

What to do when

WHEN IT'S TIME FOR YOUR BUSINESS TO GO BIG OR GO HOME



"There is something to be said for keeping everything under one roof, even if it is a very big roof."

JAY GOLTZ NYTIMES
on Abt Electronics in Chicago

there are over **27 MILLION** small businesses in the United States

SMALL BUSINESSES ARE GOOD FOR THE ECONOMY

60 PERCENT

80 PERCENT

SMALL BUSINESSES ARE RESPONSIBLE FOR 60-80% OF AMERICA'S JOBS

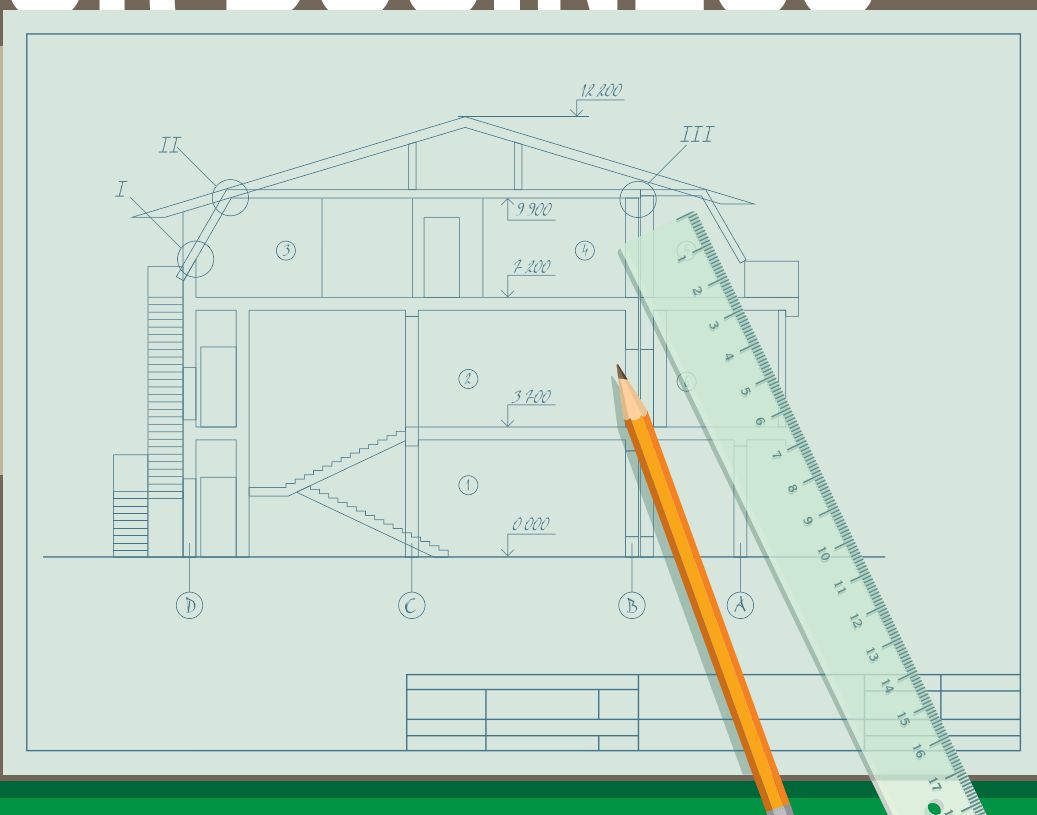
MOST SMALL BUSINESSES WILL ONLY SURVIVE FOR A LIMITED TIME

50 PERCENT 5 YEARS

30 PERCENT 7 YEARS

WHEN TO EXPAND YOUR BUSINESS

- Your competitors are expanding
- You can afford it initially and over time
- Expanding enhances your original vision
- You can handle giving up some of your power in the business



OVER THE SPAN OF 40 YEARS:

\$10 million today + 9 percent growth a year = \$300 million in 2050.

If you grow at 10 percent a year, you will be doing more than \$400 million in 2050.

WHEN TO SELL YOUR BUSINESS



The buyer is offering more than you will be worth for the next two or more years.

When you are ready for retirement.

You do not want to invest in the growth of the business.

You are burnt out.

EBITDA Earnings before interest, taxes, depreciation and amortization

Average company that sold in 2011 **5.4 TIMES THE EBITDA**

\$10 Million / year company
\$250 Thousand / year salary
\$2 Million / EBITDA bottom line

X 5.4 = \$10.8 Million EBITBA

On a salary of 250k - to reach the same \$10.8 million would take 43.2 years

250k salary at top tax bracket is 40% **cashing out** - capital gains is only 15%

YOUR COMPANY HAS SO MUCH MORE VALUE TO A BIGGER COMPANY ARE YOU SITTING ON A BIG TICKET?

WHEN TO CLOSE YOUR BUSINESS

When debt-to-asset ratio is above 50%

When money loss is increasing rather than decreasing

When inventory turnover is slowing

When loan renewal is rejected



HOW TO GET FUNDING

VENTURE CAPITAL

OF 2 MILLION NEWLY CREATED BUSINESSES ONLY ABOUT 600-800 WILL GET VC FUNDING

- Usually novel business or technology
- High-risk growth startups
- Private equity
- High-potential

SEED FUNDING

- Most of the money comes from savings or mortgage loan proceeds
- Used more in initial startup, rather than expanding your business
- Investors are usually friends, family, owners



ANGEL INVESTING

- Usually a solely interested investor
- Wants convertible debt or owner equity in return
- Private equity

HOW DOES A DOWN ECONOMY AFFECT SMALL BUSINESS?



HOUSE FORECLOSURES

= GREATER BANK LOSSES

= NO BANK LOANS

Making it difficult to find money to expand

Can lead to layoffs

HOW DOES SMALL BUSINESS AFFECT THE ECONOMY?



99.7 PERCENT OF EMPLOYER FIRMS

- Employ half of all private sector employees.
- Pay 44 percent of total U.S. private payroll.
- Generated 65 percent of net new jobs over the past 17 years.
- Hire 43 percent of high tech workers (scientists, engineers, computer programmers, and others).
- Are 52 percent home-based and 2 percent franchises.
- Made up 97.5 percent of all identified exporters and produced 31 percent of export value in FY 2008.
- Produce 13 times more patents per employee than large patenting firms.

Sources:
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