

13

Time to Move On

LEARNING OBJECTIVES

- Determine the value of a business
- Transfer ownership of a business to a buyer
- Transfer ownership of a business to a family member
- Close out a business completely
- Determine if a business concept is feasible
- Finalize a business plan

What Is a Business Worth?

Entrepreneurs need a "bottom-line number" for the price of their business when it is time to move on.

- The market capitalization method calculates value for corporations by multiplying outstanding stock shares by their market value.
- Book value is determined by subtracting total liabilities from total assets, showing what is owned outright.
- The times-revenue method uses an industry-dependent multiplier applied to total revenue over a set period.
- The earnings multiplier method is similar to times-revenue but uses net income instead of total sales.
- The discounted cash flow method projects future earnings while adjusting for the effects of inflation.
- Liquidation value is often used by retailers and involves selling off all inventory and subtracting outstanding debt.
- Goodwill represents non-physical value such as brand recognition, community reputation, and growth potential.

Finalizing the Business Plan

- The Executive Summary is the last element written and highlights the most important parts of the business venture.
 - Key elements include an overview of the team, the problem being solved, the proposed solution, and a brief financial overview.
 - The summary should be concise (ideally one page maximum or three to five paragraphs).
- A feasibility analysis evaluates whether a business idea is practical and worth pursuing based on specific factors.
- Entrepreneurs must examine market, financial, competitive, operational, and legal/regulatory feasibility.

Professional Skills for Entrepreneurs

- Effective negotiation requires shifting from a "winning" mindset to a collaborative one that focuses on mutual interests.
- Persuasion techniques include establishing credibility, using logical data, appealing to emotions, and emphasizing scarcity.
- Professional virtual business norms include testing technology in advance, maintaining eye level with the camera, and minimizing distractions.
- An entrepreneur should dress professionally for virtual meetings, ensuring what they are wearing below the waist is appropriate in case they must stand.
- Virtual meeting etiquette requires introducing participants, staying attentive, and keeping microphones muted when not speaking.

Transferring Ownership to a Buyer

- Sole proprietorships transfer ownership by moving assets to a new owner and informing stakeholders.
- LLCs detail transfer processes in their operating agreements and may require legal dissolution depending on state laws.
- Corporations transfer ownership through the sale of stock shares to a new owner.
- The five steps to transfer ownership:
 - Determine value
 - Craft a buy-sell agreement
 - Notify the registration agency, the IRS, and stakeholders
- A buy-sell agreement is a contract that lists all assets being sold and details the timing of the transition.

Transferring Ownership to Family

- Sale Method: Allows the older generation to pull out value for retirement through lump sum or periodic payments
- Gift Method: Involves transferring assets or membership without receiving capital, though it may have tax implications
- Employee Stock Ownership Plan (ESOP): Allows family and dedicated employees to gain ownership through retirement accounts
- Trust Method: Allows the original owner to maintain control until their passing, at which point the business transfers seamlessly to the next generation

Closing the Doors

- Closing a corporation requires obtaining written consent from the tax department and filing a certificate of abandonment or dissolution.
- The state can force a dissolution of proclamation if a corporation fails to file the required documents for two consecutive years.
- To shut down an LLC, members must agree, settle all debts, and file a certificate of dissolution with the state.
- The final steps for an LLC include notifying financial agencies, liquidating any remaining assets, and filing final state and federal tax returns.

CHAPTER SUMMARY

- Transitioning out of a business is a natural phase in an entrepreneur's evolution, whether through selling, transferring, or closing.
- Various valuation methods, such as book value or liquidation value, provide the necessary "bottom-line" for sales negotiations.
- The Executive Summary and feasibility analysis are the final components of a professional business plan.
- Success in transitions depends on collaborative negotiation and maintaining professional norms in both in-person and virtual environments.
- The legal requirements for ownership transfer or business closure vary by business structure and state regulations.