

BUY OR BUILD

Crunch time for your growing business

Should you buy another business or build on the one you already have? As the owner of a growing company, this is one of the most important decisions you may have to make.

According to MNP business valuations manager Nadine Wightman, “The question usually comes up if you’re facing a new market opportunity or an operational challenge, like a labour shortage or a lack of capacity.”

BUY VERSUS BUILD: WEIGHING THE OPTIONS

Doug is the owner of a mid-sized printing company that lacks the equipment, staff and operating capacity to meet growing customer demands. Wanting to grow his operation, Doug began looking at whether he could best achieve that goal by acquiring another company (“the buy”) or by expanding his internal capacity (“the build”).

With the help of a business valuator, Doug found that buying a smaller competitor would be a more financially and strategically sound way to expand his operations. The move would reduce his competition, while giving him access to an existing customer base and an immediate increase in market share.

While buying another business may have been the right decision for Doug, it’s not always the best option. Nadine cautions, “A variety of factors could have a negative impact on your company’s growth, and on its bottom line.” For example, if Doug’s human resource policies didn’t accept new



employees readily, he may have experienced a high staff turnover – and lost profits.

Building your existing business eliminates the need to integrate two unique operations. It also enables you to better manage your rate of growth. In contrast, by building new facilities or hiring new staff, you could experience a slower growth rate that results in a missed opportunity in your market. You could also incur significant upfront costs to grow your operations – costs that may not produce benefits for years to come.

BUY VS. BUILD: CRITICAL QUESTIONS TO ASK BEFORE YOU DECIDE

- > Can I purchase an existing business? Does it fit my needs?
- > How well would the new business integrate with my existing operations?
- > How large an expansion would I need to move my business to the next level?
- > Do I have the expertise to expand internally? What would the costs be?
- > Are there any financial constraints that would favour buying versus building?
- > Is my industry experiencing any dominant growth trends?

BUSINESS VALUATORS: HELPING YOU MAKE THE RIGHT CHOICE

Before making your final decision, you should also consider talking to a qualified business valuator. If you’re thinking of buying another business, says Nadine, “a valuator can help ensure you’re paying a reasonable price, assist you with any purchase negotiations and evaluate the business’ economic sustainability.”

If you’re planning to build your existing business, a valuator can help calculate the potential costs of growing internally.

In the end, your decision depends on both the nature of your business and the industry you’re operating in. Remember, there is a fine line between your business’ ability to expand while still remaining profitable.

For more information, contact Nadine Wightman, Chartered Business Valuator at 1.877.500.0778 or your local MNP office.