

INCREASING THE VALUE OF A SOLOPRENEURSHIP BUSINESS

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Solopreneur and solopreneurship have not made it into mainstream dictionaries, yet! A solopreneur is a one man or one woman business built around a niche product, service, or expertise. Many are viable because of the marketing and communication possibilities offered by the Internet.

Consider this solopreneurship business. A man (or woman) has a specialized expertise in the influence of Chinese culture on their consumer buying habits. With emerging markets in China, he has established from word-of-mouth contacts about fifteen middle-sized retailers as consulting clients that are in various stages of developing their presence in China. His billing rate is \$200 an hour, \$2,000 a day, and an extra \$1,000 a day for travel overseas including travel time. All expenses are invoiced separately. He has grossed over \$250,000 a year for three years with about 15-20 specific assignments per year, many overseas. It's a nice niche business; many of us would like to have something similar to it.

VALUATION FOR SELLING THE BUSINESS

What is this business worth if he wanted to sell the business and retire? Not as much as you might think or as much as the solopreneur would expect for the business.

Limiting Factors

1. A limited number of people have the same expertise or desire to travel as extensively.
2. The solopreneur may help the new owner with a transition, but it is unlikely he will be as committed to the business from his retirement position. This may eliminate larger retail or consulting companies as potential buyers.
3. Separate assignments generate the fees. There are no retainer contracts or assured future business, neither of which may be transferable.
4. There are no ancillary on-going revenues such as translation services or maintenance agreements: more typical in a solopreneurship selling a product, software, or technical support.
5. It is hard to determine the length of time that this expertise will continue to be in demand.
6. A buyer will be concerned over the transferability of the business relationships, which have probably been build around a personal rapport between the solopreneur and the clients.
7. The client list and a non-compete agreement have value; however, buyers will offer only minimal cash up front until future revenues from the current clients are realized.

8. The office furniture and equipment have some minimal value, although it is likely the buyer will have an equipped home office with no saleable hard assets.

Under this retirement scenario, it is hard to imagine the solopreneur receiving more than \$25,000 to \$50,000 at closing, if a buyer was even found. An earn-out might include 20% of the first year's revenues from the current clients and a declining percentage for the next two to four years.

Increasing The Value

Removing or reducing the limiting factors will increase the value of the business.

The solopreneur should plan to stay active and full time in the business for two to five years after completing a sale as either an independent contractor or an employee of the buyer. This opens a new field of potential buyers including large retailers with multiple store names such as Federated or May Department stores. Larger international consulting firms might be interested in the client list and the established business relationships where the owner would serve as the lead consultant on future assignments.

Caveat

One important caveat for the solopreneur is to look at the down side in negotiating the sale of the business. There are two conditions.

First, what if the buyer breaches some kind of a future commitment financially or otherwise? Is the solopreneur legally and business-wise ready to step back into a solopreneurship role? Does the non-compete agreement become invalid in the event of a breach? Is there recourse to the rights for publications, copyrights, patents, etc.? Is there an arbitration clause to settle disputes quickly rather than letting a big company tie up the solopreneur for years in litigation?

Second, what if the solopreneur and the buyer have a falling out? There is not a breach and there are no ensuing legal or arbitration actions. What position will he be in to resume solopreneurship activities or go to work for someone else?

These down side conditions are very important. A large percentage of business acquisitions, especially those between businesses of significantly different sizes, just do not work. The cultural differences between a solopreneurship and a bureaucracy may be too great. Solopreneurs tend to look at business opportunities optimistically, through "rose colored glasses," and discount the down side conditions. Bureaucracies often see the same business opportunities exactly the opposite.

The solopreneur must consider these down side conditions in determining if the deal price and terms for selling the business meets his or her needs and expectations.

Adding Value As A New Employee (Or Exclusive Independent Contractor)

The equivalent salary for this individual as an employee might be in the \$150,000 to \$200,000 range. The employer would typically pay certain taxes and fringe benefits such as health insurance. Employment contracts add value to the seller, the longer the contract, the more it will be worth.

Two immediate sources of closing cash to the solopreneur going to work for a larger company are a signing bonus plus the equivalent of a recruiter's employment fee assuming a recruiter was not part of the sale process.

Signing bonuses can be from one to twelve months pay, the larger amounts usually reserved for professional athletes. An employment fee may be as much as 40% of the first year's salary. A good negotiation point is that these fees can be considered as separate employment values, apart from the value of the solopreneurship.

It is very important to negotiate up front a severance agreement in the event of termination of the employment contract for any reason. This may or may not be considered part of the value of the solopreneurship.

Other Sources Of Value

Before offering the business for sale, the solopreneur should increase the long-term financial commitments by his clients in the form of retainers or annual contracts. Any contracts should allow transferability as long as the solopreneur is the lead consultant on the assignment.

Negotiate with the buyer a percentage of any additional billing for other services developed from these clients that are performed by other members of the new employer's company. Argue that these assignments were obtained because of the prior relationship or the solopreneur.

Regular weekly, monthly, or annual fees for ancillary services add value. These services may be done between assignments or sub-contracted. Again, any agreement with the clients should allow transferability; then negotiate with the buyer for a percentage of these future revenues.

A large network of related contacts adds value to the solopreneurship. An owner known in an industry for business relationships with trade associations, with vendors and customers of current clients, with other consultants, etc., increases the value of the business. If the solopreneur is the middle of his or her career and intends to stay active in that industry, then negotiate the right to maintain these contacts and participate in the industry's activities.

Similarly, established marketing and advertising channels beyond just word-of-mouth add value. Perhaps the solopreneur is known for his or her trade magazine articles, is the editor of a monthly trade magazine column, or has published books, articles or blogs.

Maybe the solopreneurship annually sponsors the coffee at the first break session at the industry's international trade show. Any repetitive marketing that brands the solopreneurship will add value in a sale, assuming the individual goes with the sale. Negotiate the right to retain the connection to these marketing channels.

Rob Frankel's (www.FrankelBiz.com) Internet site is a good example of repetitive marketing for a solopreneurship business. In addition to white papers, such as this one, and other online resource material, he offers his services in a free Internet chat clinic on a regular, but scope limited basis. This is an excellent way to develop paying clients. Would the buyer allow the solopreneur to maintain similar marketing programs after an acquisition?

OTHER VALUATIONS

How do these issues effect valuations for other purposes such as estate values, divorce, life insurance, partnerships, gifting, etc.?

An estate situation is similar to the retirement situation. The deceased individual is no longer available to generate the income, so the value is correspondingly lowered.

For disability and key man life insurance, the reverse is true. The event of death or disability has caused the individual to cease generating this excellent income. A higher valuation is proper.

In a divorce, the lower valuation issues apply unless the other spouse has invested directly in the business or materially contributed to the management of it. Another consideration is if the family lifestyle was significantly reduced or retarded during the startup of this business.

A divorce of a medical doctor often includes this lifestyle consideration as the years spent in medical school and spent in training are often very lean. Then within a few years of graduation, the ongoing practice, even with large equipment loans, may have significant current value and even higher future potential value. The spouse of the doctor may be entitled to a higher than minimal value as compensation for the sacrifice of the leaner years. This may apply to certain other professional fields as well.

In certain cases, a partnership is essentially two or more solopreneurships of equals tied with a partnership agreement for occupancy, staff support, legal, insurance, tax or other purposes. Assume the compensation of an individual partner is aligned mostly to his or her individual performance rather than their joint performance. Then the value of the one

partner's interest to the other partner(s) is minimal in any kind of a breakup where the remaining partners are going to continue to be active in their industry.

Gift of interest in a solopreneurship would normally not apply unless there was some purpose of moving income into a trust or to another beneficiary perhaps for tax purposes.

SUMMARY

Personal availability, on-going revenues, and established marketing channels are the key issues in the valuation of a solopreneurship business. Increase any of these issues and the current value of the business increases.

Each situation is unique. Higher valuations are desired in certain cases including a business sale. Certain other transactions or events call for lower valuations. Sorting out the issues and developing the arguments to defend the valuation in a sale, tax, or legal matter requires professional business appraisal expertise.

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