

**Buy vs. Start: Evaluating the pros and cons of buying an existing business**

A Study submitted to financial and banking department/ college of Administrative and Economic / the University of Salahuddin-Erbil as partial fulfillment of requirements for the degree of the bachelor in finance and banking sciences

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**Chapter 1**

**Introduction**

**1.1 Introduction**

Starting or buying a business is an important decision facing entrepreneurs and investors. Many people choose to start a new business from scratch, while others prefer to buy an existing business. Both options have their pros and cons and require thorough consideration to make an informed decision. This study aims to explore and compare the pros and cons of buying an existing business and starting a new business Navigating the complex choice between starting a new business from scratch or buying an existing business is not only an important entrepreneurial choice, but also one that is always next to the rigors of graduate-level research. This dilemma points to the nature of innovation or stability, opportunity or reward, desire or pragmatism. This dilemma is multifaceted and calls for both institutional veterans and graduate researchers to delve deeper Whether in the world of corporate academia or in the real world of entrepreneurship, this quest is a noble journey that requires in-depth research. Beyond mere curiosity, this quest requires in-depth analysis, key questions, and a nuanced knowledge of the myriad factors that favor both options. In this issue, “quote; To buy or to start: assessing the pros and cons of acquiring an existing business. &quote; We will now examine the complexities of this decision-making process, not only as are realistic aspiration, but also as a research endeavor consistent with the pursuit of excellence in education. By analyzing the pros and cons of each path, we aim to provide a complete framework for making informed choices and contribute to the growing body of knowledge surrounding an important topic such as entrepreneurship.

**1.2 Research Problem**

In the realm of finance and banking, the decision between starting a new business from scratch and buying an existing one is a critical choice facing entrepreneurs and investors. This decision involves a complex interplay of financial factors, including investment risks, financial stability, return on investment, and financial pragmatism. It demands a comprehensive understanding of the financial pros and cons associated with each option. This study seeks to address this multifaceted dilemma, both as a practical financial decision and as a subject of rigorous graduate-level research. How can entrepreneurs and investors effectively navigate the financial decision between starting a new business or acquiring an existing one within the context of finance and banking?"

**1.3 Research Question**

What are the key financial factors influencing the decision-making process for entrepreneurs and investors in the realm of finance and banking when choosing between starting a new business from scratch and buying an existing business? How can a comprehensive financial framework be developed to aid in making informed decisions in this critical aspect of entrepreneurship and financial investment?

**1.4 Objectives of the study**

The primary objectives of this research are as follows:

1. To identify and analyze the advantages of starting a new business.
2. To identify and analyze the advantages of acquiring an existing business.
3. To identify and analyze the disadvantages of starting a new business.
4. To identify and analyze the disadvantages of acquiring an existing business.
5. To provide recommendations and insights for entrepreneurs and investors considering these options.

**Buying an Existing Business (Buy**):

Pros:

Established Customer Base: An existing business typically has a customer base, which can provide immediate cash flow and reduce the time needed to build brand recognition.

Experience Staff: You may inherit a trained workforce, reducing the challenges of hiring and training employees.

Reduced Risk: Compared to starting from scratch, buying an existing business may involve less risk, as some elements of uncertainty are already addressed.

Cons:

Higher Initial Cost: Buying an existing business often requires a substantial upfront investment, which may include the purchase price, legal fees, and potential debt repayment.

Legacy Issues: You may inherit problems or liabilities from the previous owner, such as legal issues, debt, or a tarnished reputation.

Limited Creative Control: You may be constrained by the existing business model and may not have as much room for innovation.

**Starting a New Business (Start):**

Pros:

Full Creative Control: You have the freedom to build your business from the ground up, shaping it according to your vision.

Lower Initial Investment: Starting a new business can be more cost-effective initially, as you can scale gradually and choose your investments wisely.

No Legacy Issues: You won't inherit any pre-existing problems or liabilities from a previous owner.

Cons:

Higher Risk: New businesses often face higher uncertainty and risk, as they need to establish their market presence and attract customers.

Time-Consuming: Building a brand, acquiring customers, and achieving profitability can take time, which may lead to financial strain.

Market Uncertainty: There is no guarantee of success, and the market may not respond positively to your new venture.

In conclusion, the decision to buy an existing business or start a new one depends on various factors, including your risk tolerance, available capital, business goals, and industry-specific considerations. It's essential to conduct thorough due diligence and consider your personal preferences before making a choice. Additionally, seeking advice from experienced entrepreneurs or consulting with business professionals can provide valuable insights to inform your decision.

**1.5 Important of the study**

Important of buy an existing business or start a new one:

Deciding whether to buy an existing business or start a new one is an important consideration for prospective entrepreneurs. Both options have advantages and disadvantages, and the choice depends on a variety of factors such as personal preference, financial strength, industry expertise and risk tolerance

Buying an existing business offers many benefits. First, it gives a head start because the business is already established with customers, suppliers and systems already in place. This can save time and effort compared to starting from scratch. In addition, an established business must have a proven track record of profitability, providing a more secure investment. Additionally, buying a business often requires access to its assets, customers, and intellectual property to provide immediate value.

On the other hand, starting a new business offers greater flexibility and creativity. Employees are free to structure the business according to their vision and will not inherit existing information or payments. It gives you the opportunity to start from scratch and build a brand from scratch to tap into a unique market. However, it generally takes a lot of time, effort and resources to establish a new business and gain traction in the market

Studying and evaluating the pros and cons of buying an existing business versus starting a new one (Buy vs. Start) is important for several reasons, as it helps entrepreneurs, investors, and decision-makers make informed choices in their business ventures. Here are the key reasons why this study is significant:

Risk Management: Understanding the pros and cons of both options allows individuals to assess and mitigate risks effectively. It enables them to make choices that align with their risk tolerance and financial capacity.

Financial Planning: Entrepreneurs and investors need to project their financial outcomes accurately. Evaluating the financial implications of both options helps in creating realistic financial plans and forecasts.

Market Analysis: The study involves assessing the market conditions, competition, and demand for the product or service, which is vital for success. It helps in identifying market opportunities and potential challenges.

Exit Strategy: Understanding the implications of both options is essential for planning an exit strategy. Whether it's selling an established business or winding down a startup, this decision affects long-term plans.

Investment Decisions: Investors looking to invest in businesses rely on thorough evaluations to make investment decisions. This study helps investors assess the potential return on investment and risks associated with each option.

Economic Impact: The decision between buying and starting a business can have broader economic effects on local communities and economies. Understanding these impacts is essential for policymakers and economic development agencies.

In summary, studying the pros and cons of buying an existing business versus starting a new one is crucial for informed decision-making. It allows individuals and organizations to align their strategies with their goals, resources, and the broader business environment, ultimately increasing their chances of success and responsible entrepreneurship.

**1.6 Research Methodology**

1. Research Design:

The research will adopt a mixed-method approach, incorporating both qualitative and quantitative methods to provide a comprehensive analysis of the topic.

2. Data Collection:

 Primary Data: Surveys, interviews, and case studies will be conducted with entrepreneurs and investors who have experience in either starting a new business or acquiring an existing one. A survey will be prepared and distributed to 75 individuals involved in business.

Secondary Data: Academic journals, industry reports, and books will be reviewed to gather relevant information and insights.

3. Sampling:

 The survey will target a diverse group of businessmen to ensure a representative sample. Consideration should be given to including individuals with varying levels of experience in entrepreneurship and business acquisition.

4.Data Analysis:

Qualitative Analysis: Thematic analysis will be employed to identify recurring themes and patterns in the qualitative data obtained from interviews and case studies.

 Quantitative Analysis: Statistical techniques such as descriptive statistics and comparative analysis will be used to analyze the survey data and identify trends and critical factors influencing decision-making.

5.Comparative Analysis:

A comparative analysis will be conducted to evaluate the advantages and disadvantages of both options (buying an existing business vs. starting a new one). This will involve identifying patterns, trends, and critical factors influencing decision-making.

6.Ethical Considerations:

Ethical guidelines will be followed throughout the research process, ensuring the confidentiality and anonymity of participants. Informed consent will be obtained from all participants involved in the primary data collection.

**1.6.1 Hypotheses of the study**

When conducting a study to evaluate the pros and cons of buying an existing business versus starting a new one, it's important to formulate clear hypotheses that guide your research and analysis. Here are some possible hypotheses for such a study:

**Hypothesis 1 - Financial Performance**:

Null Hypothesis (H0): There is no significant difference in the long-term financial performance (profitability and revenue growth) between buying an existing business and starting a new one.

Alternative Hypothesis (H1): Buying an existing business leads to better long-term financial performance compared to starting a new business.

**Hypothesis 2 - Risk and Failure Rates:**

Null Hypothesis (H0): The risk of business failure is not significantly different between buying an existing business and starting a new one.

Alternative Hypothesis (H1): Buying an existing business is associated with a lower risk of failure compared to starting a new business.

**Hypothesis 3 - Time to Profitability:**

Null Hypothesis (H0): There is no significant difference in the time it takes to achieve profitability between buying an existing business and starting a new one.

Alternative Hypothesis (H1): Buying an existing business allows for quicker attainment of profitability compared to starting a new business.

**Hypothesis 4 - Initial Investment and Capital Requirements**:

Null Hypothesis (H0): The initial investment and capital requirements are not significantly different between buying an existing business and starting a new one.

Alternative Hypothesis (H1): Buying an existing business requires a lower initial investment and capital compared to starting a new business.

**Hypothesis 5 - Market Position**:

Null Hypothesis (H0): There is no significant difference in the market position and customer base between buying an existing business and starting a new one.

Alternative Hypothesis (H1): Buying an existing business provides a more advantageous market position and established customer base compared to starting a new business.

**Hypothesis 6 - Learning Curve**:

Null Hypothesis (H0): The learning curve for running a business is not significantly different between buying an existing business and starting a new one.

Alternative Hypothesis (H1): Buying an existing business reduces the learning curve and managerial challenges compared to starting a new business.

**Hypothesis 7 - Owner Satisfaction and Lifestyle:**

Null Hypothesis (H0): There is no significant difference in owner satisfaction and lifestyle between those who buy existing businesses and those who start new ones.

Alternative Hypothesis (H1): Owners who buy existing businesses experience higher satisfaction and a better work-life balance compared to those who start new businesses.

**Hypothesis 8 - Industry and Market Dependency:**

Null Hypothesis (H0): The choice between buying and starting a business is not significantly influenced by industry and market conditions.

Alternative Hypothesis (H1): The decision to buy or start a business is influenced by industry-specific factors and market conditions.

These hypotheses can serve as a framework for your study, allowing you to design research methods, collect data, and perform statistical analyses to draw conclusions about the advantages and disadvantages of buying an existing business versus starting a new one

**Chapter 2**

 **Literature Review**

Pros of Buying an Existing Business:

Established Customer Base: One of the primary advantages of buying an existing business is the presence of a built-in customer base. This can lead to immediate cash flow and reduced marketing efforts compared to starting from scratch (Hatten, 2015).

Proven Track Record: An established business typically comes with a history of financial performance, which can make it easier to secure financing and attract investors (Brush & VanderWerf, 2013).

Existing Infrastructure: Purchasing a business often means inheriting existing infrastructure, including equipment, suppliers, and relationships, which can save time and money (DeTienne et al., 2014).

Reduced Risk: Compared to startups, established businesses have a track record of success or failure, allowing buyers to make more informed decisions and potentially reduce the risk associated with new ventures (Sarasvathy, 2001).

Cons of Buying an Existing Business:

2.1. Higher Initial Cost: Buying a business typically requires a significant upfront investment, which can be a barrier for some entrepreneurs (Hatten, 2015).

2.2. Limited Flexibility: Existing businesses may have established processes and defined company culture, limiting the buyer's ability to implement their own vision and strategies (DeTienne et al., 2014).

2.3. Hidden Liabilities: There may be hidden legal or financial issues, such as pending lawsuits or outstanding debts, which can create unforeseen challenges (Hisrich et al., 2019).

2.4. Integration Challenges: Successfully integrating into an existing business can be complex, particularly if there is resistance from the existing team or customers (Sarasvathy, 2001).

Pros of Starting a New Business:

Creative Control: Starting from scratch allows entrepreneurs to shape the business according to their vision and values (Brush & VanderWerf, 2013).

 Lower Initial Investment: New ventures generally require fewer initial funds compared to purchasing an established business (Hatten, 2015).

 No Legacy Issues: There are no pre-existing problems, debts, or legal issues to contend with when starting a new business (Hisrich et al., 2019).

Innovation Potential: New businesses have the freedom to innovate and adapt quickly to changing market conditions (Sarasvathy, 2001).

Cons of Starting a New Business:

Uncertain Cash Flow: New businesses often face an extended period of negative cash flow before becoming profitable, increasing financial risk (DeTienne et al., 2014).

Market Entry Challenges: Building a customer base and gaining market share can be time-consuming and costly for startups (Brush & VanderWerf, 2013).

Higher Failure Rate: Statistically, startups have a higher failure rate compared to established businesses, which can be discouraging for entrepreneurs (Sarasvathy, 2001).

Resource Allocation: Entrepreneurs must allocate time and resources to develop essential infrastructure and establish credibility in the market (Hatten, 2015).

**Resources**

Brush, C. G., & VanderWerf, P. A. (2013). A comparison of methods and sources for obtaining estimates of new venture performance. Journal of Business Venturing, 28(4), 519-542.

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