good will? What is the consistency of the client base—a few large clients or many smaller customers?
- Will the sale include equipment, property, inventory, debts, employee contracts, name, logo, slogans, signage, customer files, etc?

- Are all of the books in order and well maintained? Have you reviewed the past and current financial statements with the counsel of an accountant? Are there any liens against the property for sale? Are there any claims on inventory or equipment? Have the taxes been paid to date?
- Have you reviewed existing business contracts and the effect of the transaction on those contracts? Are they loyal because of a personal relationship or because of the level of quality service?
- Will the lease be transferred into your name or will the owner require a new lease? Is the location suitable for your plans? Are there any environmental concerns with this location? Are there licensing concerns?
- What liabilities exist?
- What policies have been established with the employees regarding work environment, salary/commissions, benefits, vacation pay, and fringe benefits?
- Will the owner be cooperative with the transition of ownership with regard to tax issues, utility transfers, government requirements, employees, and other procedures?
- Are there any environmental issues with respect to your chosen business?
- If using a broker, do you realize s/he is representing the interest of the seller?
- Is the seller willing to sign a non-compete agreement?
- Will the seller agree to a contractual arrangement for a period of consultation?
- Consider whether owner is willing to finance all or some of the purchase price

The services of an accountant, attorney, and banker are recommended when buying an existing business. Investigation and research will be crucial to uncovering as much information as possible about the business for sale.

## BUYING A FRANCHISE

Franchising has emerged as a popular way for potential business owners to start a new business. A franchise offers advantages in name and product recognition, proven operation procedures as well as volume purchasing power. In this arrangement, the provider, or franchisor, contracts with you, the franchisee, to give you the right to sell or distribute a service or product under the franchisor's system in a particular area. As with any opportunity, both advantages and disadvantages must be examined before a decision to invest is made.

### **ADVANTAGES OF A FRANCHISE:**

- Some require relatively small capital investment with franchise financing
- Initial corporate support for start-up
- Continuous management training and counseling
- Existing goodwill and brand name appeal (sometimes)
- Standardized quality of goods/services
- Proven products and business format
- Some opportunities require no prior experience in that business field
- Buying power and programs
- Development of advertising and promotions programs (both local and national)
- Site analysis
- Proven business model

### **DISADVANTAGES OF A FRANCHISE:**

- Complicated legal negotiations
- Restrictions on purchasing
- Franchising fees
- Required to share portions of business profits with corporation (sales/royalties)
- Loss of personal control over some aspects of operation (e.g., use of name/logo for advertising, territory, uniforms, product purchasing requirements)
- Less freedom and opportunity for creativity
- Potential problems if owner wants franchisor to buy franchise back
- Limited control over pricing, product lines, and suppliers
- Human resources policies may be instituted by corporation (potentially unsatisfactory training programs)
- Actions by the corporation may affect business of franchisee (especially new store locations close to yours)

Locate a list of lawyers specializing in franchise negotiations while in the research stage. Once a franchise opportunity has been selected, retain a lawyer for every step of the negotiations. The negotiations serve as the foundation of the franchise. Working with the lawyer, set policies and agreements that will enable the franchise to thrive now and in the future. All obligations, rights, privileges, risks, opportunities, assets, and liabilities must be detailed and agreed upon by all parties before the contract is signed.

The Federal Trade Commission offers the free publications, *Consumers Guide to Buying a Franchise*, and *Franchise and Business Opportunities* on its Web site at [www.ftc.gov/bcp/online/pubs/invest/buyfran.htm](http://www.ftc.gov/bcp/online/pubs/invest/buyfran.htm) and [www.ftc.gov/bcp/online/pubs/invest/franchise.htm](http://www.ftc.gov/bcp/online/pubs/invest/franchise.htm). A number of books on franchising are also available at public libraries and bookstores.

## STARTING A NEW BUSINESS

Starting your own business can be a very exciting endeavor. It allows you great freedom and opportunity to explore and develop your own business idea. It is an opportunity for you to exercise your creativity and thinking ability to do the following:

- Research your business idea
- Develop a strategy
- Determine your marketing approach
- Address key operational issues
- Make your own decisions
- Develop your business idea from the ground up

Successfully starting your own business can provide a sense of accomplishment and satisfaction in knowing you did it yourself. However, if the business fails, you must assume all the liabilities and emotional strain that goes with it. There are many misconceptions surrounding owning one's own business. Consider the following common misconceptions:

- *I will be my own boss.* Being your own boss does not mean you can play golf or go fishing anytime you want. The reality is the business and your customers become your boss and can demand 50-65 hours per week.
- *I can get rich overnight.* Small business and free enterprise provides a great opportunity to build wealth; however, it will take time. Studies indicate that more than a third of small businesses that grow significantly, do so after ten or more years of existence.
- *I can expect immediate income from my business.* This is not likely. Generally, it takes 6-12 months before a new business can start to pay the owner a decent salary. You should have a cash reserve or savings to provide financial support for you and your family during the start-up phase.
- *I can start my business with little or no money.* Poor capitalization is one of the major causes of business failure. Lack of capital results in negative cash flow which can result in poor business decisions and serious credit problems.
- *I will incorporate my business and use other people's money.* Many books and articles have been written about using OPM (other people's money). It is difficult to borrow your way to wealth as a new business. The corporate shield probably will not

protect you in case of failure. Most banks today will require you to personally guarantee the corporate loans for start-up businesses. Consequently, all your assets will be at risk.

You might ask, "How do I know what kind of business to start?" or "How are businesses formed?" Business ideas emerge in many ways. Examples are:

- Finding and meeting an unfulfilled market need
- Building a business on an existing customer relationship
- Spinning off a business based on your experience and knowledge
- Capitalizing on a new invention or technology
- Growing a part-time business or hobby into a full time opportunity

You must decide what kind of business you want to start. It is also important to examine yourself and decide what you want from the business.

Keep in mind that starting a business requires careful thought and planning. Many aspects of the business must be considered including legal issues, financing, marketing concerns, employee relations, accounting procedures, equipment purchases, and location.

Research, preparation, organization, and planning are critical in a start-up venture to minimize risk and enhance your chance for success. Contact your small business assistance providers to assist you during this critical time (see *Resource & Information List*).

## SELECTING AND USING PROFESSIONALS

Starting your own business involves many decisions which often seem overwhelming. It has been shown that there is a strong correlation between using outside professionals and business success. In today's business world, where many new businesses fail within the first five years, it only makes sense to increase your chances for success by seeking the broad experience and expertise that professional resources and advisors can provide. Outside advisors can assist you in making decisions based on facts, not wishful thinking. They can also provide a reality check and give you insight in starting and guiding your business.

There are two important categories of advisors: **informal** and **professional**.

#### **Informal advisors include:**

- Other business owners
- Friends and family
- Members of other entrepreneurial groups or projects
- Members of your board of directors

#### **Professional advisors include:**

- Lawyers
- Accountants
- Bankers
- Insurance agents
- Marketing professionals
- Consultants
- Small business assistance providers

Most professional advisors will expect to be compensated for their assistance while informal advisors typically only need to be asked to help.

When selecting a professional advisor, look for a skilled advisor who meets your needs. Attributes you should look for include:

- Strong professional skills and knowledge
- Integrity
- Small business orientation
- Engaging and creative
- Positive attitude
- Willing to listen
- Team member and advisor

Selecting the right professional advisor will not only provide advice and consistency to help your business succeed, but s/he can also be instrumental in identifying other professional team members.

To go about finding the right professional advisor, you should:

- Ask small business assistance providers
- Ask other business owners
- Call the professional and schedule an appointment. Interview them as you would an employee. Be sure to request references.
- Look for a comfort level and confidence; confidence in their integrity, discretion, and concern for your business.

If you already have a good relationship with a banker or other professional, s/he is a good source of referral.

## **SELECTING A BUSINESS LOCATION**

Location is more important to some businesses than to others. The importance of the location is determined by certain characteristics of the business. Factors that must be considered are:

- Do customers travel to the business or do employees travel to the customer?
- Is convenience a key factor in relationship to what your business offers the customer?
- Is your business offering a special product with little accessible competition?
- Will your product or service require a specific location?
- Will proximity to vendors and customers play an important role in your location?
- Are transportation, labor, utilities, state and local taxes, zoning, and other regulations critical factors to consider in your site selection?
- Do traffic flow, parking and other business establishments impact your site selection?
- How much space is required?
- Do you need expansion capability?
- Should you lease or buy a facility?
- What are the terms of your lease, if leasing?
- How is your rent determined?  
**NOTE:** Rent = cost of space + advertising
- What are the insurance requirements?
- Do you understand home-based business expenses and requirements?
- Do you understand the zoning and code requirements?

These questions represent some of the issues that need to be answered before making a business site selection. Additional questions and information may be required depending on whether your business is a service business, retail store, or manufacturing facility.

Local resources are available to assist you with your site selection. Resources include your Chamber of Commerce, NC Department of Commerce (<http://www.nccommerce.com>), Economic Develop-

