



# FIRST-TIME BUYERS - WHAT YOU NEED TO KNOW

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### Taking the Entrepreneurial Leap

Making the transition from worker bee to small business owner involves a great deal of time, effort, money, and personal commitment. It is not a decision to be made hastily nor taken lightly. There are certain questions you need to ask and certain elements to consider, with every step along the way a potential pitfall. How successful you become - both personally and financially - will depend in great part on how prepared you are at the beginning of the journey. Here are some of the most vital questions to consider.

### What Type of Business Should I Own?

Your knowledge, business experience, temperament, personal interests, and comfort level in a particular field all contribute deciding on which industry you should consider. If you don't like hanging around other people's children, don't start a child care centre. If you hate sitting in front of the computer all day long, perhaps a career as an IT consultant is not ideal for you. If you have the same problems with the sun as does comedian Woody Allen - "I don't tan, I stroke" - a landscaping business may not be your best option. Matching your abilities and interests to the industry you want to join is the first positive step to take.

### Where Do I Get the Money?

It is the rare business these days that can be started with just pocket change. That said, you don't have to be a multi-millionaire in order to become a first-time business buyer. Options abound for the enterprising soul, including buying a business from an owner who is willing to provide some of the financing. You can also consider an equity loan on your home, bringing in one or more partners - friends or relatives who might fulfil an active role in the business or else act as passive investors. The other obvious choice is a lending organisation. In this area, creativity will rule the day.

### Do I Buy a Franchise or an Existing Business?

After deciding on the field or industry and examining your financial capabilities (or limitations), the type of business worthy of your consideration will most likely fall into one of two basic categories. A franchise is a small business that is part of a larger corporation. Many of the big brand names

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out there - McDonald's, Hell Pizza, Pit Stop , and so on - are actually individual franchises owned and operated by people just like you. In addition to having an instantly recognizable name, you will enjoy the backing of a multi-million dollar enterprise, along with regional or national marketing campaigns and many other benefits. But franchises rarely come cheap, and it is not unusual for a major industry name to cost you upwards of six figures just to open the doors for business. None of those safety nets are available to the person who buys an existing business, and polls have shown that franchise operations generally enjoy more success than their stand-alone counterparts. Starting a business from scratch is a third path, but the prospects of failure - especially for a first-time business owner - are generally too high to make this a worthwhile option.

#### What Else Should I Know?

If you are focused on buying a franchise, make sure you examine every bit of material the parent company is compelled to provide. This is called the "due diligence" phase, a term that originated in the 1930s that referred to stockbrokers and how they were legally required to explain everything about a transaction to their clients. From the standpoint of a first-time business buyer, this would include statements on the financial health of the corporation, the level of success enjoyed by the average franchisee, what your exact costs will be and what they're applied against, how much training you should expect to receive, and so on. If you're buying an existing business, the owner will show you profit-and-loss statements going back three or more years, list every asset and liability the company has and owes, and lots more. You will also want to scope out the competition and obtain an independent analysis of the value of everything that is part of the sale, from the true worth of the building to what it would cost to replace that 20-year-old pizza oven. For this step in the process, you should rely on the know-how of experts— business brokers, accountants, lawyers, and bankers. Spending a few thousand dollars at this stage of the game can save you ten or hundreds of thousands on the back end.

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