



Building Cash Cows™
Improving Quality of Life™

The Strategic Edge™

Insights for improving profits, cash-flow, and quality of life

Winter 2006

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Wealth Creation Through Business Ownership

According to Robert Allen and Mark Victor Hansen, authors of *The One Minute Millionaire: The Enlightened Way to Wealth*, there are four paths to create wealth:

- 1) through the internet
- 2) equity investments through the stock market
- 3) real estate
- 4) private business ownership

While complete libraries can be filled with publications about real estate and equity investments, there is not an abundance of material on using private business ownership as a means of building personal wealth. And although many business owners manage their own portfolios of investments and real estate, usually their most valuable asset (and the asset with the most potential to increase personal wealth) is their business.

Today, more than 95% of companies and businesses in the United States are owned by individuals. To the extent that these business owners are able to increase the market value of their companies, their personal net worth would increase exponentially. Studies show that 77% of wealth in the United States was made from owning a private company or professional firm.

People become entrepreneurs for different reasons. Some entrepreneurs are consumed by a business idea they simply must see become a reality, while others would rather work for themselves instead of someone else. An increasing number of Americans today are entrepreneurs not of choice but out of necessity. However one comes to be an entrepreneur, their success ultimately depends on operating a profitable business.

At some point, a business owner realizes that he or she will leave their business someday. Business succession planning is now a key component of most retirement planning for business owners. The cornerstone of succession planning is always clear – the owner will leave someday, one way or another. Some owners plan for their succession while others leave it to chance. When the owner leaves, if the business is to be sold to a third party (as opposed to a family member or key employee), the owner's goal is to maximize its value. This includes estate and tax planning, management succession planning, family delegation issues, and financial management concerns. For most small companies the key is to increase positive cash-flow.

Although many factors are considered in determining the value of a small private company, none is usually more important than the positive net cash-flow generated by the business. And to the extent that cash flow can be generated without the owner's active participation, the multiple of net earnings will grow. A company's value is generally based on a multiple of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

Most small businesses are owned by less than six people. Many times the owners founded the company and operated the business. The majority of small business owners can be classified as "technicians" as defined by Michael Gerber in *E-Myth Revisited*. That is, they have a tactical view rather than a strategic view on how to operate the business.

We're all familiar with the old adage "he can't see the forest for the trees." But what does this mean as applied to private business ownership? When a business owner is required to work *in* his/her business to the degree that they can't work *on* the business, the owner can no longer see the forest for the trees. Building a business requires a different expertise than delivering a product or service and it is important to make time for objectivity away from the daily grind.

A key part of a business owner's success is attributed to the team of advisors he has surrounded himself with. Outside advisors can assist in developing and implementing strategic imperatives and providing insights to accomplish the owner's goals. Better structures, systems, and processes can be designed to improve performance, retain key management personnel, and advance company objectives resulting in increased EBITDA. This results in increased value and improved quality of life for the owners.

Building wealth through business ownership requires expertise in building a business, careful planning, and effective execution. The benefits, however, of accomplishing the objectives and building wealth through business ownership can be extremely gratifying both financially and psychologically.

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