



BUSINESS **STARTUP** BLUEPRINT

STARTING VS BUYING VS FRANCHISING

TRANSCRIPT



Alright, let's tackle a question that I get asked all the time. Should I start a business from scratch, buy an existing business, or start a franchise company? Each option has its pros and cons. Let's dive in and talk first about the pros and cons of starting a business from scratch.

Starting a business from scratch is fun. You get to come up with a business name, think of your business idea, design your logos, website, and all the assets. You have full control of your idea and brand, allowing you to customize everything to your liking.

However, this also means your target customers may not like what you've customized. How do you know if there's going to be a good market fit for your idea? Starting a company from scratch requires a lot of due diligence and research to ensure your target customers will like your idea.

Additionally, starting a business from scratch can mean greater risk. The United States Small Business Administration has found that 50% of small businesses fail within the first five years, which is a sizable number.

I don't say that to scare you, but to highlight the risk associated with starting a business from scratch.

Another downside is that you have to create all of your systems from scratch. A system is a documented process for doing something important in your business.

For example, if you start a brand new floor coating company, you'll need to create training videos for your technicians, scripts for your office teams on how to answer phones, guidelines for your salespeople, and strategies for your marketing channels.

All these systems and documents need to be created. Starting a business from scratch requires significant investment to get the business started and to generate cash flow. While starting your own business means you have 100% control and potentially more upside, it comes with greater risk.

Now, let's discuss the pros and cons of buying an existing business. One major advantage is that there's already an established proof of concept and a good market fit. If you're buying a company, it should already have customers and know exactly who their target customers are.

There's established market fit, meaning customers are aware of the solutions offered and are actively buying them, usually resulting in positive cash flow.

When you buy a company, you typically pay a multiple of EBITDA (earnings before interest, taxes, depreciation, and amortization). For example, if a business has a net profit of \$200,000, and you assign a 4x multiple, the business will cost you \$800,000 to buy.

The positive net cash flow will take four years to pay back. Although buying a business is more expensive, it can be a positive option depending on your entrepreneurial journey.

Established businesses already have systems and processes in place, and often have people to run the business, possibly even without you.

Lastly, let's talk about the pros and cons of buying a franchise. This option can be the best of both worlds.

You're starting a business from scratch in the sense that you're starting it from the beginning, but you already have many established systems and processes that come with buying an existing business.

The upfront cost is typically lower than buying an existing business, and you already have some advantages. However, not all franchises are created equally. Some franchises only provide a logo and a paper operations manual.

At Wise Coatings, we franchised differently by providing systems and processes, training videos, documented procedures, and even helping our business partners with marketing.

A franchise model offers ready-to-go systems with a proven market fit, allowing you to hit the ground running with less risk. Franchise systems also have a greater success rate compared to independent businesses.

Studies show that franchises have a much lower failure rate because the franchisor is incentivized to ensure your success.

However, there are cons to franchise systems. You don't have full control over your brand identity and must follow the franchise organization's rules and systems. If you want to be highly independent and not follow strict guidelines, a franchise may not be for you.

Regardless of whether you start a business, buy an existing one, or join a franchise, I'm confident that we can provide the tools and resources to help you succeed.

Summary of Key Points:

- **Starting from Scratch:**
 - Full control over idea and brand
 - Requires extensive research and due diligence
 - Higher risk with significant investment needed
 - High potential reward but greater risk of failure
- **Buying an Existing Business:**
 - Established market fit and customer base
 - Systems and processes already in place
 - More expensive upfront but lower risk
 - Positive cash flow from the start
- **Buying a Franchise:**
 - Combines elements of starting from scratch and buying existing
 - Established systems and processes with lower upfront cost
 - Higher success rate due to franchisor support
 - Less control over brand identity and operations