

THE BUSINESS DOCTORS

Welcome to a column entitled, “The Business Doctors.” Its mission statement is to share helpful information with Inland Empire-based small business owners. “The Business Doctors” is a strategic alliance of local experts in the areas of business law, public relations, commercial banking, advertising, marketing, medical insurance, payroll services, business coaching, investment banking, accounting/taxation, 401-k planning, commercial insurance, business valuation and estate planning. “The Business Doctors” meet twice a month to mentor one another. The topic of today’s column is Business Valuation, and our guest expert is Ted Collins.

Making money in business is never easy. Business owners dedicate a lot of blood, sweat and tears to build a business that can generate profits year after year. A fair amount of risk must be endured before an owner can one day “cash out” of a business. Knowing some of the ground rules about how a potential buyer might view your business is critical. Managing your business with the buyer’s perspective in mind can help build value that one day you might benefit from handsomely.

To identify the ground rules, it can be useful to have a conversation with a business appraiser. Because most business owners don’t have an existing relationship with a business appraiser, I conferred with one of my “business doctor” associates and asked a few basic questions.

Ted Collins, director of the Business Valuation Group at Vicenti Lloyd & Stutzman LLP, (based in Glendora, CA) agreed to share some of his insights about business valuation.

What is business valuation and who does it?

Business valuation is essentially an appraisal of the busi-

ness to determine what the fair market value of the business is. A business is appraised by an analyst who is certified in valuation. Using similar techniques as Wall Street analysts, appraisers determine a price for privately-held business stock.

In what scenarios might a business valuation be needed?

When an owner is considering selling, a business valuation can provide good insight into market price and how the company is viewed. There are also many tax situations that require a valuation such as, when an owner transfers stock to children or management or when an owner dies. In multiple owner companies, it is a good idea to consider a valuation as part of the buy-sell agreement between shareholders. We are frequently called in when no buy-sell agreement is in place and the owners are litigating with each other. Another common area where a valuation is needed is marital divorce. The value of a business must be determined to divide marital property.

Could you describe what techniques are used in a valuation?

Appraisers try to understand the business through the eyes of a potential investor. This requires a thorough study of the business using knowledge of accounting, economics and finance to understand what the business does, how it makes money and what the financial position of the company is. The financial statements tell a lot about a company. They are analyzed to benchmark the company against its past performance and with similar companies in its industry. This analysis gives an outsider a good idea of how well management is running the company.

Cash flow is quantified and future expectations of management are reviewed. An appraiser will then use the data developed

and estimate the value using three general approaches: asset, income and market.

- The asset approach looks at what the value of the business is once the assets have been adjusted to fair market value and all liabilities have been subtracted.

- The income approach estimates what an investor requires as a rate of return and then a calculation is done to determine value.

- The market approach looks at what similar businesses sell for and the analyst will calculate a “price tag” from that data. This is similar to the concept of price to square foot used in home sales. Instead of square feet, price to revenues and price to EBITDA (earnings before interest expense, taxes, depreciation and amortization) are commonly used. A value is then calculated by multiplying the com-

pany’s numbers with the “price tag” from the similar company.

What you described sounds a lot like what a buyer would do?

Buyers always perform due diligence when looking for a business to buy. They consider what the business history shows, how diversified the customer base is and the risks that that might affect cash flows in the future. They want to know the in’s and out’s of a business before they commit to risking their capital. An appraisal takes an in depth look.

How can an owner build their business value?

Business value is directly affected by two variables: cash flow and risk. Most owners naturally focus their attention on cash flow, cash is king after all. But spending more time on

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The Science...

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pains.

5. Pushing more calls

Pressuring salespeople into making more intrusions on the same number of prospects actually reduces sales. Neil Rackham (author of "SPIN Selling and Rethinking the Sales Force") concludes: "The least successful people are the ones making the most calls. Increasing the call rate results in fewer orders, not more."

To avoid reinventing the wheel, learning from executives who weathered past recessions is a sound approach to reducing risk. In your own organization, your alumni or your online social network there may reside active or emeritus officers with deep experience to share. Talk to them. Pick their brains.

But one thing is certain when an ailing economy mimics a black hole—piecemeal remedies fail to achieve escape velocity. Cutting back on cost, though logical, is the opposite of what has pulled businesses through recessions in the past. Increased investment in the sales process, governed by greater discipline, is a more reliable approach for achieving sustainable revenue growth, even in difficult times.

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Lead and...

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TAPS...

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clude an enjoyable lunch, dinner or brunch.

Live music is offered on Wednesday, Thursday and Friday nights (playoff games, etc. take precedent, however, so check beforehand). Private dining rooms are available for wedding receptions, company luncheons and meetings. Located on 2745 Lakeshore Drive in Corona, call (951) 277-5800 for reservations or visit www.tapsfishhouse.com TAPS is opened for lunch, dinner and Sunday brunch.

Pomona...

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of radiation more precisely directed to the tumors. A third choice for treating prostate cancer, Interstitial Radiation/Seed Brachytherapy, fights the tumor from the inside out. This treatment option places tiny, radioactive seeds via targeted, precision radiation treatment.

Each of these technologies represents the most sophisticated technology and advanced procedures available. The Regional Prostate Cancer Program provides clinical specialists and treatment options within one program so that the benefits and potential outcomes of each treatment choice can be reviewed and discussed, and patients can choose the best option for themselves.

For further information regarding the Regional Prostate Cancer Program at PVHMC please call 1-800-4LOWPSA (1-800-456-9772).

CalChamber...

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AB 2578 (Jones; D-Sacramento) Inappropriate Price Control — Reduces health care choices, access and quality by creating additional bureaucracy to impose price controls on health insurance policies while failing to address the major cost drivers of rising medical costs.

Inflated Liability Costs

AB 1680 (Saldaña; D-San Diego) Interferes with Contractual Agreements — Burdens businesses with unnecessary litigation costs and slows resolution of disputes by prohibiting enforcement of voluntary arbitration agreements if someone is being sued for a hate crime.

AB 2773 (Swanson; D-Alameda) Undermines Judicial Discretion — Unreasonably increases business litigation costs by removing judicial discretion to reduce or eliminate exorbitant legal fees in fair employment and housing cases.

MUMBAI...

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stars and lower rates.

Getting There

Air India and United/Continental Airlines are a few of the airlines offering excellent flights to Mumbai.

Important Details

Please check with the appropriate offices for Visa and entry details, they can change daily. Needless to say take a current passport especially if you plan to get back into the USA.

Keep in mind nothing can replace a reliable knowledgeable travel agent to assist in your travel choices. They will have updated rates and any specials available. They should also be able to assist you with your Visa, passport information and necessary shots for the destination you are going to.

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understanding the risk in their business is equally critical. When people talk of risk in a business they think of insurance, but risk extends far beyond that. Risk is present in the quality of financial reporting, concentration of customers, lack of management depth and a number of other operational areas.

By looking at their business through the eyes of a buyer, things will start to pop out that need to be addressed. Addressing these early will reduce a buyer's ability to negotiate a lower price. With good business processes in place, the need to have an owner present may be reduced which can increase the pool of interested buyers.

Eugene E. Valdez is the coordinator of the "Business Doctors," as well as vice president, senior relationship manager with Community Bank's Business Center located in Ontario. Valdez can be reached at: evaldez@cbank.com. Opinions expressed by Gene (or the authors) are his/their own personal opinions and not the opinions of Community Bank.

Have a great and safe trip.

Camille Bounds is the travel editor for Inland Empire Business Journal. She is also the travel editor for Sunrise Publications.

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