

## What are the advantages of buying an established business?

- › You acquire established customers.
- › Equipment and infrastructure may already exist.
- › Systems are already in place, including stock levels, purchasing arrangements and production level.
- › The location may be ideal for the business.
- › The business's previous profit can be determined, so you have some idea of how much money you can make.
- › It may be easier to obtain finance than when starting from scratch.
- › Staff will already be trained.
- › The business's image in the marketplace has already been formed.
- › Goodwill has been generated and customers are aware of the business's name.
- › It is generally quicker and easier to buy a business than to put together one from scratch.
- › Total cost is agreed and certain.

The advantages of buying an established business may make it an attractive option. However, there are some disadvantages that need to be considered:

- › The previous owner may have had a bad reputation or may have annoyed customers and suppliers and you may be tarnished by this negative image.
- › The stock levels may be old and the control systems may be inefficient.
- › Equipment you buy could be obsolete, unnecessary or overvalued.
- › The location may not be ideal and the customer base may have moved.
- › Financial data such as profit figures may not be valid.
- › Staff may be unsuitable for any number of reasons (including poor training).
- › You may be paying an excessive sum for overvalued goodwill.

- › You may be acquiring bad debtors, liabilities or overdue tax.
- › The costs of using a business broker, accountant and/or lawyer could be considerable.

## Another option is to buy a franchise:

Buying a franchise has become an increasingly popular way of getting into business. It is important to treat the purchase of a franchise in the same way as buying an existing business or setting up from scratch.

Franchising is where an existing business has found that it can replicate its success in different regions by selling franchise rights to former staff or outside buyers.

The professional reputation and competence of the franchisor is they key. Look for a proven track record and a history of solid performance. The last thing you want is to purchase a franchise run by a dishonest or incompetent operator.

You want to ensure that you are entering a business with a viable long term strategy for all involved.

As a potential investor, it is important that you exercise due diligence in researching your selected franchise system before signing any agreements.

## Some warning signs of scam franchise opportunities include:

- › Claims you can make large amounts of money quickly and with a minimum effort;
- › A reluctance by the 'franchisor' to provide contact details for other 'franchisees';
- › 'Franchisors'/'master franchisees' that do not provide written information/statements supporting their claims;
- › A requirement for payment to be made upfront before any written information is released;
- › Inconsistent financial information about the businesses profitability; and
- › A franchise advertised with only a PO Box as identification and contact address.

You should seriously consider avoiding a business opportunity if you see any of these warning signs. If you decide to ignore them and elect to accept the offer, it may

later amount to a bad business decision for which the ACCC, the courts and the Act can provide no remedy.

However, remember that only a minority of business opportunities available in the marketplace are scams – provided you do sufficient research about a franchise opportunity, you should not be caught by a scam.

### More Information:

- ▶ Australian Competition and Consumer Commission, Franchising Code of Conduct:  
[www.accc.gov.au/content/index.phtml/itemId/6118](http://www.accc.gov.au/content/index.phtml/itemId/6118)
- ▶ The Office of Franchising Mediation Advisor:  
[www.franchisingmediationadviser.com.au/](http://www.franchisingmediationadviser.com.au/)
- ▶ The Australian Government Principal Business Resource:  
[www.business.gov.au](http://www.business.gov.au)

[www.bathurstregion.com.au/building-bathurst/](http://www.bathurstregion.com.au/building-bathurst/)

