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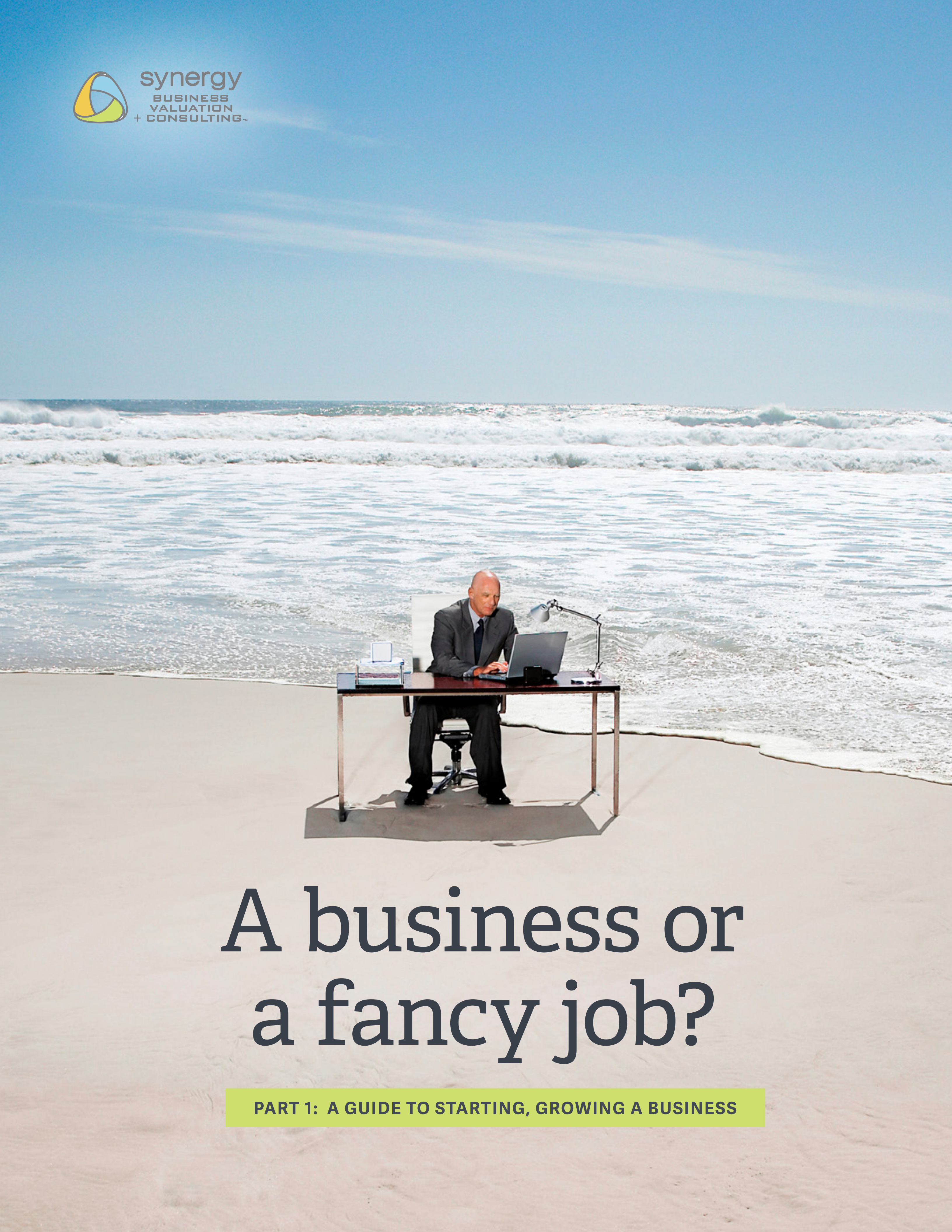

A business or a fancy job?

PART 1: A GUIDE TO STARTING, GROWING A BUSINESS

Introduction

Welcome to Synergy Business Valuation & Consulting's (SBVC) entrepreneurial guide to starting, growing, and selling a business. This is the first installment in a series that will help the entrepreneur and business owner, as well as those who are thinking about starting a business, learn more about successful business strategies and how they can help in your daily business life.

With fresh, useful information, SBVC's business series will cover the business life cycle from beginning to end. Along the way, as you are introduced to each new installment, please look in the mirror and ask yourself the tough questions so you can be ready for the answers.

Overview

The topic of this SBVC business installment is "Do you own a business or a fancy job?" It starts with a discussion about our definition of a business, and then explains the business life cycle so you can get started now with planning your business.

What does a real business look like?

What does the life of a business look like?

Where do I begin?

What does a real business look like?

Over the last 20 years of providing expert counsel to entrepreneurs, I have heard a variety of reasons why businesses are started. Some are for the money, some are for the challenge, and some are for the dream of successfully working for oneself. Regardless of the reason, a growing business can provide a lot of the conventional milestones by which society measures a person: Income, wealth, identity, pride of ownership, and the ultimate American dream: Success!

The problem, however, is that most entrepreneurs start a business without ever really understanding what a business truly is. In fact, most end up with a really fancy job they call a business. The true definition of a business is one in which the business owner can walk away for six months, sit on the beach on Maui, and continue to have a thriving business. With this definition, there is real value – an asset that can be sold because it runs without requiring the owner to be present. The cash flow continues despite the owner's absence, and it is this cash flow that drives value.

Due to their unique traits, my definitions of a business may need to be customized for a particular industry and/or the owner's personal circumstances, but regardless of the time period you pick for achieving your goals, a business needs to begin with the end in mind.

This is because now you have time on your side to build your business so it can have the most value when it's time to sell, or exit. One day you will leave your business voluntarily or involuntarily, but you will leave it, and now is the best time to develop strategies for maximizing its value...while you have the luxury of making improvements which can increase your results.

Most entrepreneurs end up with a fancy job they call a business. It looks like a business. It has a business structure like a corporation or limited liability company (LLC). It has a sign with a name on it. It has customers and even hours of operation from 9:00 to 5:00...but once the doors close and the person with a fancy job goes home, if he or she were to die that night, the doors would not open in the morning. Or, if the doors did open, the chances are that the entrepreneur's dream would not survive. Even if it did survive, the value would not be maximized for the surviving family.

However, what if the person with the fancy job did not die? What if he or she worked for many, many years before deciding to retire? Then at retirement, he or she put that lifelong dream up for sale to the highest bidder. What would the value be to the new owner? There is often a wide difference between the sale price desired by the owner and the price the market is willing to pay based on the business's inherent and true market value.

Remember that a business is valuated with exacting measurements. Every element of the business is weighed and measured for its value as a going concern, and unless the entrepreneur has spent time analyzing his or her business from the market's standpoint, using legally recognized and universally accepted methods of measurement, he or she will not have developed the business to increase value the way value is measured by the market!

If you desire a solid sale based on true value, you have to know how the market measures the value of a business, and build your business with value-building strategies as constant objectives. This is why it is critical you begin planning your business for eventual sale before you even open the doors on the first day. You need a road map that helps you continually build measurable value until the day comes when you can sell or exit your business because you've achieved your personal and business financial goals.

The good news is that with the proper mind set, and equipped with the right set of strategies and skills, you can experience the dynamic and exciting ride of navigating and negotiating the challenges of entrepreneurism.

There is nothing wrong with having a fancy job and, for some, this is the right decision. However, if you truly want to own a business, you must take the path that leads to building a business with staying power – a business with true value!

Fancy job

Operates the
business for today

Business owner

Focus on value drivers that create
and preserve your business

Both paths start with similarities, but then the road veers and the paths become separate and distinct.

In the beginning, both paths look like a business. They have a business entity, a name, a website, and even employee benefits. Then the business owner's path veers off and focuses on creating a system that breeds success including duplicable, controllable and predictable procedures for operations that all drive toward the exit plan and maximize value. The fancy job path veers toward a good livable wage, but with no emphasis placed on extracting value. For this path, results obtained without the direction of an accountable and clear plan are based on luck.

What does the life of a business look like?

The life cycle of a business is actually very simple and is usually illustrated as having three or four main phases.

4 PHASES
1. **START-UP PHASE**
2. **GROWTH PHASE**
3. **MATURITY PHASE**
4. **EXIT PHASE**
a. Sell
b. Close
c. IPO
d. Expand
e. Merge

3 PHASES
1. START-UP PHASE
2. GROWTH PHASE
3. EXIT PHASE
a. Sell
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Each phase poses its own unique challenges and rewards, and as an entrepreneur you will most likely gravitate toward enjoying one or two of the phases over the others. Many entrepreneurs prefer to focus on the start-up and growth phases, and they concentrate their skills on the continued development of new companies. They start them, build them, exit them and let someone else take the company to the next level through highly-honed management skills.

Just because you start a business doesn't mean you're the best person to run it! Don't be afraid to hire people who possess different skills than you, and keep in mind that bigger is not always better. Some businesses start fast and grow fast, and others start small and are best when they remain small.

THE START-UP PHASE

After you have identified The Next Big Idea, it's time to put your thoughts on paper, perform your due diligence, and create your business. You will select a legal entity, a bank, an office location, assemble your team of advisers, hire an employee or two, raise some capital, finalize your business plan and open the doors. The complete details of the start-up phase are beyond this article and require more consideration than permitted here.

During this phase, it is important to allow as much time as necessary to develop a prudent and well thought-out plan that will drive your success.

SAMPLE BUDGETS

START-UP BUDGET
Personnel (costs prior to opening)
Legal/Professional fees
Occupancy
Licenses/Permits
Equipment
Insurance
Supplies
Advertising/Promotions
Salaries/Wages
Accounting
Utilities
Payroll expenses

OPERATING BUDGET
Personnel
Insurance
Rent
Depreciation
Loan payments
Advertising/Promotions
Legal/ Accounting
Misc. expenses
Supplies
Payroll expenses
Salaries/Wages
Utilities
Dues/Subscriptions/Fees
Taxes
Repairs/Maintenance

THE GROWTH PHASE

Creating revenue and driving profits should be one of your most important goals, yet sometimes growing too fast is worse than growing at a steady and controllable pace. Growing too fast can actually put you out of business if you don't have a well-organized plan to serve all your new customers. This is the phase in which you need to identify the key value drivers for your particular business, industry, and sector, and capitalize on them by executing the business plan you've spent so much time preparing.

There are many facets to growing a business, such as staff, operational space, borrowing capital and creating loyal customers...and everything in between. The key to value creation in your business is to focus on the activities and value drivers that create cash flow or some other measure of profitability applicable to your industry. Ultimately, this will bring you the highest exit value.

POSSIBLE VALUE DRIVERS:

- Positive Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
- Excellent Customer List
- Product Differentiation
- Defensible Market Positioning
- Dominant Market Share
- Technology and Proprietary Processes
- Location
- Franchise/Dealership

THE EXIT PHASE

This is the phase you have planned and worked so hard to achieve. Here is where you will be rewarded for executing your business plan with some type of liquidity event, whether it is a sale or merger. In this phase, it is very important to put together your exit team, which usually consists of a valuation expert, business broker, your attorney, and your accountant. Your team will provide you with invaluable advice in negotiating the pitfalls of a business transaction. Regardless of whether it is a sale to one or more of your employees or to an outside party, your exit team will pay dividends because of their expertise as they guide you to make the best decisions.

VARIOUS METHODS OF SALE:

- Sale of your entire business to an unrelated third party
- Sale of part of the business
- Business assets liquidation sale
- Sale of a fractional business interest held by an owner to a co-owner or owners
- Sell your interest back to the company
- Sale of all or part of the owner's interests to an employee benefit plan for the benefit of the company's employees

- Gift of part or all of your business interests to family members, employees and/or management
- Transfer business interests via estate planning
- Sale of part or all of your business interests to family members, employees, and/or management
- Liquidation of the business

Where do I begin?

If you ask a group of students in high school if they planned to fail in life, the answer would be a resounding “No way!” However, if you followed the same group of students over the next 40 years of their lives, you would most likely see a recurring pattern of failing to plan.

This is the same pattern many entrepreneurs fall prey to, failing to plan the successful life of their business. Why? In my experience, it is due to the complexity of their circumstances and the lack of a proven system, or plan, to guide them. They are too busy working in their business and do not spend enough time on working on their business.

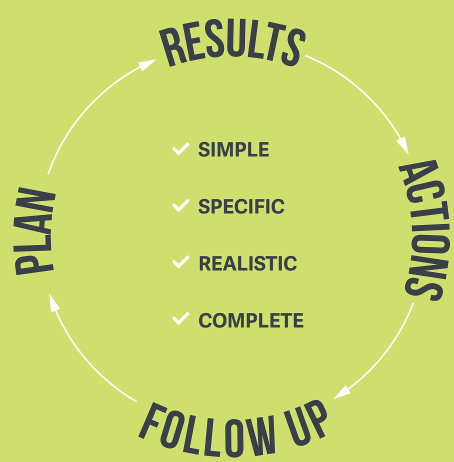
The following is what I call a mini-plan and, of course, it can be expanded to suit the individual needs of your business. Following the mini-planning process are my concluding thoughts on formal business plans.

SIMPLE
Is the plan simple? Is it easy to understand and take action? Does it communicate its contents easily and practically?

SPECIFIC
Is the plan specific? Are objectives concrete and measurable? Include specific actions and activities, each with specific dates of completion, specific persons responsible, and specific budgets if necessary.

REALISTIC
Is the plan realistic? Are sales goals, expense budgets, and milestone dates realistic? Nothing stifles implementation like unrealistic goals.

COMPLETE
Is the plan complete? Does it include all the necessary elements? Requirements of a good plan vary, depending on the context. It must cover at least the basics.



QUICK ASSESSMENT

START YOUR PLAN WITH A QUICK ASSESSMENT. You may want to use a SWOT analysis:

- Strengths
- Weaknesses
- Opportunities
- Threats

START BY EXPLAINING YOUR UNDERLYING STRATEGY:

- Think strategically.
- Describe what you are trying to do (executive summary).
- What is your value proposition?
- What is your competitive edge?

SET OBJECTIVES

- Objectives are business goals. You need to set objectives and plan to achieve them.
- Make sure your objectives are concrete and measurable.
- Be specific.

WRITE A MISSION STATEMENT

- Use your mission statement to define your plan's concept. (i.e., define your business, identify your process for client acquisition, customer services, sales, etc...
- Describe your plan for customer satisfaction
- Explain your workplace philosophy
- Identify your value-based marketing strategies

KEYS TO SUCCESS

- Think about the keys to success. Focus on the main elements that will ensure your plan works.

TOOLS AND RESOURCES

- Make a list of the tools and/or resources you may need to execute your plan.

BREAK EVEN ANALYSIS

- Does your plan make financial sense? If so, what are the fixed costs, variable costs and projected revenues?

MARKET ANALYSIS

- What are other successful people or firms doing?
- What has worked in the past?
- What has not worked in the past?

PAUSE FOR REFLECTION

- Does your plan make sense?
- Can you bring together the keys to success?

PRESENTATION

- Present your plan in a well-communicated, professional manner. Looks are everything!

FORMAL BUSINESS PLAN PROCESS

Business plans are a business's blueprints for success and should be logical and well-thought out, easy to read, accurate, and reflect the founder's passion while still maintaining a professional tone. They can range in length from a few pages to several hundreds of pages, but most importantly, they should appropriately address the strategic needs of the business.

Another way to think of this planning process is from the perspective of a GAP analysis. A GAP analysis assesses the value of the business today, identifies the elements and the desired financial value of the business in the future, and measures the distance between the two, known as the GAP. Then a plan is written that closes this GAP and moves the business from today into tomorrow in an efficient and successful manner.

There is no one right way to write a business plan; however, there is a wrong way! You must make sure your plan accurately and honestly describes your idea, the market you are serving, your company's profile, its competitive advantage, and its projected financial statements.

Another consideration is the audience. For whom are you writing the business plan? Yourself, investors, the bank, your organization's management team, or a combination of people? Many people will write a different plan for each individual audience so they can tailor the plan to address the questions and concerns each group may have. This might at times be an advantage, but I would suggest that if the business plan is properly written, one plan will do. However, you could consider creating a few different presentations in order to better communicate or highlight certain aspects of your plan for different audiences.

The following are several topics which are commonly addressed in a business plan. This is not an exhaustive list and a business plan needs to be customized for the intended use of the person preparing it.

- Short summary of the business
- History of the business
- Products and services and how they will meet the client's needs
- Your sustainable competitive advantage
- How operations will work
- Strategic alliances
- Market information, size, growth rate, government regulations, etc.
- Marketing information, distribution channels, promotions, pricing etc.
- Rivalry from the competition
- Management team and their bios
- Ownership structure
- Financial plans, balance sheet, income projections, cash flow statements, budgets, pricing and distribution models
- Capital required, debt, equity, preferred
- Exit strategy

PLAN

EXECUTE

ADJUST

RESULTS

SUMMARY

In conclusion, the question "Do you own a business or a fancy job?" can be a fresh way to look at starting a business or to evaluate your current business. Understanding which path you are on and where it leads will help you take control of growing your business.

First, you need to identify your goal. Is it to own a business or to have a really good job? Focus on the path that leads you to your intended goal.

Second, identify where in the business life cycle your business is currently operating. Use this internal business audit to understand where your business is and where it is heading.

Finally, based on the first two steps, create a plan that is appropriate for your audience. Keep it simple. Be specific and realistic with your planning, and as complete as necessary for your particular objective.

START-UP CHECKLIST

- ☐ Describe your business, its services and its products.
- ☐ Identify your market.
- ☐ Analyze your competition.
- ☐ Assess your skills.
- ☐ Name your business.
- ☐ Determine your financial requirements (budget) and your pricing structure.
- ☐ Identify start-up costs.
- ☐ Select an accountant.
- ☐ Determine your business structure.
- ☐ Check on zoning laws, licenses and taxes.
- ☐ Select your location.
- ☐ Apply for a fictitious name (called a DBA for "doing business as").

DEVELOP A BUSINESS PLAN THAT INCLUDES:

- ☐ Business description
- ☐ Marketing plan
- ☐ Management plan
- ☐ Financial plan
- ☐ Obtain a tax ID number from the IRS.
- ☐ Apply for a city business license or home occupation permit if necessary.
- ☐ Select a banker, attorney, accountant, and insurance agent.
- ☐ Open a business banking account.
- ☐ Arrange for financing (or set aside capital for a worst-case scenario).
- ☐ Obtain business insurance.
- ☐ File legal documents to register your business.
- ☐ Set up your financial records.
- ☐ Create a brand to include logo design, ordering business cards and stationery, etc.