Guide 10:
The Life Cycle of
Your New Business
INTRODUCTION

Welcome to the Citibank Small Business information guide series. This is one of ten guides that have been developed just for you, a person who is thinking about starting a small business or who has made the commitment to start one. It is targeted to people who are considering starting a small business as well as small business owners who want to learn more about successful strategies and skills. Citibank worked with a team of small business owners, like you to develop, write, and produce this series. All of us know how important it is to have clear and concise information to make smart business decisions. Our goal is to share experiences about the dynamic, exciting small business community.

Take a bow. Think of all you have accomplished to date. By now, you have completed all the activities in this Citibank Small Business guide series and are ready to set a launch date.

But first, take a long look at your new business plan and the resources you will need to make it succeed. Learn all you can about The Life Cycle of Your New Business: Launch, Grow, Harvest in this issue of the Citibank Small Business guide series. Like the other guides, this one includes practical, reliable information and strategies, researched and developed by a team of small business owners like you.

This guide will help you to:

• recognize the typical stages of the business life cycle.
• identify the business opportunities and challenges of each stage of the business life cycle.
• establish clear objectives and policies to meet your business goals.
• establish milestones to evaluate progress on business goals.
• recognize the need for detailed, written procedures for partnerships, employment, sales, management succession, and other critical agreements.
• understand the importance of decision-making and leadership.
• review and update ownership agreements regularly.
• prepare for health crises or retirement.
• plan for buying or selling assets to expand or close the business.

That seems like plenty to accomplish, and it is. Take it one step at a time.

I. Ready or Not, Time to Launch Your New Business?

This is it. You’re ready to launch your new business. Or are you? Take some time to review your plans, think about next steps, consider the future, and decide what you really want to do for the next few years.

Consider the facts. A new business idea gains momentum over the several months or years from “Aha ... I’ve got a good idea” to “Open for Business.” It’s the inevitable result of creating a business model, developing marketing strategies, refining a business plan, finding funding, and completing all the other activities involved in a starting a business. Every one of these activities is aimed at accenting the positive and convincing other people — potential investors, partners, employees, bankers, target customers — that your new business concept is a winner.

Now is the time to take a careful and analytical look at yourself. Avoid the temptation to move forward until you are sure that this is the right business, at the right time, with the right team members and partners in place.

Are you enthusiastic about starting this new business?

Take some time to review all the processes you have completed to get to this decision point. You have: reviewed your choices in So You Want to Be An Entrepreneur (Guide 1), Developed Your Business Idea (Guide 2), Built a Business Model (Guide 3),
considered Financial Management Essentials (Guide 4), completed a Market Analysis and reviewed Marketing Matters (Guide 5), reviewed Basic Business Operations (Guide 6), examined Basic Human Resources (Guide 7), written Your Business Plan (Guide 8), learned all about Funding Your Business (Guide 9), and now are ready to make the final choice on whether to start your business or not. So, are you ready?

Are you surprised when you realize how much you have accomplished? Every effort you have made to research your idea for a small business is valuable. Take this opportunity to review your progress and decide what your next steps should be.

- What is your schedule for making the business plan work?
- Are you prepared to do what it takes to make the business succeed?
- How can you demonstrate or test-market your business concept?

If you have good and convincing answers to these questions, you can feel comfortable taking the next steps to launch your business.

On the other hand, if you honestly aren’t convinced that this is a good business concept, stop right now. Almost every successful entrepreneur has done it. It’s better to identify problems and decide that this is not the business you want to pursue at this time.

Your time and energy has not been wasted. Instead, you have developed critical skills to make a business work. You can use these skills to revise and improve the business plan if you have decided the plan or idea is not quite strong enough. Or you can start all over, now or in a few months or years, to bring another good business idea to life.

II. The Business Life Cycle, An Overview

There is an interesting difference between the life cycle of a person and the life cycle of a business. While there are some factors you cannot control, for the most part, you are completely responsible for what happens in and with your business. Your business can grow – or not – depending on how much planning and effort you put into it.
Most experts describe four business life cycle stages:

- Idea to Start-Up
- Growth
- Maturity
- Transfer, or Next Steps

Each stage has its own challenges and rewards. This section explains them in detail.

If this is your first time considering a small business start-up, make every effort to keep a record of your activities and insights. It will help you now and in the future. In fact, many entrepreneurs realize that they enjoy the start-up and growth phases the most and that they prefer to concentrate on those skills to develop a series of new companies or to turn around struggling ones. Use this opportunity to discover your own small business strengths.

Your small business, like every business, will have its own life cycle. Some businesses start fast, grow fast, and fail or succeed fast. Others start small and stay small, by design. Many small businesses start slowly, then build fast, grow faster, buy other companies, or get sold and melded into larger organizations. Most every major corporation in our country started as a small business, much like the one you are currently planning.
Right now, you may not know exactly where your small business is going ... or how it will get there. It may take a couple of years until your business is up and running. After that, it may take a year or more to get a perspective on how the business is growing and what the next steps will be for it and for you. One thing is sure — no small business ever succeeded by chance. Someone had to make serious choices along the way to help the business manage the challenges and opportunities of the business life cycle.

Begin by learning about the typical life cycle stages of a small business.

1. **An Idea, Not a Reality**
   This is the time from “Ahhh, I’ve got an idea” to “New business plan complete, funding in place.” It can last a few months or as long as a couple of years. This is the stage you’ve just completed. You took your idea and studied it, analyzed it, refined it, and developed it to secure funding. Now, you’re ready to start doing business.

   - **Challenge:** Firm up your idea so it is workable. Secure funding. Collect all resources needed to open business. Establish contracts to formalize partnership, and ownership structure.

   - **Opportunity:** Use creativity. Assemble a team including an attorney, accountant (CPA), bank partner, business partner(s), and employees.

2. **Start-Up**
   This is where you are now. Your company exists as a legal entity, has its own bank account, offices and equipment, one or more employee and perhaps, a management team. You are enthusiastic and ready to do what needs to be done to get the business moving.

   Think of the start-up stage as a huge steamroller. It requires a driver plus other resources to be sure it works efficiently: mechanics to keep the engine working, fuel, laborers to prepare the road in front of it, people to keep traffic away from its path. In fact, preparing to get the streamroller moving can take quite a long time, yet once it is
moving, it works efficiently and builds momentum. This is a good image to remember as you prepare to move through the start-up phase.

The start-up phase can last from a few months to several years. Take the time you need to be prepared for the long haul. The hard work you do now will have a better chance of paying dividends down the line.

**✓ Challenge:** Develop the product or service. Be prudent and use resources, particularly financial ones, carefully. Establish written policies and standards for every business function. Example: Review your business plan and develop procedures for each function — marketing plan, operational plan, financial plan, human resources — plan so everyone involved knows how to put the business plan into action.

**✓ Opportunities:** Now is the time to test your business plan assumptions about the product or service, target customers, demand, and costs of doing business. Create a customer base and begin establishing a market profile.

### 3. Growing, Growing, Grown!

When you're planning a new business, growth of the business is one of the main goals so it seems strange that it could actually be a problem. Yet, it can be. Sometimes, growth can create serious problems that may cause the business to collapse.

Review the following scenarios – are they familiar to you? Might they be possible roadblocks in your business? Develop preventive strategies as soon as possible to avoid situations that might inhibit efficiency and productivity in running your business.

**You're in constant demand.** It can be flattering, but exhausting!

**Preventive strategy:** Start with a close look at your business size and structure. If you are a consultant or have a 1-2 person staff, do you want to stay the same size? Or, it is time to expand your team? If your business is just the size you want it to be, think of ways to streamline schedules, appointments, and outside responsibilities. Example:
An accountant developed a detailed questionnaire to help his clients prepare for their tax meetings. The result? Clients came prepared with all the current facts, receipts, and other details necessary to keep appointments short and efficient.

If your business has a larger staff, encourage management teams to meet and make decisions, then passing them by you for approval. You may have to prioritize which meetings you can attend, take a leave from volunteer or other out-of-office activities, or implement other strategies so that you can focus your energies on your growing company.

**You’re expected to make every decision, and you do.** If you have a team of employees, are they too reliant on you? As the leader of your company, you will be involved in most or all decisions of the business, but are there some decisions that you can delegate to other team members?

*Preventive strategy:* Consciously or unconsciously, your team thinks you want to make every decision. If you have a management team in place, use it. Everyone will benefit. One of the major challenges of many small business owners is to learn to delegate effectively. Most likely, you’ll have to delegate some of your current responsibilities to another staff member. However, if you do not have additional staff that can make decisions for the business, be sure to give yourself the time you need to research, prepare, and make important decisions for your business.

**There are financial questions that you cannot answer.** You are losing sight of the financial facts of the business.

*Preventive strategy:* Schedule a regular financial review and update with your banker and accountant. Be sure you know where the income is coming from and going. Keep a careful eye on cash flow — it is the best indicator of financial health.

**You’re putting out fires instead of making next-step decisions.** If you are micro-managing, it’s time to rely on your team if you have one.

*Preventive strategy:* Be sure that all the team members understand their responsibilities. Delegate responsibility to them and explain that their job performance will be evaluated and used to determine promotions and bonuses.
**You don’t have time to plan the next steps for the business.** Make the time - it’s your most important responsibility.

**Preventive strategy:** Evaluate your staff – do you need more employees or managers? Is your current staff working effectively enough? Once you know what the problem is, hire more managers or help the current ones “grow into” the responsibilities of their jobs. Consider the option of “hiring just the talent you need for just the task that needs to be done.” This may seem obvious, but it’s surprising how often a small business gets caught up in procedures that can be handled better, faster, and cheaper by someone with experience and willingness to do the job on a project basis. Example: Need a larger office space? If you can afford it, it may be helpful to hire a business realtor to find it for you. Not sure what your website should include? Would hiring a website producer to give you a start-up plan, including a contract for periodic evaluations, an annual review and updates as needed, be more efficient?

√ **The Voice of Experience:** Think of your growing business as you might think of the family car. When you were a young couple, a sports car was terrific. After a couple of kids, trying to add a back seat to adapt that car for a family doesn’t make much sense. And you don’t redesign your own car. Instead, you go to a reliable car dealer to learn what types of family cars and features are available. As your business grows, count on specialists to help you make decisions.

**Most of your time and resources are spent on a single client.** While you want to retain existing clients, you must also concentrate on expanding your client base.

√ **A Word of Caution:** A single client can mean good news — steady work and revenue, strong relationships, and a mutual understanding of expectations. There can be several downsides, too — the collapse of income if the client moves to another supplier; the concern that a bank or other funding resource may have in dealing with a company that relies heavily, if not exclusively, on a single client; an “understanding” or contract limitations against searching out new clients in the same field.
**Preventive strategy:** Consider working under a retainer or other agreement that guarantees the relationship, at least for a period of time. At the same time, be proactive in identifying and approaching potential new clients.

**Flat or “negative” revenues.** You’ve been so busy, you’ve lost sight of the bottom line.

**Preventive strategy:** Set up regular financial review meetings with your accountant. Establish firm financial systems for recording costs and determining the profitability of projects. Next, either streamline systems to reduce costs or raise prices to make projects profitable.

Any one of these red flags deserves your immediate attention. A combination of them could mean disaster for your business. Here are some classic examples:

Johnny said, “It was like shooting at a moving target. Our sales were growing … and we were thrilled … but we forgot to watch cash flow … before we knew it, we were in serious financial trouble … couldn’t meet payroll, couldn’t ship, used up all our financing. The business collapsed around us. And, through it all, we were absolutely so busy, we didn’t realize the ship was sinking.”

Ann describes her start-up sales, “We never imagined so many people would want our clothes. It was a dream, but it soon turned into a nightmare. We didn’t have enough inventory to meet demand and, in fashion, that’s the end of a business.”

Tony explains, “I was on the public relations team for a major corporation and when I said I wanted to set up my own shop, my boss was thrilled. She gave me a contract immediately and then more projects. Soon I had a great midtown office, full team of experts, five or six projects moving along … and then the bottom dropped out. My major client was bought by a conglomerate and my retainer stopped. Within months, all the other projects were cancelled. I had to let my entire team go and start all over.”
A red flag alert could have prevented these small business crises. More proof, if you need it, that it definitely pays to be prepared to meet the challenges of growth.

✓ Challenge: The business needs to grow, but growth requires expanded resources: larger facilities, more management team members, expanded accounting and management systems, and more employees to record sales and handle shipping. Often, the business owners have to learn to delegate day-to-day responsibilities so that they can manage the requirements of growth. Cash flow can be a crisis because the costs of expanding facilities and producing inventory must be met months in advance of sales. Executive burnout can be a major problem because to get to this stage, the small business owner or partners have been the center of attention and done or supervised almost everything.

✓ Opportunities: Sales growth is good, income is steady, cash flow is generally positive. Is this the time to expand or would it be better to let the business find a rhythm and continue growing to sustained profitability? This can be a good time to take a closer look at staffing. Do you have the people you need to manage the various responsibilities of a growing business? Is it time to hire additional employees? If you have a staff in place, should you consider shifting some of their responsibilities? Is it time to consider outsourcing some responsibilities, establishing partnerships with suppliers or distributors, and buying small companies that may have the resources needed for your growing business? You don't have to have all the answers … but you should start asking the questions now.

4. A Comfort Zone, Until the Next Growth Spurt

You have successfully managed the rapid growth and made all the necessary changes in organization and management.

This is a time to enjoy. Owners and partners can begin to relax with a sense of financial security.
√ **Challenge:** Decide if the business has reached a plateau or the end goal. How is the cash flow? Are sales stable, building, or sliding? Competition may be gaining on you. How is the business meeting the goals that were set for it?

√ **Opportunities:** Consider your future opportunities and some of the questions you'll want to begin asking. Should I consider: Continuing to grow my company through new product development? Continuing to work at increasing sales? Buying another business?

Or, is it time to cash out? Do you want to sell this business and start another one? Or, become part of a larger organization? Do you have you plans to retire? What opportunity might you want to pursue at this point in your personal and professional life?

Continue to explore the additional sections of this guide for more information.

**III. Managing Matters**

An overview of the new business life cycle makes it seem so neat and organized. You might even imagine yourself moving smoothly and efficiently from one stage to another.

Reality is much different.

Sometimes, a small business concentrates too much on identifying customers or setting up efficient operating systems. Remember the steamroller? It can't make a move without a driver. Neither can a small business. You must think and plan with the “big picture” in mind. Focusing on only one aspect of the business may cause problems for your business. Example: A company that is more interested in selling a fashion image than in fulfilling orders from retailers can wind up with great ads and no inventory to ship. You, the owner and manager, must make the decisions that move the business forward. The first and most important priority is cash flow. Without available funds, inventory can't be bought, salaries and expenses can't be paid, and the business will collapse. Here are some techniques that can help you anticipate, act on, and review decisions.
1. **Mark the Milestones**

Your business plan is an excellent resource for developing milestones and measurable goals. Set some at each stage of the business life cycle. Examples: When should the test market start? Where? How many customers should be on your customer list within six months of launch?

Use your milestones to chart your business progress. If you miss a milestone, figure out why. What could you have done to meet it? What can you do better next time in setting the milestone and measuring it?

Often, an analysis of milestones can help you revise procedures to make the business more efficient or profitable. Consider these situations:

- **Mike** set a milestone of “500 customers within six months, each ordering once a month.” At the end of six months, he had 500 customers but only 150 of them ordered every month. A closer look showed that Jose was the sales representative for 100 of the most active accounts.

  **Result:** Mike promoted Jose to sales manager. Within months, the number of customers and their purchases increased.

- **Janine** estimated cash flow based on payments for merchandise within 30 days of shipment. When she calculated actual cash flow, she realized that the date customers paid for shipments was closer to 45 days. She knew that this delay eventually could cause a serious cash flow crisis.

  **Result:** Janine established a 2% discount for payments received within ten days of shipping. Customers appreciated the price break and paid promptly. Cash flow improved.

Milestones help you to identify opportunities and challenges to expand overseas, diversify products or services, and make fundamental changes in the way your business operates.
2. Plan for Scale

Scale is the size of something. Scalability is the ability of a business to increase size proportionally. It is an important quality, if your goal is to grow your business from a “one person shop” to a much larger organization. Can you identify which of the following businesses are “scalable” and which are not?

- Jenny is a silkscreen artist who designs unique wall hangings from fabric swatches and other found objects. They are elegant and handsome. She sells them for $100 to $500, depending on their size and the materials used to make each one.

- Ed developed a new software package to keep track of a child’s medical history. It works with all the popular word processing systems and sells for $39.

- Harriet opened a referral service for elder care aides. She hires and trains them, then offers their services through the local hospital and other health care agencies.

- Joe and Bill are engineers who created a new unbreakable plastic that can be used to make cups and glasses for children.

If you guessed that all these business are scalable, you are correct.

- Jenny, as an artist, could use her designs to create other accessories or disposable paper products such as napkins, plates, or note cards. She could also expand her business by using the Internet or mail order.

- Ed could make more and more copies of his software, as sales demand increases.

- Harriet could hire and train more elder care workers, and even hire people to do the training while she continues to expand the avenues where their services are offered.

- Joe and Bill can use the unbreakable plastic to make more than cups and glasses for children.
Almost every business is scalable to one degree or another, and can grow by expanding market reach by developing new products, adding staff, increasing advertising and many other strategies.

Scalability gives you the flexibility to grow your business or not. If you decide you want to limit the size of your company, you can always decide to cut back on expansion. But, if the business cannot be expanded by scale, you may want to rethink your plans for growing the business.

It’s also important to realize that a small business can be managed to remain small, yet be very profitable. Some examples: Jenny’s custom wall hanging business, a portrait artist, an auto detailer, a party planner.

Which brings us to another critical managerial skill …

**3. Stay Alert to Trends and Events**

While your main focus is running your small business, it’s important to focus on the “big picture” too. Economic trends, industry events, political changes, and many other happenings can have major implications for your business. Take a moment to think about how any or all of these changes affect your business:

- rising energy prices
- IRA, SEP, and 401K plan revisions
- volume rates for shipping
- weather conditions
- higher or lower taxes
- minimum wage legislation
- consumer shopping trends
- insurance rate increases

Almost every day, there are changes that can affect your business model, policies, or procedures. As the company decision-maker, you need to be alert to them … and prepared to respond as necessary.
4. Be Prepared to Increase Prices

There are advantages to size, and one of them is that larger companies may have more capital or be more able to shift expenses to cover increases in energy, insurance, and other business expenses. Small businesses usually have less flexibility than large businesses when it comes to increased expenses. Small businesses need to watch every expense and be prepared to raise prices when necessary.

✓ The Voice of Experience: A small business does not have to compete on price with larger companies. Research and business managers confirm that, over time, customers make purchasing decisions based on many factors, not just price. If your customer service, delivery, quality, and other business strategies are competitive, raising prices will most likely not scare away your customers.

IV. What Next? Buy or Sell? Plan for Transition?

Sometimes, the next steps for a small business are obvious. Often, they aren’t. How is your business prepared to manage these situations?

- Cash flow is much lower than expected.
- Sales are booming and outpacing your current production capabilities.
- It’s time to expand, but the cost of financing new equipment and facilities and adding staff personnel is expensive.
- Your business partner wants to “cash out” and move on to another business.
- Illness has made you unable to perform the day-to-day management the business requires.
- You’re ready to start planning your retirement.
- It’s time to think about succession.

No one has all the answers to these situations, but it’s smart to know the basic decision points related to major structural changes in your business. Here are some facts about each alternative.
1. Buying to Expand

This strategy can help your business grow fast and efficiently. First, you need to identify your business strengths and weaknesses. Maybe your new line of children's clothing has received rave reviews, but you don't have manufacturing facilities to meet the demand. It may be wise to consider buying a company that has the space and equipment you need.

**Advantages:** If you buy a competitor, you can acquire the production, equipment, and other resources you need for expansion, often for a more cost-effective price than it would cost to acquire them yourself. Equally important, your market expands because you acquire your competitor's customer base too.

**Disadvantages:** You have responsibility for incorporating the newly acquired company into your current business structure. This process may involve realignment of management responsibilities and possibly even staff reductions, if the new, larger, combined company needs to cut costs, has more employees than needed, or has staffing redundancies. (For example, if each company had a CFO, there may not be the need to have two in the newly formed company.)

Typically, a small business owner has the responsibility of managing the acquisition and conducting “due diligence” research. This includes all the procedures involved to review, analyze, and verify the financial facts about the business you are buying. Your company attorney, accountant, and at least one or two senior managers should be on the team and will most likely be the team, at least at the beginning.

It may be a good idea to hire a business broker, particularly if you have never purchased a business before. A reliable business broker is an excellent resource. Acting on your behalf, the broker can research and analyze businesses for you in order to find a good fit — a business that is priced fairly, provides full financial disclosure, and is compatible with your current operations. The broker can also negotiate the deal and assist in completing legal requirements for contracts, licensing, and escrow. You may pay a commission of 5-10% of the purchase price, an outstanding value if the broker helps
you to identify a business that is a good fit with yours. To learn more about identifying good business opportunities and business expansion financing, visit the Small Business Administration website at http://sba.gov/businessop/index.html.

2. Partner Buyouts – Buy/Sell Agreements
The legal documents that set up a small business should include detailed and complete provisions for partner buyouts, profit-sharing, buy/sell agreements, and other partnership dissolution arrangements. Check with your attorney and accountant for specific recommendations related to the type of business you are establishing.

Here are some general recommendations, from experienced entrepreneurs:

- Be cautious when establishing 50-50 partnerships; if one partner has a majority interest, conflict may be avoided since the majority partner has final decision-making power.

- Be cautious when “awarding” or “giving” a percentage of the business to friends, spouses, or other family members as a gift or courtesy; it could create serious problems in obtaining financing or in transferring ownership in the business.

**Advantages:** Specific ownership and buy/sell documentation will be required by your bank and other lenders, major suppliers and creditors, and possibly tax authorities. These legal buy/sell agreements are a form of financial insurance, as they protect the legal and financial interests of you and your partners.

**Disadvantages:** Once a business has reached profitability, it is not unusual for one or more partners to want to “cash out.” With all the appropriate agreements in place, the opportunity for problems can be minimized. However, if the legal documents used to establish the business do not include buy/sell provisions, there is the potential for problems and added expenses.

For more information, visit http://www.sba.gov/starting_business/legal/forms.html
3. Initial Public Offering (IPO)

An initial public offering (IPO) offers company stock to the public. It’s a classic business strategy to generate capital you may not have access to as a private small business. As a rule, you need to have a 3-year track record of rapid growth and higher-than-usual profits to attract an underwriter and investors.

*Advantages:* Generates capital quickly. Can cause the value of the company to expand rapidly as a market develops for the stock. Can provide funds for one or more of the founding partners to “cash out” and leave the business. Can also provide funds to manage the company through another cycle of growth.

*Disadvantages:* An IPO can be a time-consuming and complex process, particularly for a small business. The underwriter that has agreed to manage the IPO has a detailed schedule of activities related to the stock offering. Most often, you will be asked to appoint an IPO team or committee to cooperate with the underwriter in completing these activities. It may require more of your time and involvement than anticipated. This is an ideal time to shift management responsibilities to other employees. Once it is completed, stockholders will have voting power and may have definite management strategies for the company. Owners’ management rights become limited to the amount of stock owned. New stockholders may have a “hold-and-flip” approach to sell off their stock if the business does not meet specific growth goals.

4. Merge to Become Part of a Larger Organization

This is an efficient way to gain resources, but it could mean that your business gets swallowed up in the combined organization.

*Advantages:* May allow you to grow faster than you could grow on your own because of the access to the resources of the larger company.

*Disadvantages:* Your small business identity may be diluted in the larger organization. You and your staff may lose operating independence and may even be part of a future staff reduction.
If you decide that merging with or being bought by a larger company is the next best step for your company, consider working with a business broker. The best brokers keep up with trends and events in many industries and can streamline the merger process. Refer to the description above.

Be sure to have your business facts in order before you start approaching a business brokers or potential buyers. They will want to know why you are interested in selling, what you expect to gain from the sale — both financially and as a manager — and how you anticipate your business will retain market share and contribute to profitability.

5. Planning for Transition

It’s not surprising that many small business owners expect their children to continue running and expanding the business. After all, the founders of a business have dedicated many years to creating it and keeping it running. By the time they are ready to retire and let someone else manage the operation, the business is intertwined with many of the family expectations and traditions.

How realistic is it to dream of passing your business on to your children or grandchildren? Not very. Typically, only about one-third of small businesses are managed by the next generation. It requires balancing many different financial and emotional issues.

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<td>What is the value of the business? How many salaries can it generate?</td>
<td>What do the children think about the business? Feelings may range from pride to envy.</td>
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<td>How many of the heirs are interested in the business?</td>
<td>Do heirs feel “obligated” to join the company?</td>
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<td>How many are qualified to manage the company?</td>
<td>How will heirs who aren’t involved in the business get “their share” of it – as inheritance or part of a lifetime trust?</td>
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<td>Clearly, some members of the next generation will be more qualified to manage the company than others. Who decides on the roles that each person will assume as the company passes from the founder’s hands?</td>
<td>Will those who don’t work in the business feel “cheated” that they aren’t getting as many financial rewards as those working in the business?</td>
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<td>Will those who are working feel that they are “supporting the whole family” on their efforts?</td>
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It’s not easy but try to be objective about passing your small business on to the next generation. There are several articles containing succession information at [http://www.sba.gov](http://www.sba.gov) and product information at [http://www.citibank.com/us/citibusiness/iep.htm](http://www.citibank.com/us/citibusiness/iep.htm).

**6. Close the Business**

When is the right time to close a business? The answer depends on each entrepreneur. It can be any time. Sometimes, a venture just doesn’t work out as planned. Other times, the market moves on and the product or service is no longer needed. Or, the owners may want to start another new business, take an extended break, or retire. Regardless, the best reason is probably the financial one — the bottom line. If a small business has reached the point where it is not making money and there’s no profitable outlook on the horizon, it may be time to consider closing the business.

Whatever the reason, once the decision has been made to close a business, consider the implications:
Is anything salvageable? Can the equipment or other assets be sold? Would someone want to buy the business and start it in a new direction? Once again, a business broker can be an important resource.

What are the current financial obligations? What is the status of taxes due now and in the near future, payments for supplies or services used, loan guarantees, and other outstanding expenses?

Work with your management team, accountant, banker, and attorney to prepare the necessary agreements to close the business. And, if you are like many small business owners, this may give you the inspiration you need to start planning your next new business strategy.

This is an excellent moment to take some time to review your small business experience and take pride in your accomplishments up to this point:

- you have created a unique company based on your own ideas and imagination
- you have learned new business skills and strategies
- you have had the opportunity to meet, work with, and influence your clients, staff, and advisors and vice versa
- you have created value while earning an income and provided income opportunities for others
- you have added to the American tradition of small business – the growth engine of our economy.

**Summary**

This guide describes the stages of a business from the first concept and start-up activities to growth surges and options for future development. It also describes how to use a business plan to create measurable milestones, why scalability provides opportunities for growth, and how market and other trends affect pricing and other factors. You also explored facts about planning for the future of a small business:
Buying to Expand, using an IPO to generate capital, Merge Alternatives, Planning for Transition, and Closing the Business.

V. So, What's Next?

“Now what?” you may ask. Whatever path you choose, make it a point to share your experiences and encourage other small business owners in their endeavors. Ask anyone who has ever started a small business — from that point on, his or her life was never quite the same. They look a little closer when they go to a new restaurant, see a new ad, or hear about a new product. They are more alert to ingenuity, customer service, value, product quality, and performance. Most likely, you will be too. And, best of all, you will be able to share your experiences with others. Encourage, teach, support, and advise them to learn all they can about small business. Your knowledge can be their springboard. Share it openly and often. Our economy depends on entrepreneurs like you and is counting on you to help expand the growing tradition of small business opportunities.
VI. Glossary

**Accounting**
a system for documenting, recording, and reporting all financial transactions; used to develop a financial profile of the business volume, profits, growth and other measures to create financial statements

**Assets**
anything you own that you own that can be converted to cash to pay debts; usually listed in order of liquidity

**Balance Sheet**
A financial statement that provides a description of a business’s financial position at a specific time, usually the close of an accounting period

**Bootstrap**
an expression that means “without help” but has been adapted by business to mean starting up a business from scratch or helping to start a new business

**Breakeven Analysis**
a study to identify the point at which assets exceed debits; a strategy to find out when a business is making a profit because income is larger than spending

**Breakeven Point**
when assets or revenues exceed liabilities or expenses; the time a business begins to show a profit

**Budget**
planned spending by categories

**Budgeting**
the process of planning spending

**Burn Rate**
the rate at which cash flow is spent by a start-up business; a measure of how fast a new business will run out of cash or meet the breakeven point

**Business Plan**
a complete view of the business resources, goals, activities, and strategies aimed at producing a profit

**Capital**
the financial investment needed to start and/or operate a business

**Capital Expenditures**
spending for equipment, space, and other assets needed to run a business

**Cash Flow**
how money moves in, through, and out of a business

**Cash Flow Statement**
shows the actual cash flowing into and out of the business during a defined period, such as a month, quarter or year; a cash flow statement also records the effects of changes in balance sheet accounts

**Cash Management**
The discipline of using cash most efficiently to have positive cash flow, make a profit, maintain a healthy balance sheet

**Charter**
a legal document that describes the legal form of the business, how the company will operate within the corporate structure and plans for dissolution of the company, if necessary
Collateral
business assets that can be used to guarantee a loan

Competitive Strategy
the unique value or advantage that a business offers, compared to its competition

Common stock
These are securities that represent equity ownership in a company. Common shares give an investor voting rights on the election of directors and other issues. They also give the holder a share in a company’s profits in the form of a dividend or an increase in the value of stock price.

Convertible stock
a form of equity that can be exchanges for common stock at a certain price.

Cost Structure
how revenue is generated by sales, service fees, advertising, subscription, or contract fees

CPA
the abbreviation for Certified Public Accountant; candidates have to be graduates of an accredited college accounting program, work a certain number of years in a professional accounting capacity, and pass a rigorous examination to certify their capacity, integrity and objectivity in reporting financial data

Credit
access to spending resources based on your promise to pay

Credit Policies
the payment schedule and penalties you establish for your business

Credit Rating (also called a Credit Score)
a number or score based on your history using and paying for credit; a good credit rating is an important asset for personal and business finance

Credit Reporting Companies
private companies that are in business to collect and report on the financial history of an individual or company. The major companies that report on businesses are Dun & Bradstreet, Equifax, Experian, and TransUnion. Each credit reporting company has its own system for collecting data and calculating credit scores. You have the legal right to see the information that is in your credit report. Make it a policy to review the credit reporting company records for your own business, as well as for your suppliers and customers on a regular basis. That way, you can correct errors in your own record and adjust you company credit or payment policies, as necessary, based on the current records of your suppliers or customers.

Current Assets
assets that can be converted into cash within one year of the date of the balance sheet

Current Liabilities
bills or obligations payable within one operating cycle, such as current insurance premium, rent, wages

D & B – Dun & Bradstreet
a leading credit reporting company that concentrates on businesses; reports on start-up businesses only after they have operated long enough to have a credit history, about a year
**DBA (Doing Business As)**
An assumed name used for business, instead of a personal name. A certificate is filed at the city or country registry to use an assumed name. Example: Jane Evans DBA Personal Flower Workshop.

**Debt/Equity Ratio**
Long-term debt divided by stockholder equity; compares assets from creditors to assets from shareholders to measure the financial strength or leverage of a company.

**Debit**
a cost, expense, or depreciation that is charged against assets to establish the current value of an asset or company.

**Depreciation**
the loss of value over time; used to record the value of business assets such as equipment that will eventually need to be replaced.

**Earnings**
income from sales, commissions, rents and other money-making efforts.

**Entrepreneur**
a person who sets up a new business.

**Equity**
the value of property, equipment, inventory, and other assets minus the outstanding balance due on them; total business assets after liabilities are subtracted.

**Expenses**
costs incurred doing business; examples include wages, insurance, rent, and taxes.

**Financial Statement**
a summary assets and liabilities for a specific period of time.

**Fixed Assets**
also called long-term assets; non-liquid assets that are important to the day-to-day business operations; plants, computers and manufacturing equipment, furniture, and real estate are examples.

**Fixed Costs**
routine business costs that are contracted or agreed to, such as salaries, insurance, lease expenses and utilities.

**Functional Area**
an operating segment of a business, such as manufacturing or sales; functional areas can be separated to provide detailed financial information about where and how profits or losses are being generated within the total business.

**General Ledger**
the “books” of a business; all financial transactions are recorded here.

**Guarantee**
a promise; in business finance the term refers to the borrower’s promise to pay off a loan in full plus interest.

**Income**
earnings from all sources including rents, sales, and interest.

**Income Statement**
also known as a Profit and Loss Statement; a summary of a company’s income minus expenses for a specific time period such as a month, a quarter, or a year.

**Interest**
the amount paid for the use of money; that is, the “rental cost” for using loan funds or credit.
**Internal Controls**
accounting methods designed to promote efficiency, safeguard assets, and discover and avoid fraud or error

**Invoice**
the bill for products or services provided by a business

**IPO (Initial Public Offering)**
offering company stock to the public in an open market to generate capital; generally requires at least a 3-year record of strong growth and industry leadership plus an underwriting partner; reduces owner’s control since outside investors have voting rights and may have different long-term goals for the business

**Line of Credit (LOC)**
a pre-approved amount of credit, often a useful business asset

**Liquid Assets**
business assets that can be turned into cash quickly, usually within a few months but no longer than a year

**Long-term Investments**
stocks, bonds and special savings accounts that are planned to be kept for at least one year

**Long-term Liabilities**
the outstanding balance due minus the current portion due on major purchases such as business equipment, mortgage, vehicle

**Long-term loan**
a loan that matures after one year or more, usually less than seven years. Capital real estate and facilities, manufacturing or other equipment, durable furniture and fixtures, as well as vehicles are often purchased with long-term loans which have monthly payments and maturity dates of 10 to 25 years.

**Management Accounting**
financial reports created from accounting data to help management make plans and decisions

**Maturity**
the date when the term of an investment ends and the principal and interest are due to investor

**Net Worth or Capital**
the owner’s equity in a business; assets = liabilities + net worth

**Niche**
when used in business, a target opportunity that is well-suited to the situation or audience

**Partnership Agreement**
a contract that describes the percent ownership of each partner, distribution of profits, financial responsibility for any losses, provisions for a partner’s exit and the dissolution of the company

**Partnership or Proprietorship**
each owner’s original investment plus earnings minus withdrawals
Preferred Stock
a stock that shows ownership in a corporation and gives the holder a claim, prior to the claim of common stockholders, on earnings and on assets in the event of liquidation. Most preferred stock pays a fixed dividend and does not provide voting rights.

Principal
the amount of loan, not counting the interest

Profit
revenue minus costs; the money earned by providing customers with a product or service

Profit and Loss Statement
also known as an Income Statement; a summary of a company’s income minus expenses for a specific time period such as a month, a quarter, or a year

References
personal or business contacts who will vouch for your professional competence, honesty of credit-worthiness

Retainer
a fee received on a regular basis, usually monthly or quarterly, for a pre-determined amount of work; usually established for long-term projects or ongoing business relationships, for example, an attorney may be on a retainer basis to be available to answer questions or provide a certain number of hours per month

Return or Return on Investment (ROI)
earnings on investment, often described in a percentage

Service Corps of Retired Executives (SCORE)
a nationwide SBA-sponsored network of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and current small business owners and executives

Small Business Administration (SBA)
the federal agency established to provide information and education services, loan guarantees, and counseling to promote small business development.

SBA Loan
a loan that is provided by a bank or other financial institution and insured by the Small Business Administration

Small Business Development Centers (SBDCs)
SBA-sponsored partnerships among state and local governments, educational centers and the private sector that provide assistance, counseling and training to prospective and existing business owners and their staffs.

Short-term Loan
a loan that matures and has to be paid back within one year.

Small Business Institutes (SBIs)
more than 500 SBA-organized centers on campuses nationwide where students and faculty provide counseling to small business clients.

Supporting Schedules
financial reporting forms used to document expenses, depreciation or other business expenses; often used to explain tax deductions or to detail plans for using a credit line or loan.
**Target Market**
the customers a business is organized to serve

**Value Chain**
how a business is organized so owners and staff provide value to customers

**Value Proposition**
the value that is created for the target customer; “the customer problem you are solving”

**Venture**
a new business
VII. Additional Resources

Every day, there are new business opportunities and events that affect the business climate or business strategies. These print and online resources can keep you well-informed.

**Websites**

**American Marketing Association**  
Industry reports, detailed dictionary of marketing terms, and educational resources  
http://www.marketingpower.com

**Association for Enterprise Opportunity (AEO)**  
The national association of organizations committed to microenterprise development  
http://www.microenterpriseworks.org

**Business Week magazine**  
http://www.businessweek.com

**Citibank**  
Experienced small business advisors and custom financial resources for cash management, credit card processing, investment, and more; locate offices and learn about business strategies and programs  
http://www.citibank.com/us/citibusiness

**Dun & Bradstreet credit reporting company**  
http://www.dnb.com or 1-800-234-3867

**eBay**  
Information about how to set up an online business  
http://www.ebay.com

**Entrepreneur magazine**  
Online resources, plus small-business blog  
http://www.entrepreneur.com

**Export-Import Bank of the United States**  
Provides information and training to promote international trade by small business  

**Fast Company magazine and its Small Business Intelligence Center**  
Offers a variety of articles, resources, and tools  
http://www.fastcompany.com

**FORBES magazine**  
http://www.forbes.com

**FORTUNE Small Business**  
http://www.fortune.com/fsb

**INC Magazine**  
The daily resource for entrepreneurs  
http://www.inc.com

**Kauffman Foundation**  
Encourages entrepreneurship across America and improves the education of children and youth by focusing its operations and grantmaking on entrepreneurship and education  
http://www.kauffman.org

The trusted guide for entrepreneurs on the path to high growth  
http://www.eventuring.org/

**National Association for the Self-Employed (NASE)**  
Supporting the needs of micro-business and the self-employed  
http://www.nase.org

**National Association of Women Business Owners (NAWBO)**  
Networking and support, education programs, and more  
http://www.nawbo.org
National Business Association
A not-for-profit association, specifically designed and actively managed to assist the Self-Employed and Small Business Community in achieving their professional goals
http://www.nationalbusiness.org

Online Women’s Business Center
Helps women to achieve their dreams and improve their communities by helping them start and run successful businesses
http://www.onlinewbc.gov

Service Corps of Retired Executives (SCORE)
An organization of volunteers who provide free online and in-person education for small businesses
http://www.score.org

Small Business Administration
Strives to maintain and strengthen the nation’s economy by aiding, counseling, assisting and protecting the interests of small businesses and by helping families and businesses recover from national disasters.

Society for Hispanic Professionals
A unique source of opportunity in professional development, educational services, and personal fulfillment for Hispanics
http://www.nshp.org

U.S. Department of Labor
The Department of Labor fosters and promotes the welfare of the job seekers, wage earners, and retirees of the United States.
http://www.dol.gov

U.S. Patent and Trademark Office
Promotes the progress of science and the useful arts by securing for limited times to inventors the exclusive right to their respective discoveries
http://www.uspto.gov/

Young Presidents Club
An educational organization aimed at providing better leadership through education and friendship
http://www.ypo.org/learning.html

The Wall Street Journal Center for Entrepreneurs
Contains current stories and extensive resources on trends that affect you and your business
http://www.startupjournal.com/

Publications

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