

# Business Mastery

*§6 Business Operations*

*Transitioning Your Business*

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# Transitioning Your Business

## Choose Your Direction

- Decision-Making Pinnacles
- Exploration and Evaluation
- Options

## Selling a Practice

- Four Ways to Leave Your Business
- The Eight Selling Stages

## Closing a Practice



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# KEY

## *Terms*

- ❑ Acceptance
- ❑ Adjusted Cash Flow
- ❑ Affordability
- ❑ Analyze
- ❑ Assets
- ❑ Attention
- ❑ Capitalized Earnings
- ❑ Carry Back
- ❑ Cash Flow
- ❑ Contingency Clause
- ❑ Due Diligence
- ❑ Duplication Cost
- ❑ Liquidation
- ❑ Net Present Value
- ❑ Price
- ❑ Transition

# KEY

## *Terms*

❏ **Value**

# Transitioning Your Business

*Throughout the life of your business, you may encounter pivotal moments when it's necessary to reassess your direction.*

- Even though you may have an elaborate business plan with specific goals, sometimes things snowball.
  - Sometimes, the transition involves doing things differently in your practice, or perhaps, it's time to retire.



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# Choose Your Direction

- What is the Robin Smith example in the text?
  - What are some resources that could help Robin make a decision? What would you do in this situation?
- Consider four career positions:
  - Devote herself completely to managing the corporate account.
  - Keep account but hire staff to work on a few private clients.
  - Manage the account, not do any chair massages, and work on private clients 2-4 days per week.
  - Sell her corporate contract to another therapist, invest the money, and go back to working with private clients.

# Decision-Making Pinnacles

- Common indicators pointing to a need to reevaluate your practice's growth include:
  - Working too many hours, yet not having enough billable hours
  - Developing practice to where there's too much work to do alone
  - Outgrowing the physical space
  - Needing additional skills to better serve your clientele
  - Attempting to appeal to too many target markets
  - Offering too wide a range of services
  - Experiencing restlessness or vague dissatisfaction
  - Boredom with type of work you do or clients you see
  - Frequent physical or emotional exhaustion

# Choose Your Direction

- Thoroughly evaluate your wants, needs and values.
  - Focus on the bigger picture of your life, asking if you satisfied in most areas.
  - After identifying the most important elements of your life, examine how your career fits into that picture. Ask how your business supports your life vision and how it detracts from it.
  - Once this groundwork is established, you can more easily be objective in your business direction decision-making process.
- No right or wrong answer.



# Selling a Practice

- The many reasons to sell a business include:
  - Burnout
  - Relocation
  - Serious injury/permanent disability
  - The desire for a career change
  - Death
  - Boredom
  - Disagreement with a business partner
  - Lack of capital
  - Retirement



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# Selling a Practice (cont.)

- The 4 most common ways to leave a business are:
  - Transfer ownership to a family member.
  - Sell your interest to a co-worker, key employee, or all employees.
  - Sell to a third party, such as a competitor or someone interested in entering your field.
  - Liquidate by selling your assets, usually at “fire sale” prices.



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# *The Eight-Stage Selling Process*

1. Review your motives for selling your business and consider the alternatives.
2. Analyze your business to determine if you're selling what buyers want.
3. Assemble an excellent team of advisors.
4. Set a selling price for your business.
5. Prepare business for sale and make it easy to purchase.
6. Market the sale of your business.
7. Sell the business.
8. Transition the business to the new owner.

# Selling a Practice (cont.)

- To make sure your business is sellable, review:
  - Company History
  - Staff and Associates
  - Description of Business
  - Financial Status
  - Equipment
  - Facilities
  - Overall Risk
  - Strengths and Limitations



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# Selling a Practice (cont.)

- Be sure to assemble a team of advisors
  - Include an accountant and attorney
  - Consider a financial advisor
- Set a selling price
  - Consider the Price
  - Value
  - Affordability



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# *The Six Most Common Methods for Pricing a Business*

## **Price Based On**

1. Assets
2. Capitalized earnings
3. Integrating assets and cash flow
4. Duplication cost
5. Carry back
6. Net present value of future earnings

# *Business Sale Documentation*

- Opening Proposal: A one-to-four page overview of the company history, mission statement, brief business description, summary of assets, financial history, reason for sale, and pricing terms
- Samples of Marketing Materials
- Detailed Business Description
- Names of All Owners
- Copy of Lease
- Profit and Loss Statements for Past 3 Years
- Tax Returns for Past 3 Years
- Copies of Current Contracts
- Determination of Value of Leasehold Improvements
- List of Fixtures and Equipment with Replacement Value
- Value of Inventory

# Selling a Practice (cont.)

- Marketing the sale of your business:
  - Includes the preparation, pricing, packaging, and promotion you do to bring your business and a buyer together.
  - Most common marketing methods are advertising, direct mail, telemarketing, networking and certain online platforms.
  - Finding an appropriate buyer is crucial.



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# Selling a Practice (cont.)

- The actual sale process:
  - Once you have a potential buyer, put in writing both parties' expectations regarding the selling process.
  - Qualify the buyer
  - Ask for a Letter of Intent to Purchase
  - Move to negotiations and documentation verification.
  - Once the seller accepts the offer, she submits rest of documentation. The buyer performs "due diligence."
  - The final stage is the closing.

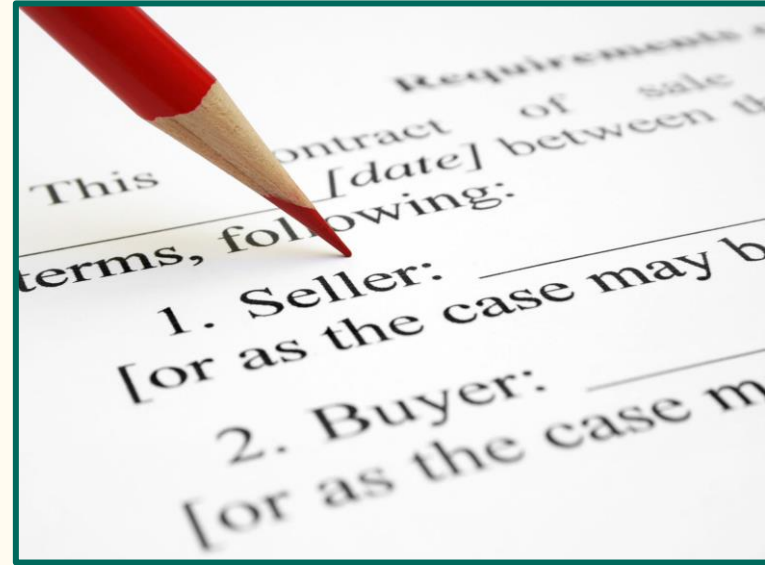


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# *Practice Closing Checklist*

## **Prior to closing:**

- ☐ Meet with an advisor.
- ☐ Choose an official closing date.
- ☐ Assemble a practitioner referral list for clients.
- ☐ Notify current clients of closing date at least 1 mo. in advance.
- ☐ Notify employees of the closing date (some states require a 60 day warning).
- ☐ Offer to give clients their files.
- ☐ Request closing statements from suppliers and business accounts.
- ☐ Collect any outstanding receivables.
- ☐ Sell (or return) unused inventory.
- ☐ Terminate your office lease.
- ☐ Cancel business subscriptions or send them a change of address form.
- ☐ Notify utility companies, telephone service, and Internet provider of the date to discontinue service.
- ☐ Notify the postal service of the date to forward mail (and provide a forwarding address).

# *Practice Closing Checklist*

## **After closing:**

- ☐ Store or destroy client files that weren't given to clients (rules vary by profession and state).
- ☐ Store business and employment records according to government guidelines.
- ☐ Dissolve your LLC, corporation, or partnership, and file required forms.
- ☐ Make final federal and state tax deposits.
- ☐ File final business tax forms
- ☐ Issue final employee W-2 forms and file final W-3.
- ☐ Liquidate your assets (sell or donate to charities). Keep all receipts.
- ☐ Report the sale or exchange of business property and equipment (Form 4797).
- ☐ Contact the IRS to close your EIN account
- ☐ Cancel registrations, permits, licenses, and business names.
- ☐ Resolve financial obligations (e.g., business debts, taxes).

# *Practice Closing Checklist*

## **After closing:**

- ☐ Cancel your office insurance and request a prorated refund.
- ☐ Send thank-you notes to key clients and people who've supported you.
- ☐ Notify business contacts of your status. Provide a way of contacting you (for those with whom you want to maintain contact).
- ☐ Cancel or transfer any automatic debit payments to another account.
- ☐ Close your business checking account and cancel business credit cards 3 months after the business closes.

# Highlights

Throughout the life of your business, you may not even notice changes in your career direction until something forces you to evaluate your situation.

Decision-making pinnacles stemming from dissatisfaction with your career are: too little/many hours; being bored with your work; and becoming burnt-out. Assess the root cause and decide how you will go about dealing with the issue.

Many practitioners find it useful to periodically step back and determine if their career is taking them where they want to go. As a first step in doing this, look at how your needs and values align with your career direction.

## Highlights (*cont.*)

Selling a practice can be a complex and time consuming process. Work closely with your tax accountant, attorney and, if appropriate, a reputable business broker.

It takes an average of 2-4 years to sell a small business.

There are 4 common ways to leave your business: transfer ownership to a family member; sell to a co-worker, key employee, or all employees; sell to a third party; or liquidate.

# Highlights (*cont.*)

Know the difference between price and value as these are two entirely different entities.

The amount you receive is dependent on the value of the business and its affordability to the buyer.

Many times, what the buyer can afford depends on the seller.

Selling a practice to someone who holds the same vision is key to having clients remain with the new owner and, therefore, ensure the true value is received.

# Highlights (*cont.*)

Selling a business revolves around economics: supply and demand.

Closing a practice not only involves liquidating assets, but also the ethical obligation to assist current clients with options to continue their wellness care.