



TenStep Supplemental Paper

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Considerations for Making an Acquisition

When deciding whether to start a business or buy one, aspiring entrepreneurs must reckon with the following factors:

Experience: The entrepreneur would ideally need skills and experience relevant to the proposed venture. A person with technical skills but inexperience in business can acquire an on-going business, avoiding the pitfalls of starting a new enterprise. On the other hand, a skilled entrepreneur can acquire a franchise, complete with inventory, logistics assistance, and training.

Nature of the business: Often, entrepreneurs start from the scratch. Often, an acquisition with some modifications can lead to healthy profits. The acquisition could result in better production facilities or help in establishing ties with target customers.

Location: Entrepreneurs often limit their reach when they acquire businesses near their homes. They want to find locations near their target customers. However, the choice of location is dictated by sale/lease cost of premises, availability of required infrastructure, raw materials, etc.

Business risks: Entrepreneurs need to evaluate cost of capital and physical facilities before making an acquisition. They will need to evaluate profit potential and sales forecasts of the enterprise, and it often takes professional outside help to do so. Buyouts are riskier if the entrepreneur wishes to make modifications and extensions to the existing mode of operations.

Personal risks: Entrepreneurs acquiring a new business always assume they will succeed where others have failed. They often bring in new ideas and leadership styles. To improve the chances of the success, they must retain experienced and skilled personnel.

Enterprise costs: Entrepreneurs making an acquisition need to work out capital expenses and potential operating expenses, along with physical costs and start-up costs of new equipment and facilities. They should ensure that all assets are serviceable if the enterprise is to benefit from the acquisition.