

VENTURES

QUARTERLY NEWSLETTER FOR SMALL, MINORITY- AND WOMAN-OWNED BUSINESSES

Selling a Small Business

By Mark Wood, President, VMW Business Brokers, Inc.

For the average small business owner, selling a business may be the transaction of a lifetime. Although experts at running and nurturing their companies, small business owners typically are not familiar with the process of preparing for and selling a business.

The following summary provides an overview of the elements surrounding selling a business.

Confidentiality: When one wants to sell their home or investment property you want the whole world to know about it. You put out a sign and advertise the details of the property everywhere you can. The more exposure that you get, the better you feel about the chances for a quick sale at a good price. When it comes to selling your business, advertising that your firm is on the market creates an air of uncertainty that can be detrimental to your bottom line and even put the company in jeopardy.

For example, employees may begin to worry about their job security, or how they will get along with a new owner. The best, most marketable employees are often the first to leave, before you have a chance to reassure them that, in the long run, the changes will be good for them and for the company. In addition to the normal disruption to the business, you may lose potential buyers, as well.

Customers may also become concerned with supply chain issues and have questions about quality from the new owner. Once creditors learn that the business is for sale, your terms of net 30, 45 or more may be adjusted and notes unexpectedly called due. Word of an impending sale also may open the door for predatory competition. Some companies may use the impending sale as ammunition to bring that business to their company.

Considering that the average business sale takes from about six months to one year to complete, if even some of these changes occur early on, the impact can be dramatic. You'll find that you're not just running your business, but also busy with damage control.

Though some sellers have mixed emotions about letting go of the business they have nurtured and developed through good times and bad, many are excited by the prospect.

Fair Market Value: Ascertaining the proper value for the company is critical. "Fair market value"—probably the most commonly used standard—is defined by Revenue Ruling 59-60 as: "The amount at which the property would change hands between a willing buyer and a willing seller, when the former is not under compulsion to buy, and the latter is not under compulsion to sell and both parties have reasonable knowledge of the relevant facts."

Determining fair market value of a business is much more complex than determining value of real estate and is based on many factors, such as sales, earnings performance, market outlook, personnel, net book value and fair market replacement value of equivalent operating assets. It can also be influenced by intangible assets such as the company's image, reputation and goodwill, as well as the buyer type and terms and structure of the deal. Factors contributing to a positive industry outlook also can help to drive the value of the business and increase its marketability.

The Five Basic Steps in the Sales Process

Step One: Analyze the business and determine its value. In this phase, the business owner is usually trying to decide if this is the right time to offer the company for sale. The most important question is usually "What's my company worth?" Gather the pertinent data, and analyze it to determine the company's

value and marketability. Often during this part of the process, areas of improvement that can add significant value to the transaction are uncovered.

Step Two: Plan and develop the marketing program. Because every business is unique, the owner should package the company to properly present the opportunity to prospective buyers. Many factors guide the development of the marketing program, such as the level of confidentiality required, the size of the transaction and the optimum buyer type that will have been identified in step one. Another important component of the marketing package is a confidential business review—a 20-40 page document that outlines the benefits of owning the company without revealing its identity or location. It also should include details such as how the business operates, its past financial performance and future projections for the business and its industry.

Step Three: Activate the buyer search. Prospective buyers are screened and qualified for their ability to purchase the business. Confidentiality is maintained by releasing details of the business only after executing a strict non-disclosure agreement that limits potential buyers from revealing any information about the company or its potential sale to anyone except their accountants and attorneys.

Step Four: Negotiations and due diligence. Most offers typically come in the form of a letter of intent, a brief non-binding document that spells out the basic terms of the proposed transaction. It usually contains several standard contingencies, such as the execution of a formal purchase agreement, the buyer obtaining financing, and the buyer completing due diligence of the business. Three to six weeks is an average time frame for this phase of the process, during which the business is typically off the market and unavailable to other buyers.

Step Five: Close the deal. Congratulations, it's pay day! If the preceding steps were followed properly, closing is now a formality, and the business transfer is completed.

What happens now? Usually, the seller will be available to help the new owner with their transition for an agreed-upon period of time—anywhere from a couple of weeks to a number months, depending on the complexity of the operations and the experience and comfort level of the new owner.

Though some sellers have mixed emotions about letting go of the business they have nurtured and developed through good times and bad, many are excited by the prospect of moving on and enjoying the freedom and financial independence that the sale represents. ■

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Strengthen Your Business Without Flexing Your Muscles

Four 'Soft' Pathways to Your Next Customer

By Mary Kay Claus, President and CEO, Blue Shamrock Communications

Techniques like advertising, direct mail, press releases and online campaigns are effective outreach tools, and essential to your overall marketing strategy. But now that you've made it past the first few years of business ownership, you may be ready to broaden—and soften—your approach to brand-building.

Congratulations! You've established a business, begun to tap the potential of your great idea and survived a harsh economy, to boot. Now is the perfect time to flex your confidence by implementing a plan that includes long- and short-term strategies and that healthy mix of 'hard' and 'soft' marketing.

Most successful business owners understand that an effective marketing strategy is like a healthy salad: it includes a variety of tools, goals and expectations . . . logos, sales presentations, community sponsorships. Each element on its own is, well, just a lonely slice of raw vegetable on a plate. Tossed together, they make a lovely lunch—and a strong marketing approach.

Techniques that increase exposure to key audiences, improve your positioning and reinforce brand value probably won't include a single word from your carefully developed elevator speech. No marketing-speak, no keywords, no direct call to action. Talk about messaging gone wild!

The best news? These soft marketing techniques are effective, easy to implement and (usually) budget-friendly. They will increase your exposure to customers, prospects and the press, without resorting to the 'reeducation camp' model:

Be an Authority. Speaking engagements and article writing are two effective approaches to building your reputation as an expert. Convention organizers, chamber of commerce members, community leaders and business networking groups will appreciate your offer of informative, non-sales focused content.

Be an Educator. Free seminars are opportunities to demonstrate your expertise while helping customers learn how they can use your product to improve their lives. For example, friends in the financial sector have had great success with sessions on estate planning and Health Savings Accounts.

Be a Good Neighbor. Sponsor or host community events. Parades, sports teams, competitions and book signings are all great ways to engage your company in the local scene. Corporate goodwill is an intangible, but bankable, asset.

Be "The Best." Ever wish you had the chance to stand up and thank the "little" people? Well, step up! Award competitions and business recognition events are publicity opportunities waiting to happen. Industry awards strengthen your reputation and exposure.

back to the action. Soft techniques, like those introduced here, are generally more difficult to track. They are meant to impact the strength and enduring value of your brand. Yes, it is true that face-to-face interactions at seminars and networking events can produce timely, tangible benefits. In general however, soft techniques produce difficult-to-measure results—goodwill and brand recognition being the most valuable of these—and they do require continual reinvestment. (In other words, the goodwill you cultivated by sponsoring that pee-wee team back in 2006 is probably dried up today.)

"Our marketing plan is multi-faceted," says Kathryn Whitecotton, general manager of Air Treatment Company, of Vienna, Va. "Some of the techniques we use are responsive and help us achieve immediate goals. But some, like our annual sponsorship of the Vienna Halloween Parade, we consider building blocks, there to strengthen the foundation of our brand. We're a 50-year-old company, so it's safe to say that we view marketing as a long-term investment strategy."

Small business owners sometimes place exclusive emphasis on the messages they've worked so hard to perfect. Periodically letting go of the sales pitch to add value to customers' lives is an almost unnatural undertaking. Think of it this way: adding value strengthens relationships, and strong relationships are the key to continued success.

An experienced marketing professional, in-house or outsourced, can help identify the opportunities that put your business in front of the target market, and they can manage time- and labor-intensive activities such as article placement, ghost writing and award submissions. Help is out there if you need it. ■

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The Fairfax County Economic Development Authority (FCEDA) is an independent authority created under state law, operating under the direction of seven Commissioners appointed by the Fairfax County Board of Supervisors. Its activities are funded by Fairfax County.

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The FCEDA assists businesses interested in locating, relocating or expanding their commercial office or industrial operations in Fairfax County. The FCEDA's services are available on a confidential, no-cost basis.

What kind of results can I expect?

Good question. And if you expect either of the words "instant" or "gratification" to pop up in my answer, then you'll want to avoid the inevitable disappointment and stop reading now.

A broad, robust marketing strategy defines long- and short-term goals. A direct mail postcard, for example, delivers immediate, measurable results, easily connected

FCEDA Commissioner Soza Retires



Fairfax County Economic Development Authority (FCEDA) Commissioner William Soza announced his retirement at the October Commission meeting. The Fairfax County Board of Supervisors appointed Chairman Soza to the FCEDA Commission in 2000. He is on the board of directors of Fairfax County-based John Marshall Bank and is a member of the George Mason University Board of Visitors. He was principal of Soza Associates, CPAs, and chairman and CEO of Soza & Co., Ltd., an information technology and consulting company he began in 1969 as an accounting firm. He is a former trustee of the George Mason University Foundation. In 1998, the United States Hispanic Chamber of Commerce named him Hispanic Business Man of the Year. In 2007, he received the Northern Virginia Urban League's Excellence in Leadership & Community Service Award. The FCEDA presented Mr. Soza with an engraved frame in appreciation of his many years of service. *Pictured, first row, l to r: Commissioners Ronald C. Johnson, Soza; FCEDA president and CEO Gerald L. Gordon. Second row, l to r, Commissioners Michael Lewis and Sudhakar Shenoy, Commission Chair Steven L. Davis and Vice-chair Michael Horwatt.*

Small Businesses—Surviving and Thriving in Tough Times

By Ken Hostetter, MidAtlantic Director for Small Business Banking for Wachovia Bank (a Wells Fargo Company)

When the economy slumps, many small business owners look for ways to cut costs and still maintain profitability, reviewing elements such as their financial situation, cash flow, revenues, hiring and credit availability.

Strategies that work well enough to get a small business through short-term slumps often aren't as effective with long-term challenges. These tips may help you survive—and even thrive—through tough times:

Focus on your core business. Concentrate on what you know best, and resist the temptation to detour into other areas. Pay attention to what's working for your business and in your market, and identify the gaps. An untapped key opportunity may exist in your core business.

Focus on the customer. Customers are assets—invest in them constantly. The more you know about your customers—and the more they know about your products and services—the greater your opportunity to build relationships that will nurture your business. Exceed customer expectations by demonstrating your understanding of their needs and concerns.

Get to know your banker. In challenging times, your banker can be your most important financial resource.

The earlier you discuss your current financial situation and your expectations, the more value your financial services company can provide. If your banker knows about potential financial risks, he or she can help you avoid them.

Maintain financial flexibility. Monitor your financial statements carefully and make sure you understand your sources of revenue and expense—including your investments in receivables and inventory. Find a financial services provider with Internet tools such as online statements and spending reports that allow you to keep an eye on expenditures in “real time.”

Stay financially light on your feet. Grow your savings and investments to maintain equity and liquidity. Good businesses take advantage of economic slowdowns to grow market share.

Grow your technology and resources. Think of technology as your virtual workforce. Shop around for the right online solutions and use them to improve your customers' experience and make your business more efficient. The Small Business Administration (www.sba.gov) has excellent online resources and information. Also, check with your financial services company. See if it offers access to the full realm of services such as

payroll, retirement, online banking, bill payment and merchant services.

Hire and retain good people. Your competitors can copy your technology and products—sometimes virtually overnight—yet they can't copy talented, dedicated and caring people. Hang on to your good employees in tough times; you'll need them then and for when you're growing again.

Maintain your entrepreneurial spirit and flexibility. Continue learning. Keep an eye on what other companies are doing. Look at what larger—and successful—companies are doing, and try to adopt or respond to their best practices.

Build a team of advisors. Your banker, attorney, CPA and other successful entrepreneurs can be valuable allies and help you identify resources and solutions to help your small business grow.

These are tough times—but tough times force business owners to think of creative ways to reach goals and create a stronger, better small business. ■

Ken Hostetter is MidAtlantic Director for Small Business Banking for Wachovia Bank (a Wells Fargo Company), based in McLean, Va. To reach him, call 703-760-5389 or e-mail Kenneth.hostetter@wachovia.com.

Creating Cash Flow

By Peter Pokorny, Owner, Interface Financial Group

With traditional financial resources tightening their lending criteria, many small businesses—especially start-ups that have no financial track record—are turning to alternative funding sources, because they simply cannot qualify in the current economic situation.

One such alternative is invoice discounting, a program that operates on a “use it as you need it” arrangement. The invoice discounter purchases, at a discount, the invoices of a small company, taking over the waiting period on the receivables and providing the business with immediate cash.

There are many advantages to using an invoice discounting service to raise capital. The business does not take on debt, there is no loss of control or ownership and there is no need to take on partners. Other benefits include the lack of long-term commitments, no hidden fees or charges and no minimum or maximum volume requirements.

Invoice discounters look for the creditworthiness of the customer and the quality of the receivables. Very little emphasis is placed on the financial condition of the client business. Industries using invoice discounting include construction, government contracting, manufacturing, distribution, landscaping and information technology.

An invoice discounting program is a fast, flexible and affordable solution for small businesses facing cash flow challenges. ■

Peter Pokorny is owner of the Interface Financial Group based in Alexandria, VA. For more information, visit www.interfacefinancial.com/pokorny, call 571-257-5649 or e-mail pjpokorny@interfacefinancial.com.

FYI . . .

. . . The Fairfax County Economic Development Authority (FCEDA), in partnership with the Virginia Department of Business Assistance (DBA) and the U.S. Small Business Administration (SBA), conducts a **monthly workshop for individuals interested in starting a business in Fairfax County**. The workshop provides an overview of start-up basics (licenses and permits); DBA workforce service and training programs; and SBA resources, financing and certification programs. The workshop is held the first Tuesday of each month from 7:30 am–10:00 am. There is no cost to attend, however pre-registration is required. The 2010 schedule is: January 5, February 2, March 2, April 6, May 4, June 8, September 14, October 5 and November 2. Visit www.fairfaxcountyeda.org/starting-business-seminar for more information and to register.

. . . The Fairfax County Economic Development Authority (FCEDA) provides **business-counseling services through an arrangement with SCORE**, an SBA initiative. The counseling sessions are one hour in length, but follow-up appointments may be scheduled as needed. Visit www.fairfaxcountyeda.org/score-counseling for more information and to schedule an appointment.

. . . The **Virginia Minority Supplier Development Council will host the annual Virginia Business Opportunity Fair (VBOF)** in Richmond, Virginia, May 3-4, 2010. The premier minority business development conference on the east coast, VBOF is a showcase of interactive workshops, high-powered networking and nationally recognized speakers. This year's conference theme is “Connecting Businesses to Growth Industries.” For more information, visit www.vmsdc.org/vmsdc/web/index.html.

. . . The **Women's Business Enterprise National Council's annual Women in Business National Conference and Business Fair** is scheduled for June 22-24, 2010, in Baltimore, Maryland. For more information, visit www.wbenc.org. ■

SERVICES

Enhancing Telecom

A Focus on Small- to Medium-Sized Businesses

By Brian Nachlas, Marketing Coordinator, OneVoice Communications

With economic hardships striking the heart of every business, reevaluation of core necessities is now an essential task. Services that are working well often go unnoticed.

In contrast, if any type of telecom issue exists, most areas of the organization will be affected immediately. Can you say, without hesitation, that you are getting the highest level of telecom service for your company's monthly, quarterly or annual outlay?

Stephen Dize, CEO of OneVoice Communications, advises small- to medium-sized customers to research carriers to find the best fit, for the price, for optimal telecommunication—and not a system that simply “just works.” Dize says, “It doesn't take an excessive amount of money to ensure that the right telecom services are in place. It simply takes the willingness to make certain that the company is, in fact, using the right services for the entire operation.” Since so many areas are directly and indirectly tied to telecommunications, optimization provides an unexpected value. Organizations may notice

a decline in costs with an improvement in services. The actual benefit comes in analyzing the company's overall savings after choosing to use new telecom technologies.

In addition to improving their bottom line, many organizations also actively seek ways to become greener to directly and indirectly help the environment. For example, many business tasks can be performed from a remote location. Companies that offer audio, Web and video conferencing services, as well as Voice over IP, encourage alternative methods to the standard meeting and onsite presence.

It's worth noting that northern Virginia, Hampton Roads and Richmond-based private-sector, for-profit business enterprises and 501(c)(3) non-profit organizations may be eligible for up to \$35,000-\$50,000 in financial incentive support simply for starting or improving a telework process.

Continuous education and information is paramount to an organization's continued success. The old adage “if it ain't broke, don't fix it” may not be the best option

in today's competitive marketplace. Identifying (and fixing) the problem before it becomes a problem adds value to the company. ■

OneVoice Communications is a diversified communications company based in Herndon, Va. Brian Nachlas may be reached at 703-880-2509 or bnachlas@ovctelecom.com.

Looking for a Business Event or Class in Fairfax County?

The FCEDA's Small Business Datebook lists upcoming classes, workshops, conferences and other events of special interest to small and minority-owned businesses and entrepreneurs. Visit the online calendar at www.fairfaxcountyped.org/small-business-datebook.

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