SHOULD I BUY A GOING BUSINESS?
START-UP VS. ACQUISITION©

The debate about buying a going business as opposed to starting from scratch has always been an interesting and active one. While there is no doubt that in the world of large, public companies, mergers and acquisitions have played a key role in the growth of many successful businesses, in the world of small business, particularly retailing, that is not always the case.

The basic premise of buying a going business revolves around a number of key points, some of which are positive, but some of which can be negative. While many of these points are unique to pharmacy, some of them are not. They include:

- The location of the business. Always a key point, as a good location can be the key driver of a successful business, hence the old axiom that the three most important factors for success in retailing are location, location and location. Some factors that create a positive here are the location itself, proximity to other stores that draw traffic, visibility and parking. These can and do vary widely, based on the trading area and the marketplace.
- The length of time a business has been open is another important factor. A pharmacy with a long history in the same town, in the same location, possibly under the same ownership, usually has a reasonable amount of good will attached to it. This assumes, of course, that the business is successful, has a positive track record of growth in sales and that the current owner enjoys a positive relationship with his customers and the community.
- Current cash flow, sales and profits, both gross and net, usually mean that a new owner will, at the very least, have the same rate of sale as the former owner, certainly at the time of the acquisition. This helps avoid the stress and anxiety of a new business, when one is waiting for those new customers to begin to patronize the pharmacy.
- The current prescription activity, particularly refill prescriptions, more or less "guarantees" that the new owner will be able to continue that trend, barring unforeseen circumstances or a substantial/significant change in store operations directly after takeover.

These factors are usually the most important ones in the decision to buy an existing pharmacy rather than start up a new one. But with that said, there is clearly a price to be paid for them and sometimes that price, your investment plus debt incurred, is more than a young pharmacist, particularly a first time owner, is willing to pay. The alternative then becomes opening a new pharmacy, which carries a set of issues and concerns of its own. These include:

- The location. Similar if not identical to this issue with going businesses, a good location is critical when doing a start up. In today's market, these are often medical center or clinic pharmacies, assuming there is a solid base of existing physicians already on site, writing prescriptions every day. Alternatively, a good shopping center location, usually a strip center with a supermarket in it (preferably without a pharmacy) or other strong local retailers who provide traffic can be an acceptable/desirable place to open a new pharmacy.
- The proposed lease is important. Reasonable rent, particularly in the early years, is essential for a start up. The need to keep all expenses as low as possible during the building period is clearly an important factor.
- The need for working capital, to fund payroll and operating expenses during the start up period, is most important. Invariably, undercapitalized businesses suffer and often fail due to lack of operating capital in the early stages of operation.

The inevitable question that arises when one ponders these options is always "Which of these routes is better for me financially?" There is no simple answer to this question, as the variables are huge and the unknowns, in both scenarios, can be daunting. With that said, my personal preference is for buying a going business, particularly for first time buyers. This presumes, of course, that the buyer has the necessary down payment and investment capital and can deal with the debt he or she must incur to purchase a going business (we will discuss the financing of these transactions in another article in this series). In a well-structured transaction, with the proper down payment and working capital, a new owner can expect to draw a salary and service the debt incurred from the cash flow of the existing business, though there are certainly no post-closing guarantees to this effect that will be issued by anyone.

The start up route, from my perspective, is usually better dealt with by an experienced/existing owner with one or more currently successful stores, who has the cash flow and profits from other businesses to help fund the transaction and provide the required working capital. In addition, current owners usually have wholesaler and supplier relationships that can help support his or her efforts in the early days through extension of credit and other means. But with that said, a first time owner who has an opportunity to open a brand new store in a great location should certainly take a hard look at the opportunity, weighing the risks versus the rewards and the lack of necessity to pay for “good will.”

Regardless of the route you choose, new business start up or acquisition of an existing business, it is important to do your homework on all aspects of the business, seek professional advice and outside assistance, and go into any transaction with your eyes wide open and your expectations firmly grounded in reality. A well planned start up or the acquisition of an existing pharmacy can and will meet your requirements, financially and professionally.