CHAPTER II

EVALUATING NEW BUSINESS OPPORTUNITIES

Starting Your own Business:

Analyze the risks

Various factors may cause the failure of a business. It is therefore important to recognize the risks, including:

- lack of experience
- wrong product
- poor timing
- lack of money
- improper pricing (too high/too low)
- inventory mismanagement
- spending too much on buildings and equipment
- poor credit granting practices
- excessive withdrawals by owners
- unplanned expansion
- wrong attitude
- wrong location
- family pressures

Strategies for reducing risk

- Your first challenge is to decide on the level of risk you are willing to assume and understand the consequences of that choice.
- Talk to people. Meet with potential clients to discuss your idea and what they, as customers, want.
- Identify the leaders in your field or other fields and see what factors contribute to their success. Feel free to copy good ideas.
- Consider a pilot test or a survey on the needs of your customers.
- It may be possible to play it safer by developing your idea on a small scale.
- Make sure you have the skills to run your business. If necessary, follow extra courses on bookkeeping, marketing, personnel management, etc.
- All businesses today are affected by some form of government regulation: taxes, fire, safety, transportation and so on. Make sure you are up-to-date with any regulations that may affect you.

- Work with businesses similar to the one you want to start.
- Think of first starting a home-based business on a part-time or full-time basis.

Evaluating Trends and Opportunities

1. Market

One of the most important factors when evaluating a business opportunity is market size. Do a little market research. Figure out if there is a market for the opportunity — and how big that market is.

Before you move forward, you want to be sure the demand is there. You don't need to appeal to a massive market, but it does help if you understand the market. Additionally, knowing how engaged the market is and how likely they are to pay for what's being sold can help.

2. Relationships

Does the business opportunity come with some relationships? For example, do you have an "in" that can help you leverage the opportunity? If you know someone who is technically minded, that can help you with certain aspects of the opportunity. What are your relationships with potential investors or customers? When you have more relationships, the opportunity is likely to run smoother.

3. Ability to Manage Cash Flow

Next, you need to look at the ability to manage cash flow. Is there start-up funding for the business? What about ways to keep funding the business each month. Figure out how the cash flow will be managed, and take a look at the business plan. You want to make sure that the business is likely to sustain itself after a period of time.

4. Management Skillsets

What are the skillsets of those involved? If you are evaluating your own business opportunity, you need to be honest about what you bring to the table, and what you need to make up for. When looking for a business opportunity to invest in, or expand into, look at the management. What skills do they have? Are they appropriate and diversified? Do you trust the competence of the principals to make the opportunity a success?

5. Passion and Persistence

Even if there is a bit of a talent deficit, it's possible, in some cases, to make up for that with passion and persistence. Are you working with people who will get the job done?

Do you trust that they have the passion to make things happen? Will they approach problems with a can-do attitude in order to solve them?

When dealing with your own startup, you need to make sure you have the passion and persistence for the opportunity. Will you push through even though things get a little dark? If you've done your research, and you are confident in your team and your plan, then being able to push through is vital.

6. Sometimes You Have to Say No

Once you're done evaluating the business opportunity, it's time to decide whether it's a good idea to make a move. Sometimes, the answer is no. Going through the exercise can help you make these decisions faster — before you waste too much time on "opportunities" that really aren't.

Buying an Existing Non-franchised Business

Buying a business can take time, energy and a fair bit of research. It can be less risky and more affordable to purchase an existing business than to start one from scratch, but it is important that you do your homework to ensure that you buy the right business for you, and that you pay a fair price for it.

Where to find a business to buy
Businesses for sale are often advertised in print media and online, but sometimes business opportunities can be misleading. Make sure to do your due diligence before you take action. Try trade publications or commercial investment magazines, or talk to a broker who specializes in a specific industry. Networking at business events can help get the word out that you are looking to buy.

Evaluating a business
Before deciding to buy a business, you should evaluate its condition and potential. Think about the following things:

- What is the physical location of the business like? Is the office, warehouse, plant or retail space in good shape? What about any equipment or inventory?
- If it's an online business, how well-designed is the website? Is it secure? Are there any metrics to study?
- Does the business have a good reputation? You can check online for customer reviews.
- How visible and easily accessible is the business? Is it located in an urban or rural area? You will have to consider expenses like increased shipping costs if you are farther away from your suppliers and customers.
- Are the products or services generating revenue? Are sales increasing, decreasing or are they flat?
- Does the business have a good working relationship with its suppliers and bank?

If a business is doing poorly, examine what the potential causes are. It may be a case of poor management, or inadequate resources. If you think you can turn it around and make it profitable, you could stand to gain from your investment; on the flip side, you are taking a big risk if it doesn't work out.

If a deal seems too good to be true, chances are, it probably is. Learn how to determine what type of business you should buy.

Determining how much to pay for the business

As a buyer, it all comes down to knowing what you can afford before negotiations start. You should be flexible in your negotiations, but also keep your budget and the value of the business in mind.

What is the value of the business?

- You will have to determine the value of assets such as the building, equipment and products.
- Further factors to consider are the business' financial statements, annual reports and intellectual property (for example, patents and trade-marks).
- Other valuable assets to any business are its reputation, customer lists, and quality of personnel.

Talk to clients who buy directly from the business. It is better to find out the reputation of a business before you sign on the dotted line. Banks are more receptive to a business that has a proven track record.

Franchising

Starting a business from scratch can sometimes be overwhelming for first-time entrepreneurs. That's why investing in an already successful franchise may be a good solution for your new business venture.

What is franchising?

Franchising is a way of distributing products and services. The original business owner (the franchisor) grants a licence for the use of the trade-mark or trade name for a fee. The person who buys the franchise (the franchisee) is allowed to use the franchisor's business name and operating system to set up the business. As a franchisee, you pay the franchisor a certain amount (royalties) from your franchise's profits. Normally, the franchisor would draft a franchise agreement with you that includes details about how the franchise will be run.

What are the advantages of owning a franchise?

- You don't have to come up with an idea for a new business.
- You get help with business start-up (equipment, suppliers, training).
- You can buy your supplies in bulk.
- Your business benefits from existing brand name recognition.
- An established supply chain and customers are already in place.
- Buying into a successful franchise can be profitable.

What are the disadvantages of owning a franchise?

- Franchises are all run the same way, so you have less flexibility to run the business the way you would like. This can sometimes be frustrating if you have your own ideas on how the business should operate.
- Generally, the more successful the franchise is, the more expensive it is to buy.

- There are ongoing costs, such as royalties and advertising.
- Some franchisors may not provide a lot of support, such as training or mentoring.
- Franchise agreements generally favour the franchisor, so be sure to have your own lawyer review the agreement carefully before signing.
- The location of the franchise is at the discretion of the franchisor.
- There is not a lot of legal protection available for the franchisee.

What franchise is right for you?

There are several online tools available to help you find the right franchising opportunity. You can search for franchises by brand name, investment level, industry, available locations, and more. Find out what franchise opportunities are right for you.