AVENUES OF ACQUIRING BUSINESSES

2 PAPER

2 TOPIC

Reason why entrepreneurs may decide to purchase an existing business.

Established business	An established business should not take up too much time to set up as all requirements needed to run the business is already in place.
Established customer base	An established business should have an existing customer base.
Established name and reputation	When an entrepreneur buys an existing business, it may come with goodwill from an established good reputation on the market
Known market	The market research has already been done for an existing business, so the new owner can use that information to form any future plans.
Mentorship	Starting a business can be overwhelming. If you purchase an existing business, the owner may often be willing to stay on for an agreed amount of time to mentor and guide the incoming owner.
Cash flow	An existing business already has customers and continued cash flow.
Financing	Many existing companies have three or more years of profitable financials that makes it easier to secure financing either from a traditional bank,
Current staff	Having trained staff in place can ensure a smooth transfer and contribute to the success of the business.
Market position	When an entrepreneur buys an existing business, it can increase its market position.

FRANCHISING

Definition: Franchising is a licence to use the name, idea, and processes of an existing business in a specific geographic area.

According to a franchise agreement, the franchisee obtains the right from the **franchisor** to use the name and trademark of the franchisor and to sell the franchisor's products.

Advantages of franchising

- A business is based on a proven idea and the product and service are tried and tested.
- Reduced long-term financial risk.
- Franchises have a higher rate of success than start-up businesses.
- Franchisees and their staff receive training and support from the franchisor.

Disadvantages of franchising

- It is sometimes difficult to sell a franchise and or to terminate the contract.
- The brand could get a bad reputation through other franchisees.
- Franchisees have to pay **royalties** or a share of the profit to franchisors.
- Too many outlets may flood a specific area.

Contractual implications of franchising

- policies that govern the product and services
- royalties and the dates of payment
- the form of ownership that the franchise will use
- operation specifications like marketing strategy and pricing

OUTSOURCING

Definition: Outsourcing is the business practice of hiring a party outside a company to perform services that were traditionally performed in-house by the company's staff.

Advantages of outsourcing

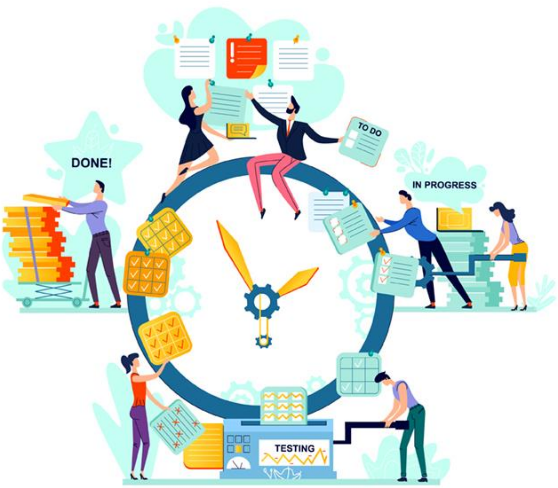
- Allows businesses to focus on important business activities.
- Operations, where costs are running out of control, can benefit from outsourcing.
- Improved access to skilled people as the outsourced work will be done by highly skilled people, without the company having to employ them.
- Fixed cost and overhead costs are lower for the business.

Disadvantages of outsourcing

- The loss of management control over the task may affect the staff and can lead to frustration.
- Confidential issues could be at risk if the information is given to another company that performs the function that is outsourced.
- There are often hidden costs in outsourcing.
- Control of the outsourced products can be more complex.

Contractual implications of outsourcing

- the responsibilities and rights of both parties
- the length or duration of the contract
- a confidentiality clause to protect privileged information.



LEASING

Definition: A lease is a contract outlining the terms under which one party agrees to rent goods, such as equipment and technology, owned by another party.

It allows the user (**lessee**) to make use of an asset, and guarantees the property owner or landlord (the **lessor**) regular payments for a specified period in exchange.

Advantages of leasing

- Leasing costs are tax-deductible.
- The lessor is usually an expert in the field.
- Maintenance is conducted regularly and should be written into the contract.
- Technicians are always on standby to offer advice and training.

Disadvantages of leasing

- The lessee does not automatically become the owner of the asset.
- Lease payments are treated as expenses and not as payments towards an asset.
- The lessee is bound by a contract.
- When paying lease payments towards a property, the business cannot benefit from any appreciation in the value of the property.

Contractual implications of leasing

- the right to occupy an asset, for example, a property
- the right to use the asset, for example, a delivery van
- the responsibility to keep the asset in good order or condition
- the responsibility of paying fees or rent on time