Where Do Our Buyers Come From?

Just a couple of days ago I was surprised when the local newspaper asked this very question. A quick review of recent sales proved quite interesting. Buyers that have purchased businesses recently have hailed from:

Alaska – Country Club Vacation Rentals
Rome, Italy– Cactusberry Yogurt
New York– Cal-Zone Pizza
Montana– La Quinta Florist, Cathedral City Florist, Cathedral City Pets
Washington State– Legions & Icons
Reno, NV– Taragar Property Management
San Diego– Benny’s Bagels
Los Angeles– The Fall’s Steakhouse
Cathedral City– Tooties BBQ
San Diego & Banning– Basic Gym
Dallas, TX– 21 Liquor License
Banning-21 Liquor License
Los Angeles– Dales’ Lost Highway (lease)
La Quinta– Crush 111 (lease)
... and several more in escrow that are out-of-area buyers.

This just goes to show our clients are relocating to the Palm Springs area and are looking to purchase jobs. That is really what we sell. A quick look in any newspaper tells the same story; few jobs and mostly lower pay. If a person owns their own business they can determine their own income by the effort they put into it. With fresh eyes and a renewed excitement I always say that a new owner can increase a business’ income by 30.

This country of ours has always been a melting pot, and in the case of Palm Springs, the community can only benefit from all the energy these new residents bring.

Author Profile:

Robert Hughes is a commercial broker and president of Hughes Properties, Inc. in Palm Springs. An MBA from USC, Hughes has a wide variety of entrepreneurial experience with the personal ownership and sale of over sixteen businesses, including founder and publisher of Orange Coast Magazine. Additional business tips can be found at www.hughesproperties.com.
ABC’s of ABC

When purchasing a restaurant, bar, liquor store, mini-market, wine shop, catering business, or any number of other businesses where the selling or serving of alcohol is involved—you will need to deal with the application process of the California Department of Alcohol Beverage Control Board. The ABC process is a necessary step for the new business owner whether you are stepping into an existing business or starting up a new one. In either instance the application process is fairly similar.

A. Each county has its own ABC office. First go to your local ABC office and request the required paperwork that you will need to bring to your interview.
B. After you complete the paperwork, contact the office to set up an interview.
C. Once your paperwork is in order, you will be given materials to post on-site at your business for a period of 30 days.
D. After the 30 day period, most required items should be completed, including the balance of the sale price into the escrow account.
E. At this point, Escrow prepares ABC’s 226 form, confirming everything is complete for a transfer of the license to occur.
F. The local ABC office will now review all of the paperwork before sending it onto Sacramento for the license to transfer into your name.

This is the short and sweet version of the ABC’s of ABC. They have a web page which effectively covers the process, including a handy method of tracking the process of your application. The web site is www.abc.ca.gov and it is helpful to have the license number to track the progress.

Do not hesitate to call with any questions. As with most things, unusual circumstances arise and know that we’re here to help.

You might find it interesting to know how many liquor licenses there are in the Coachella Valley for restaurants and bars. The figures appeared recently in an article in THE DESERT SUN who utilized the California Department of Alcohol Beverage Control as the source.

Cathedral City 76
Coachella 25
Desert Hot Springs 24
Indian Wells 11
Indio 68
La Quinta 62
Palm Desert 137
Palm Springs 178
Rancho Mirage 66

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What is a Business Worth?

Keeping It Real Whether You’re Buying Or Selling

Printed in: The Public Record, February 2012

There are several industry-accepted methods used to arrive at the value of a business. Just rattling these off can make one sound, well let’s just politely say informed.

1. EBITDA– Earnings before depreciation (and other noncash charges), interest and taxes.
2. EBDT– Earnings before depreciation (and other noncash charges), and taxes.
3. EBIT– Earnings before interest and taxes.
4. SDE– Seller’s discretionary earnings.

Just to make matters more interesting, a multiple, typically between 0 and 4 depending on the type of business, is then applied against the earnings to arrive at a value. It quickly becomes quite convoluted, yet the reality is that most businesses sell at a price that is market-driven based on a percentage of the business’ current sales.

In my 10 years of valuating small businesses I have found that all these methods will pretty much get you to the same number. However, unless the business is a huge conglomerate, the best approach is the Seller’s Discretionary Earnings method, better known on the street as “Cash Flow.” By using this common sense approach, it seems both buyers and sellers have an easier time quickly grasping the value.

An examination of the Profit & Loss statements will determine the SDE, or cash flow. By adding back many of the expenses that reflect the current owner’s personal allocation of the cash in the business, which would likely be different figures for you, you’ll arrive at a true picture.

Add-backs to consider include profits, depreciation and amortization, interest fees, taxes, non-recurring expenses (such as new equipment) and the owner’s total compensation (including draws, payroll, auto expenses, health and life insurance plus any discretionary expenses.

I find most businesses sell from 1 ½ X to 3 X the cash flow. Let’s say a
business is showing an annual cash flow of $50,000, generally a selling price in the range of $75,000 to $150,000 (plus inventory) would be typical. To better pinpoint the price within that range you’d want to consider the added value of some additional factors such as the number of years in business, competition, the location and lease terms, the industry trends for the business’ product or service, trade knowledge and seller financing.

Pure and simple, many a small business buyer is out to buy themselves a job. A quick check of the want ads won’t yield much for someone who just wants a reasonable income in the $50,000 to $150,000 range. Being able to quickly assess the business’ value makes it easier to navigate businesses listings and zero in on one that will meet your needs.

As a buyer, keep in mind your vision and how that translates into the growth of the business you're considering. Buyers infuse fresh energy, personal experience and their unique stamp often resulting in a spike in sales. I like to call this the end of “tired eyes” syndrome, an affliction that often strikes the long-time business owner. When décor becomes dated, remodeling & repairs are deferred, and even new marketing venues are not pursued- it really is time for a change. Marketing strategies, window displays, product lines, websites and such, must all be working optimally to draw in the customers. I recently sold a dress shop in downtown Palm Springs that demonstrated all the symptoms. The new buyers proved me right when they refreshed the overall look, the product lines and the displays, and in a very short period saw a sales increase of 4 ½ X. Bear in mind the value YOU will bring to the table and what you are willing to pay to have that opportunity to work your magic.

The moral of this story is that mind-boggling methods aside, the selling price is what a willing seller and a willing buyer can agree on.

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Escrow and Buying a Business

Escrow is the process required to complete the sale of a business. An escrow company becomes the neutral party that prepares all the necessary documents, holds the monies and, when all of the stipulations in the parties’ agreement have been met … closes escrow. Close of escrow entails issuing the buyer the bill of sale for the business and disbursing funds to the seller.
When an offer is accepted and escrow is opened, this starts the due diligence period for the buyer. In most cases, this due diligence period is 17 days during which a buyer may acquire and review all of the documents associated with the business. In essence, the buyer is determining for himself that what is declared by the seller and what the buyer perceives about the business is true and acceptable. At any time during this due diligence period, a buyer may cancel and get his deposit back, minus any cancellation fee, including “out of pocket” expenses to date. To cancel escrow it normally requires the principals from both parties to sign a mutual cancellation.

It could be said the purpose for escrow is to insure the parties involved that the business transaction is conducted with ultimate transparency and that all agreed-upon terms are met.

This process may include:

Publishing a Bulk Sale Notice
State and County Title Search
Current Vendor’s Payables
Prorating of rents and security deposits

Escrow also handles all the required paperwork, i.e:
Preparing Escrow Instructions, clarifying the agreed-upon terms and timelines
Preparing Closing Statements
Preparing Notes, if required
Preparing Bill of Sale
ABC license transfer, if required

When all requirements have been satisfied, the escrow closes.

The escrow process is designed to smooth the transition of stepping into your new business and making sure that all the “i’s” are dotted and “t’s” crossed. It’s similar to what we at Hughes Properties strive to do for you when you are searching for that perfect new venture; that fresh start. Let us know if we can help you find that business and help you open escrow on your future.

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IS GOODWILL A GOOD THING?
How A Business’s Goodwill Establishes Price and A Solid Footing

February 2013 Hughes News

Whether you’re a business owner about to sell your business or a buyer looking to buy a going business; there seems to be some confusion when it comes to “GOODWILL.”

This is a key ingredient in the formula of a businesses’ value. Therefore, for a seller, it affects how much a business can be sold for. From a buyer’s perspective, goodwill indicates the likelihood of ongoing business operations and income from day 1.

Goodwill often defines the price of a business. Here’s the formula in a nutshell;

Asking Price LESS Market Value of FF&E’s (furniture, fixtures & equipment) = Goodwill Value.

**FF&E’s may include:**
1. Market awareness of the business or its reputation in the community.
2. Phone number
3. Logo, web site and social media standings or rankings
4. Business name recognition
5. Location
6. Proprietary technology, patents or formulas
7. Customer lists
8. Vendor resources
9. Lease term and rate
10. Number of years in business
11. Advertising history
12. Trained employees and length of employment

These factors paint a picture of the advantages of buying an on-going business, versus starting from scratch and facing what can be years of ups and downs until you establish yourself. The length of that learning curve and establishing period often surprises new business owners. Goodwill is at the core of a business’s value and often what makes it worth buying.

Happy goodwill hunting.

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Seven Tips for Starting Your Own Business

Today, ABC news was talking about how, during this time where nationally the unemployment rate is at 10% +, more than ever people are getting their own business. There was a 27% increase over last year of people looking to be their own boss.

Here are the summary of the tips they suggested:

1. Be clear why you want to own your own business.
Small business ownership can be the best avenue of success with the highest potential for your greatest financial security.

2. Determine your business type.
Put your own twist on your business based on your personal experience and the things that are of interest to you. You can buy an existing business that best fits your wish list then add your new energy and put your special stamp on it. Or you can take over a great location from one that currently doesn’t offer what you plan to, but that can be tailored to your plans. Either of these options often saves quite a bit in start up costs.

3. Create a simple business plan.
Initially, create a one page business plan that covers what you offer, who you’re targeting, how much you’ll charge, and what you’ll do to make it happen.

4. Nail your target customer.
The more you can pinpoint your targeted client, the more focused and effective your marketing efforts will prove in reaching them.

5. Perfect your pricing.
Know what costs are associated with delivering your product. Review the existing pricing and analyze all the current costs. It does not require fancy charts, just play around with the numbers so you know what is realistic as you start working toward your own profit and cash flow.

6. Make sure you have the money to start.
If you are looking for a creative financing option, one of the fastest growing ideas is “crowd funding”. Instead of approaching the bank, this concept allows your network of friends and family to contribute to your start up cost. Keep in mind that keeping costs down when just starting a new venture is critical.

7. GET OUT. GET CUSTOMERS.
AND ... SELL-SELL-SELL
This is really where the magic happens; nothing matters if you do not have
customers and the more the better. So hit the ground running by selling your new business to everyone you see and can reach out to.

Dreaming about how fabulous your business can be is good, but doing something about getting started? Now that’s sensational. It is all a matter of hustle: it is the decisions you make and the actions you take each and every day that will get you where you want to go.

So look over [www.hughesproperties.com](http://www.hughesproperties.com) to find your new business. Then call for a tour of that place you’re about to turn into something special.

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**Spring Into A New Adventure**

**Venturing Into Running Your Own Business**

For many, Spring cleaning is a ritual not to be denied; there is a certain satisfaction in dusting off the cob webs, pulling out the garden tools and putting away the dark and heavy décor in favor of the light and bright. It signals a rebirth. But what about dusting off your own dreams and taking a good look at them in the light of a sunny new day?

If you’ve ever thought the life of entrepreneur, proprietor, and boss would be a nice goal— why not dust that dream off and shine some light on the notion?

Whether this is a whole new path, or one you’ve travelled before and are itching to get back to, the Hughes Properties web site offers a number of new and very exciting listings. A wide variety of listings await the right buyer.

As you embark on this path of discovery, bear in mind that just as if you were buying a house, finding the top home realtor would be prudent-buying a business should be handled by a business broker. These are completely different fields of expertise, forms and regulations. Hughes Properties sells businesses, and more often than not, also serves the buyer. This experienced focus, along with a specialized business-focused escrow service, ensures a smooth transition from one party to the other.

From liquor licenses to E2 VISAS, leases and even an action list of to-do’s to help guide you, Hughes Properties is here to help you spring into a bright
new future.

By: Bob Hughes

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**Stock or Asset Sale?**

I often get this question when listing a business for sale, and almost all of the time, I recommend an asset sale. What you need to grasp is the concept that when you purchase a corporation, you as the buyer simply step into the shoes of the former owners. In essence, you assume all liabilities such as taxes, employees, accidents, suppliers, and pending lawsuits or new ones that have yet to pop up.

I personally found myself in this scenario a number of years back when I purchased the corporation of a fixed-wing airport business in Los Angeles. Just a few months after the purchase I got a call from my bank informing me the state was in the process of cleaning out my account for back payroll taxes left unpaid by the previous owner. An expensive lesson I’m happy to share.

On the other hand a stock sale can take place in a matter of days, and for many the speed of the deal can prove mighty enticing. All stock sales also require the services of an attorney for the stock transfer. However, I generally recommend taking your own good time, performing your due diligence and identifying as best as you can the status of any existing or potential liabilities. Even so there are times when both the buyer and seller desire a stock sale, and as long as both parties are aware of the potential issues it can prove a good fit. An example of this could be a current or former employee who wants to buy the business and is quite familiar with the operation and the history. In such a case they may be a better candidate for a stock purchase. There is also another solution to this dilemma of past unknowns that may set minds at ease for both the buyer and seller. Escrow instructions can be structured directing a percentage of funds be held for a specified period of time (up to a year) to cover any unknown liabilities incurred before the sale.

Where there’s a willing buyer and a willing seller—there’s a way. Deal done.

BOB HUGHES
5 Reasons to Make Starting a Family Business Your New Year’s Resolution

December 19, 2014

A new year is an opportunity for a fresh start in your business and family life. There are good reasons to consider combining the two in a family business. All of the family business owners I’ve interviewed have been frank about the challenges of running a family business and have shared how to avoid pitfalls. The consensus is that it’s rewarding and worthwhile, if you can make it work. A few shared that it saved their family from breakups and economic devastation. Here are five reasons why you should give the idea of owning a family business your full attention:

1. Represent your culture.

T&T Supermarket Inc. is an Asian supermarket chain that has been operating for over 20 years. Cindy Lee, CEO, was a housewife with few options to cook traditional foods and decided to solve the problem with a family business. She works with her daughter, Tina Lee, director of strategy and operations. Tina wants to be as successful as her mother, and views her family business as an opportunity to represent her culture. According to Tina, “Our mission has expanded to be an ambassador of Asian food and Asian cuisine. One of our challenges is to extend our customer base beyond the Asian family and grow it into the mainstream family as well.”

Related: How Ethnic Brands Grow Beyond Their Niche

2. Leave a legacy.

Jennifer Gannon operates BonaVista Pools, with her brother and sister. Her mother, Liz Gannon, is the principal owner. They build custom pools for world-class luxury brands. Her father built the business and left it to the family when he passed at age 60.

Jennifer remembers the spiritual legacy her father left behind after watching her father run the family business: “My father demonstrated a tremendous work ethic, a great love for his wife and his five children and a deep faith.”

Legacy is important in Jennifer’s family and business. Her grandmother wrote a book covering 100 years for her 50th wedding anniversary, sharing her family history as far back as 30 years before she was born. Documenting your journey of starting and growing a family business may help your present and
future family members avoid mistakes and have a head start in life.

3. Become your child’s hero.

Gail Souter, of Beck Taxi, is the general manager of her soon-to-be third generation family business. She credits her entrepreneur dad for her success and opportunity to run a company. Her leadership team includes her husband, her two children and her son-in-law.

Kristine Hubbard, operations manager and Gail’s daughter, is proud of her mother. “My mom is my ultimate role model. It’s so much to do with the way that she has built this business, and the way that she’s known as being a fair and trustworthy person.”

4. Grow personally and professionally.

Bruce and Lori Zeller operate Williams Kampgrounds of America. Their daughter, Madison, has worked in guest services. Running the campground requires their full attention and energy. Lori is honest about the demands of their family business: “This job is not for the weak or the faint of heart.”

Some days include digging out sewer lines, cleaning up vomit, toilets and “deposits” left by kids who “lose it” in the swimming pool. They work 12 to 14 hours, seven days a week during a typical season. Overcoming their challenges has produced growth in their personal and business lives. The rewards of business ownership make it worth it.

Related: Why Business Ownership Is an Exercise in Personal Development

5. Solve problems for your own family and others.

J.D. and Shelly Sun are the co-founders of BrightStar Care, a healthcare staffing company. The company was birthed out of frustrations around finding quality care for J.D.’s mother. His mother passed away just prior to their marriage, and they started the company several months later in memory of her.

J.D. and Shelly quit their jobs. His advice at a recent conference was to go for it: “What did we know about healthcare? Nothing. But, we knew that we could make a difference. We could figure this thing out, because I had just been through this experience with my grandma. I knew that there were other people out there just like us, waiting for someone like us to provide them a solution to help them with their grandparents.”

A new year is chance for a new you and a new family. Consider becoming a business family. Take time to craft new year’s resolutions that include working together and building a successful family business.

http://www.entrepreneur.com/article/241091
Daphne Mallory
Contributor
Family Business Expert, Owner & Mentor
Understanding what prominent investors look for in companies can help your business succeed.

November 10, 2014
For most small-business owners, an appearance on the reality show *Shark Tank* is most likely far from their list of top 10 business priorities. But for almost all small-business owners, appearing on the show is a great opportunity to get a free education on what’s important in business. *Shark Tank*, which has been around since 2009, offers aspiring entrepreneurs the opportunity to pitch a business idea to five investors (the “sharks”) in the hopes of getting one or more of them to invest in their ventures. Over time, the *Shark Tank* cast has varied a bit. The current lineup of sharks includes:

- **Mark Cuban**, a successful Internet entrepreneur and current owner of the Dallas Mavericks basketball team;
- **Barbara Corcoran**, a New York City real estate mogul who started her now-multibillion dollar business with a $1,000 loan;
- **Lori Greiner**, an idea woman who’s made a fortune creating new products and selling them on her QVC show;
- **Robert Herjavec**, a “rags to riches” entrepreneur who found business success in the technology industry;
- **Daymond John**, founder of the design brand FUBU, who’s now considered a fashion mogul and is a much-sought-after branding and business expert; and
- **Kevin O'Leary**, a venture capitalist who made his fortune in software educational products.

Each shark started from humble beginnings and built their fortune from the ground up. They know what it takes to be successful, and they apply that knowledge to determine which opportunities are good investments for them to take on.

On every episode, there’s a pattern to the questions the sharks ask each entrepreneurial presenter. As expected, the questions focus on financials and market viability. And that’s how the show relates to you: As an entrepreneur and small-business owner, knowing the financial specifics and viability of what you offer your market is critical to your success in business.

Think you really understand every inch of your business? Here are five critical questions the sharks ask that you’d better know the answers to when it comes to your business:
1. **What are your sales?** This seems like a no-brainer, but you’d be surprised how many budding entrepreneurs can’t answer this question with an exact number. The sharks want to know this so they can determine if the product or service you’re selling is something people have actually shown they want. You should know the sales number for the year to date and, at the very least, last year and the year before. It may sound obvious, but the numbers should be increasing year after year. Knowing what these numbers are can tell you if you’re trending in the right direction.

2. **How much does the product sell for, both wholesale and retail?** The sharks want to get a feel for the pricing in the marketplace to determine whether you’ve got a viable investment. And it’s important to make a distinction between wholesale and retail pricing as those are very different numbers. There’s often quite a huge gap between what a wholesaler will pay (so they can make money) and what you can charge the customer directly.

3. **How much does it cost to make the product?** The sharks want to know what your margin is—the difference between what it costs to make your product and your sales price. It’s a good thing to have a low cost to produce whatever you’re selling, and looking for alternative methods that allow you to make your product with the proper quality at the lowest possible price is good for your bottom line. All of the sharks light up when a product margin is good because that’s a sign that they’ll be able to recoup their investment.

4. **What are your profits?** Knowing what’s left over after all the expenses, including your paycheck, have been paid is an indicator of good management. If your business is healthy, profits should grow year over year. Way too many small-business owners focus on revenue as the single most important number. But that’s a big mistake because you could actually have millions of dollars in sales and absolutely no profit to show for it. The sharks want to know your profit because their investment means they own part of the company—they aren’t just investing in a business out of the goodness of their heart. It’s about business and getting a good return on their investment.

5. **How much debt do you have?** Your ideal situation is zero debt, though that’s rare to achieve. But keeping your debt low is critical; it eats away at your profits and can keep you awake at night. You should do your best to stay away from adding debt to your financial equation. Getting a shark—or any other source—to invest in a company with a lot of debt would be a tough sell.

Of course, these aren’t all the questions the sharks ask during the show. There are plenty more that can help you learn how to make your business better. So why not pull up a chair and watch? The best part is, you can get this valuable education for free.

*Read more articles on [money].*

*Photo: Getty Images*

*by: Denise O’Berry*

*Author, Small Business Cash Flow: Strategies for Making Your Business A*
Bring Donuts: The Secret To Effective Customer Development – PR Tips For Startups

Today was an exciting day because I helped a client “get out of the building,” and solicit product feedback from strangers. For those who follow startup guru Steve Blank, “getting out of the building” means actually leaving your desk (gasp), risking rejection, and putting your idea before the public. It can be a nerve-wracking experience for an introverted, product-focused entrepreneur, but it’s invaluable.

We were armed with two dozen donuts, hot coffee, warm smiles and our assumptions. Turns out donuts were a smart move. The pastel pink pastry box is a trigger and people know what’s inside, even when they didn’t want to eat the donuts.


Posted by Chikodi Chima in Customer Development

8 Books Every Entrepreneur Should Read in 2015

My dad always used to tell me that the difference between the “you” now and the “you” 20 years from now will be the places you visit and the people you meet. I would also add baldness and gray hair to that, but they don’t sound as cool. He was right. Whether you meet someone in person or read a book he or she authors, people are pivot points that enable learning and foster personal growth for others.

via 8 Books Every Entrepreneur Should Read in 2015.
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