
Your Bottom Line

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Shortcut to success

Each year, thousands of professional photographers become studio owners, and most of them choose to start their new ventures "from scratch". Only a comparative few buy existing studios and take over ongoing operations. Why do most new photographers choose to start from scratch and what is the most prudent option?

America is becoming a plastic society, where everyone desires to own sparkling new items—whether a washing machine or newly constructed home. Many professionals, including physicians, dentists, and attorneys, visualize themselves working in newly established office space. Therefore, it's not surprising that countless professional photographers yearn to open brand new studios. The idea of striking out on one's own is extremely appealing and people thirst for the old pioneer spirit of yesteryear.

On the other hand, success may be more conceivable when photographers take over already established operations. There is one fundamental fact about most businesses—they take time to build. Few businesses are profitable the first year, even if owners maintain minimum overhead. In fact, many studios take several years of consistent promotion and effort before building a profitable customer base that assures steady repeat business. It also takes time to acquire essential equipment for effective operation.

Photographers can take a significant "short cut" to success by purchasing existing businesses where prior owners invested years of time and large sums of money to create a strong client foundation and a positive studio image within the community.

Many people have trouble paying for what is commonly called "good will," which is generally defined as the reputation a business has established in a community, that promises to deliver customers the first day a new owner opens the door.

Determining how much to pay for this reputation is extremely difficult since it is a subjective judgment. In many cases, however, new buyers only pay a few

cents on the dollar, if they accurately judge the business value.

The only way to judge "good will" is to investigate current studio sales figures, including total bottom line profit, and integrate reasonable estimates of how the public perceives the business. Fundamentally, potential buyers should ask themselves, "How much should I pay for an established business which promises to attract "X" amount of future business?"

In essence, when photographers buy established businesses, they purchase a head-start they would not access if they opened a brand new business. This opportunity requires paying present owners a partial return for their business promotion investments.

There is no simple formula that will tell prospective buyers how much to pay for an existing business. However, there are a number of elements to consider.

First, recognize that if you open a totally new studio tomorrow, it will take weeks, months, or even years to develop a strong customer base, which requires a large financial investment for promotion. If you are talented, your first customer might return in a few months and/or recommend you to friends, but, this is a painfully slow process. Customers are creatures of habit—they often return to familiar businesses, regardless of the service quality, before purchasing products from a new establishment.

Second, you will need to carefully evaluate the status of the established studio profitability in order to place a realistic price on its value. Not only will you have to make the very difficult subjective judgment of its "good will" value, but you will also have to consider the location, lease, improvements, equipment included with the sale, and studio negative files. One way to assess "good will" is to ask yourself how much it would cost you in dollars and years of effort to generate the same size customer base and profit potential as the business you consider purchasing. Then, offer a small percentage of that amount for that customer base.

Third, never buy a business if you intend to make serious changes to it right away. I've sold two businesses where buyers started to alter the total character of the establishments after taking over. This drove away the repeat customers they purchased, and resulted in bankruptcy for both parties. Never pay for a business that you plan to modify significantly, unless you are offered a fantastic deal that can't be refused.

Realize that if you buy an active, ongoing business, you will have to offer your first customer the same caliber service as the previous owner. If you aren't prepared, you may quickly compel clients to seek photography services elsewhere. Many of your customers will be aware of the change in ownership and give you only one chance to prove that you are as competent as the previous owner. If you blow that opportunity, you may lose your clients forever.

It should be obvious that I believe photographers should pay a reasonable price for an established business, which can be gently molded into a more successful operation by a new owner. If you handle it right, you can be reasonably sure that your first year-end bottom line will be close to what the prior owner experienced. It will be up to you whether it maintains, increases, or decreases.

Buying an established business can yield benefits for many years. Even if you are unaware of businesses for sale in your community, consider visiting established studios and talking with owners about the possibility of selling. You never know what might happen—a business you never thought would be for sale may actually be available and become your shortcut to success. 