BA 10: Introduction to Business
Course Syllabus: Fall 2019
Adjunct Instructor: Mark L. Oller
Email: mark.oller@reedleycollege.edu

Course Title & Code #: BA 10: Introduction to Business #55006
Meeting Day, Time & Location: TTh 10:00-11:15am @ Business 43

Course Description: This is a survey course covering the basic areas of business, involving a multi-disciplinary examination of how culture, society, economic systems, legal, international, political, financial institutions and human behavior influence organizational policy and practices within the US and global societies. The course will demonstrate how these factors and institutions impact primary areas of business, including organizational structure and design, leadership, human resource management, organized labor practices, marketing, organizational communication, technology, entrepreneurship, legal, accounting, financial practices, the stock market, and other capital markets.

Prerequisites: Understanding of fractions, ratios, and percentages.
Advisories include: Eligibility for ENGL 125 & 126 and MATH 101

<u>Course Overview</u>

The basic topics to be covered and direction of this course will be as follows:

Bankruptcy
Accounting Statements
Taxes and Taxation
Depreciation
Mathematical Skill Development including heavy emphasis on Proportions, Ratios, and Percentages
Personal Finance, Compounding Interest, Simple Interest
Budgeting
Industrial Revolution
Economics
Banking, Finance, and the Money Supply
Insurance
Business Formation: Corporations, Partnerships, LLC's, Non-Profits
Marketing and Advertising
Financial Markets

Learning Methods & Course Activities:

In-class presentations, twice-weekly assignments through the student's Canvas portal.

Assessment:

Students completing all exams, assignments, and activities with a cumulative, average grade of "C" or better will be deemed as having achieved the course objectives previously stated.

Textbook: BUSN10 – by Kelly/Williams
Publisher: Cengage

Course Activities & Evaluations:		**Earned Percentage of Possible Points**	**Grade:**
Total Points Available 1200	100%		
		90 - 100%	A
Homework Assignments	67%	80 - 89%	B
Periodic Exams	8%	70 - 79%	C
MidTerm and Final	25%	60 - 69%	D
		< 60%	F

INTERNET & E-MAIL

An email address is required for all students. Make sure your current, correct e-mail is updated in the Blackboard system. I will use this system to contact you via e-mail. When emailing the instructor, please adhere to the following:

1. *Use the subject line correctly. Each e-mail you send to me must include the following subject line:
   Course number, your first and last name, and the subject you are writing about
   For example, if I were a student in BA 10 (Intro to Business), the subject line on my email would be as follows: BA 10 Mark Oller Question about homework
2. Use the spell checker. Be accurate and be professional. People judge you based on how well you control the English language; especially when it is written.
3. Use proper grammar. Make a habit of constantly improving the way you communicate. Don't use text message lingo. The grammar you use creates an impression for others. Give them the impression that you are intelligent.

GRADING

- Your course grade will be based on the percentage of points (total earned / total possible), and **grades are weighted** based on type of assignment. You cannot simply divide the number of points earned by the number of points possible.

ATTENDANCE & PARTICIPATION (face-to-face classes)

- Your attendance and participation are important. Attendance will be taken at random points during each class period.
- Students missing **six (6)** or more hours may be dropped from the course for non-attendance. For classes that meet two times per week, students missing **four (4)** or more classes may be dropped for non-attendance. For classes that meet once per week, students missing **two (2)** or more classes may be dropped for non-attendance. For online classes, students missing **two (2)** weeks of discussion or assignments may be dropped for non-attendance.
- Any student who misses a class during the first **three (3)** weeks of instruction, may be dropped.
- ***Unless you regularly attend class, and have prepared adequately for each class period, you are not fully participating in the course.*** Your success in this course depends on your active participation. In fact, your participation and homework is worth a portion of your grade. There is no opportunity to make up for missed participation points.
- Participation points will be earned for activities such as:
  - Remaining attentive during class presentations
  - Completing Homework Assignments
  - In class projects and work papers

- Students entering or leaving the classroom at times other than the scheduled start/end of class cause a disruption to students and instructors, and it is rude. Class begins on the hour (or half hour – depending on the scheduled start time) not 10 minutes past the hour. In an effort to be courteous to your fellow students and the instructor, please make sure that you are in your seat and ready to "get to work" on time. Students who are habitually tardy (3 or more times per term) will be penalized, as will those who leave class early (without making prior arrangements).
- Remember: "Early is on time. On time is late. Late is unacceptable."
- Students attending less than 30 of the normal 50 minutes of class per hour will be counted as absent and subject to the drop policy if 6 or more days are counted as absent. You should be aware that participation points are often earned at the beginning or end of the class session and there will be no opportunity to make up those points once they are missed.

HOMEWORK, QUIZZES, & EXAMS

- Certain Homework Assignments will only be made available in class, and there will be no opportunity to make up for missed assignments.
- All homework assignments that are submitted via Blackboard or e-mail must be named correctly. Homework that is not submitted with the correct name will not be accepted. When naming a homework assignment, make sure to include your first and last name, the course abbreviation, official assignment title.
- **For example:** *Tomas Chavez, BA 10, Bankruptcy Case.*
- There will be no special consideration given for absences.

DROP POLICY October 11, 2019

- If you decide to drop the course, please do not simply stop attending. In order to officially drop a class you must fill out a program change card, available in the Admissions and Records Office. Drop dates are listed in your Reedley College Class Schedule. If you simply stop attending, you will be assigned a letter grade.

STUDENT CONDUCT:

- Conduct standards are designed to perpetuate the college's educational purposes, allowing students to enjoy the right of freedom to learn. To that end, students who fail to meet the conduct standards, or who interfere with the rights of freedom to learn of others will be removed from class.

APPROPRIATE APPAREL:

- Please be aware that the role of the Business Department is to prepare you for the world of work. We are charged with teaching you about the various functional areas of business as well as appropriate behaviors and attire. To that end, and in order to better serve the entire class, please refrain from wearing inappropriate apparel to class – including, but not limited to, excessively low-cut clothing and low-riding pants. No one will wear sunglasses unless they have a medical directive stating the sunglasses are necessary.

CELL PHONE USE:

- Please, if you carry a cell phone or pager, turn the ringer off or to vibrate so the rest of the class is not disrupted by a ring or beep. If your cell phone/pager rings, beeps or makes any other audible sounds in class, you can expect to lose your points for the day – impacting your attendance/participation credit. If you are penalized more than once for a cell phone "violation," you can expect to be asked to leave the class. A ringing cell phone or pager may also initiate a pop quiz for the entire class.

ETHICS IN THE CLASSROOM:

- You will notice that we will often discuss ethical issues, as such you should understand that cheating and plagiarism is not acceptable in this class (or any other).

ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES:

- If you have a verified need for an academic accommodation or materials in alternate media (i.e.: Braille, large print, electronic text, etc.) per the Americans with Disabilities Act (ADA) or Section 504 of the Rehabilitation Act, please contact me, or the **DSPS office – ext. 3332** as soon as possible
- *Please see the Reedley College catalog for clarification of issues and additional guidelines.

THIS SYLLABUS AND THE COURSE ACTIVITIES SCHEDULE ARE SUBJECT TO CHANGE AS DEEMED NECESSARY BY THE INSTRUCTOR.

WRITING ASSIGNMENTS

WRITING ASSIGNMENT #1:
http://smallbusiness.chron.com/differences-between-productbased-businesses-servicebased-businesses-23372.html
http://www.dailyblogtips.com/services-vs-products-are-focusing-on-the-wrong-side/
Ask and Answer 5 questions that are related to the articles.

WRITING ASSIGNMENT #2 Answer the following questions related to the article and class discussion:

1. If a company has $10,000 in Sales and $7,000 in Expenses, what was the Company's Profit?

2. If a company has $7,000 in Expenses and $3,000 in Profit, what was the Company's Sales?

3. If a company has $10,000 in Sales and $3,000 in Profit, what was the Company's Expenses?

4. How is going to a bank for money different from going to the store for milk?

5. When we go to the bank to borrow money, what is it that represents the price we pay for the money?

6. How is cash different from currency?

7. How might an electronic payment also be a cash payment?

8. What are the Federal Reserve Board's (the Fed's) primary responsibilities?

9. How can a "Main Street" bank can borrow more cheaply from the bond market than from the Fed? What is meant by "Main Street" and the "bond market"?

10. What is the difference between "borrowers" and "depositors"? Is it ever possible that one could be both a borrower and a depositor?

http://money.howstuffworks.com/personal-finance/banking/bank.htm

How Banks Work

BY LEE ANN OBRINGER MONEY | BANKING & ATMS
NEXT_

When you put your money into a money market savings account it earns interest just like in a regular savings account.
See more banking pictures.
JOHN FOXX/GETTY IMAGES

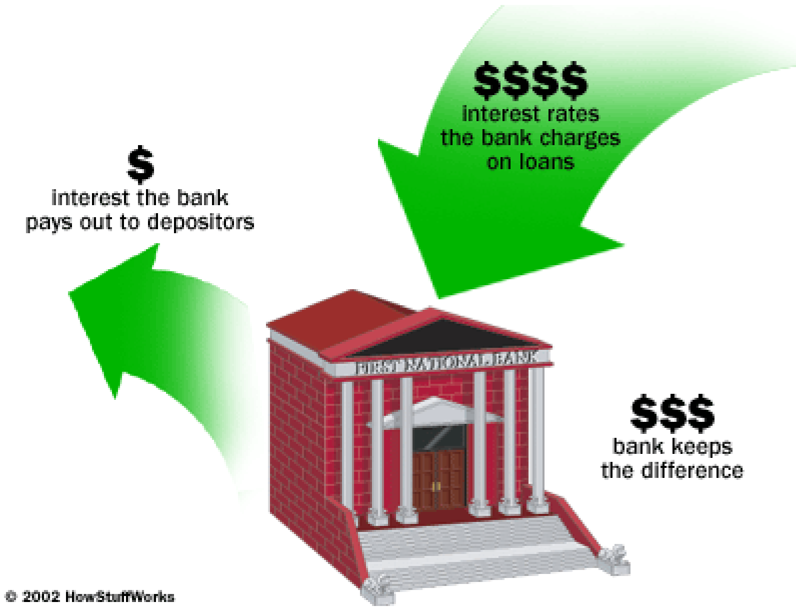
The funny thing about how a bank works is that it functions because of our trust. We give a bank our money to keep it safe for us, and then the bank turns around and gives it to someone else in order to make money for itself. Banks can legally extend considerably more credit than they have cash. Still, most of us have total trust in the bank's ability to protect our money and give it to us when we ask for it.

Why do we feel better about having our money in a bank than we do having it under a mattress? Is it just the fact that they pay interest on some of our accounts? Is it because we know that if we have the cash in our pockets we'll spend it? Or, is it simply the convenience of being able to write checks and use debit cards rather than carrying cash? Any and all of these may be the answer, particularly with the conveniences of electronic banking today. Now, we don't even have to manually write that check -- we can just swipe a debit card or click the "pay" button on the bank's Web site.

How do banks make money?

http://money.howstuffworks.com/personal-finance/banking/bank4.htm

PREV NEXT



Banks are just like other businesses. Their product just happens to be money. Other businesses sell widgets or services; banks sell money -- in the form of loans, certificates of deposit (CDs) and other financial products. They make money on the interest they charge on loans because that interest is higher than the interest they pay on depositors' accounts.

The **interest rate** a bank charges its borrowers depends on both the number of people who want to borrow and the amount of money the bank has available to lend. As we mentioned in the previous section, the amount available to lend also depends upon the reserve requirement the Federal Reserve Board has set. At the same time, it may also be affected by the funds rate, which is the interest rate that banks charge each other for short-term loans to meet their reserve requirements. Check out How the Fed Works for more on how the Fed influences the economy.

How Do Banks Work?

https://www.simple.com/blog/how-do-banks-work

MONEY TIPS
SHARE:

A few weeks ago Josh and I spoke to Mike Konczal (aka Rortybomb), and he quoted us in a piece he wrote about what a customer is worth to a bank. Since then, there has been a lot of back and forth on the topic, with some pretty heated comments on the relatively boring topic of banking economics.

It can be quite difficult to understand banking, since banks are very different from most other businesses. For one thing, they are highly leveraged, with more than $20 in debt for every $1 of equity. Also, it can be hard to understand what banks actually do, since they don't make any real products. And a lot of people seem to think that banking is "free", probably because banks keep advertising free checking accounts, free direct deposit, free bill payment, etc.

The 3-6-3 rule

To fully understand how banks in the US make money, you need to understand a little about the history of banking in the US. Traditionally, banks made money by borrowing from depositors at low interest rates, lending that money at higher interest rates to borrowers, and pocketing the difference. Banking used to be heavily regulated, and the joke was that it was a 3-6-3 business; borrow money at 3%, lend it at 6%, and be at the golf course by 3 pm. Most banks also charged a monthly fee to customers for maintaining a basic account, but most daily transactions were free. But, overall, fees were low, constituting only 30% of total revenues.

The impact of deregulation

The wave of de-regulation, beginning in the late 70s, changed this relationship. Main street companies discovered that they could borrow from the bond markets more cheaply than they could from banks, putting the 6 part of the 3-6-3 model under pressure. And lots of new consumer products such as interest bearing checking, credit cards, money market accounts, home equity loans, student loans, etc became available. Banking became a lot more complicated, so bankers couldn't just head to the golf course at 3 pm; they had to actually work for their money.

Two things ended up happening: banks realized that the bigger they were, the more loans they could make. With deregulation, the big banks grew even bigger by acquiring smaller banks. Banks also realized that the easiest way to make more money was to simply charge consumers more fees. In fact, the best way to make money was to call a product "free" by eliminating any monthly fees, and then charging lots of fees on transactions.

How banks make money

As we explained to Mike, there are three main sources of revenue in retail banking today:

- Net interest margin: this is the difference, or "net", between the interest paid to depositors and the interest received from borrowers. At the moment, the Fed's low interest rate policy means that depositors get almost no money for their savings, and bank margins are huge. Many large banks are making margins over 4% at the moment, which are even higher than the 3% from the good old days of the 3-6-3 rule.
- Interchange: Everytime you swipe a card at a store, the merchant pays a small percentage of the money to the bank that issued the card, called an interchange fee. For credit cards this is around 1.7%, while for debit cards it is nearer to 1.1%. Given that Americans spend more then they save, it is a huge revenue stream for banks.
- Fees: These are the fees that your bank charges you, including ATM fees, overdraft fees, late payment fees, penalty fees, etc. The average household in the US ends up paying over $200 annually in overdraft and bounced check fees alone. Along with interchange, these fees add up to more than 50% of revenue for large banks.

Its important to understand that all this revenue is a real cost to the customer. Some of it may be an explicit cost, when its a fee that shows up on your statement. But even the implicit costs of interchange and net interest margin are real; after all, merchants pass the cost of interchange on to consumers in the form of higher prices, and you could be making 3% interest on your money by buying treasury bonds, which are safer than any bank. By leaving it in the bank at a lower interest rate, you are effectively paying the bank to hold your money.

Costs of banking

Of course, there are also a lot of costs associated with banking. Maintaining IT systems, marketing products, running ATM networks, manning call centers, and paying banking CEOs all cost money. However, all of those are dwarfed by the cost of maintaining branches, which can be over 50% of a bank's costs. That is the main reason why banks such as ING and USAA can offer both good products and good customer service; being online only means that they don't incur branch costs and can spend their revenue in more customer friendly ways.

The bottom-line

With the most recent banking crisis, a handful of banks now dominate the market. At their scale, basic retail banking is immensely profitable. Unfortunately for consumers, they don't really have a choice. Yes, customers can move their money to smaller banks. But smaller banks were also hit by the crisis, and typically have not invested in customer service beyond the branch. So while you may be able to find a small local bank to serve you, the cost of banking and experience may not be as convenient as at one of the big banks.

Mike's original calculation in his article showed about $500 in revenue for a household with $60,000 in income. With a 4% margin and $200 in fees, that could easily climb to $850+. And that ignores any additional products, such as CDs, money market accounts, credit cards and other lending. So Mike's original question remains valid - as a retail banking consumer do you feel that you are getting $850 worth of service from your bank every year? If not, may we suggest that you sign up with us.

#3 WRITING ASSIGNMENT #3

Forbes: Why Higher Inflation is a Bad Idea

http://www.forbes.com/sites/louiswoodhill/2014/01/23/why-higher-inflation-is-a-very-very-bad-idea/

WRITE Ask 5 QUESTIONS UNANSWERED BY THE ARTICLE

Writing Assignment #4 DEBT

Dave Ramsey|Seth Godin Consumer Debt

1. What does Godin mean that with debt, "you work for them"?

2. What does Godin mean that a $20,000 loan will cost $23,761?

3. What does Godin mean by "consumer debt"?

4. Why is borrowing money to pay for something the same as paying a higher price for it?

5. What is the alternative to borrowing money?

https://www.mytotalmoneymakeover.com/article/seth-godins-take-consumer-debt-isnt-your-friend

Seth Godin's Take: Consumer Debt Isn't Your Friend

May 5, 2010 | WRITTEN BY CHRIS RUSSELL

One of the reasons Dave is all about paying off debt is that you get your life back. You own your efforts when you own the results of them.

Marketing bigwig Seth Godin talks about this in his latest blog post, and he's spot on. "As soon as you get into serious consumer debt, you work for them, not for you." If the title to your car or the deed to your house doesn't have your name on it, then you don't own it. They do.

Take owning a vehicle. Making car payments on a $20,000 vehicle at 7% over five years means you are forking over $23,761 for that car. That may not sound like such a bad deal, but think about it: **Why would you pay more** for something when you don't have to? Would you walk into a dealership and say, "You're only asking $20,000 for that car? I'll give you $24,000 and I won't take no for an answer!" Of course you wouldn't!

Seth Godin says it well at the end of his blog: "Smart people work at keeping their monthly consumer debt burden to zero." That car deal from above would cost you $396 a month. Think of what you could do with that money every single month if you had it.

And that's just the car. Factor in the payments from your credit cards, student loans, house and all the other stuff laden with debt, and when you see what it adds up to, you'll know what Dave and Seth mean when they talk about paying it off and getting your life back.

WRITING ASSIGNMENT #5 WRITING ASSIGNMENT #5

The Industrial Revolution http://www.historyplace.com/worldhistory/genocide/stalin.htm

The American Experience: Henry Ford (Netflix) or,
https://www.youtube.com/watch?v=ReK3pZhe_G0

Joseph Stalin: Inside the Terror https://www.youtube.com/watch?v=SIzApqzlP3Q

WRITE Ask 5 QUESTIONS UNANSWERED BY THE ARTICLE

WRITING ASSIGNMENT #6 WRITING ASSIGNMENT #6 Many Changes by Industrial Revolution

The Industrial Revolution http://www.historyplace.com/worldhistory/genocide/stalin.htm

Joseph Stalin: Inside the Terror https://www.youtube.com/watch?v=SIzApqzlP3Q

WRITE Ask and Answer 5 QUESTIONS UNANSWERED BY THE ARTICLE

WRITING ASSIGNMENT #7 Millennials and Compounding Interest

http://money.usnews.com/money/personal-finance/mutual-funds/articles/2014/08/06/starting-small-millennial-investors-learn-the-power-of-compounding

WRITE Ask and Answer 5 QUESTIONS UNANSWERED BY THE ARTICLE

READING ASSIGNMENT #8 Ethanol Subsidies

http://www.wsj.com/articles/dirty-rotten-ethanol-scoundrels-1433716070

WRITE Ask and Answer 5 QUESTIONS UNANSWERED BY THE ARTICLE

WRITING ASSIGNMENT #9:

http://www.cato.org/publications/policy-analysis/hidden-burden-taxation-how-government-reduces-takehome-pay

ASK and ANSWER 5 Questions Related to the Article

WRITING ASSIGNMENT #A

There will be no class meeting on Tuesday morning, March 1. Instead, please watch the videos and be prepared to demonstrate an understanding of the events and participants in the 2008 financial crisis.

Brian Wesbury: The Real Causes of the 2008 Financial Crisis https://www.youtube.com/watch?v=RrFSO62p0jk

WRITING ASSIGNMENT #10
http://www.investopedia.com/articles/basics/06/financialreporting.asp

WRITING ASSIGNMENT: ASK and ANSWER 5 Questions related to the article that are unanswered by the article.

WRITING ASSIGNMENT #11

ASK and ANSWER 5 Questions related to the Article

http://www.cato.org/news-releases/2008/8/19/sarbanes-oxley-rules-complicate-financial-reports

1. What was the major accounting scandal that led to the Sarbanes-Oxley Law, and how was the Law supposed to make things more "transparent"?

2. The Government has the tendency to make laws with the intention of solving certain problems, but it instead winds up creating new problems, and probably not solving the old ones. What were some of the "unintended consequences" of Sarbanes-Oxley?

3. An "intangible" asset is something that has value, but is hard to point to, or to identify. Why does T.J. Rodgers think it was a mistake that Sarbanes-Oxley requires listing of intangibles as assets?

4. In what way does Sarbanes-Oxley create additional expenses for companies?

5. Why does Rodgers characterize the experience of the seven members of the Financial Accounting Standards Board (FASB) the way he does? Why does their experience matter with regard to Sarbanes-Oxley?

Writing ASSIGNMENT #12

Ask and Answer Five questions related to the Article on Tax Inversions:

http://time.com/money/3378719/corporate-tax-inversions-leaving-america/

1. What might be an unintended consequence of the Treasury Department's "new rules" about tax inversions?

2. Why does the writer suggest that people are "frustrated" or "baffled" that companies can reduce their tax bill by leaving the US? What is so confusing about that? Could it be that it is the writer who is frustrated and baffled?

3. If a government's taxes are so high that companies are leaving in order to avoid taxes, what might be one option for the government, aside from creating new rules to prevent companies from leaving?

4. When a company is referred to as a "multinational", what is meant?

5. The writer of the article points out that the Treasury Department is an extension of the Presidential Administration, and that new "rules" (laws) are supposed to be created by Congress--and not by the President. Why does that matter?

WRITING ASSIGNMENT #13 Workers Compensation

www.sacbee.com/news/politics-government/capitol-alert/article25984936.html

1. What is the relationship between injuries in the workplace and the workers compensation rates for companies in that industry?

2. What does it mean that "premiums" increased but claims on payments remained "static", and why is that a problem?

3. By referring to the "Capitol", the author means Sacramento-- that is, the State of California. What does the government of the State of California have to do with workers compensation rates?

4. According to the fourth paragraph in the article, what have been some unintended consequences of the government's involvement in the market for workers compensation insurance?

5. Where does California's costs for workers compensation rank when compared to the other 49 States? What effect do those costs have on companies deciding to open in California, or on their decision to come to California, or on their decision to stay in California?

WRITING ASSIGNMENT #14 Taxes

Answer the following ten questions about the video on Taxes
https://www.youtube.com/watch?v=aYVdsV055DE

1. What is meant by progressive, regressive, flat tax, and capital gains?
2. What are deductions and loopholes? What are tax credits?
3. What are compliance costs?
4. What are Health Savings Accounts (HSA's)?
5. What are OTC (over-the-counter) drugs? As opposed to what?
6. What's a tax return as opposed to a tax refund?
7. Whom does tax complexity help?
8. What does it mean to be "On the road to Greece"?
9. What is meant by tax "circumvention"?
10. What does it mean "Coolidge was the antithesis of Hoover and both Roosevelts?"

WRITING ASSIGNMENT #15 BANKRUPTCY

Answer the following questions related to the article:

http://fortune.com/2016/04/07/pacific-sunwear-bankruptcy/

1. What are the "structural issues" which have led the company to file for protection from creditors?

2. Why is the $90 million in debt due a "crippling amount" compared to $800 million in sales?

3. What is meant by "comparable sales fell by 2.5% last year"?

4. How might closing some of its stores help the company?

5. How has "shifting consumer behavior" hurt the company?

6. For which chapter of bankruptcy is the company filing?

Pacific Sunwear Latest Retailer to File for Bankruptcy

April 7, 2016

Pacific Sunwear has filed for bankruptcy protection, suffocating under the weight of high rent and a large debt load.

The teen retailer, known for its surf- and other beachwear, said on Thursday morning that private equity firm Golden Gate will convert 65% of PacSun's debt in exchange for equity and inject at least another $20 million in capital.

The company also landed $100 million in bankruptcy financing from Wells Fargo and said this Chapter 11 filing would not affect its operations or ability to pay vendors.

Pacific Sun listed sportswear maker Nike NKE 0.35% and mall operator Simon Property Group SPG 0.30% among its top creditors in its filing with federal bankruptcy court in Delaware.

“We plan to solve the structural issues that operationally we could not fix on our own,” Pacific Sun CEO Gary Schoenfeld said in a statement.

Those issues would be high occupancy costs, which are the product of a large store fleet expansion made just as the Great Recession kicked in and rents were high; and $90 million in long term debt coming due this year, a crippling amount for a company with $800.9 million in annual sales last year.

PacSun operates 600 stores, and while the company provided no details, closings are likely to take place eventually, and would most probably happen around the back-to-school period or after the holiday season.

The company is only the latest struggling retailer to file for bankruptcy after being hurt by shifting consumer behavior and aggressive store expansion. American Apparel, Quicksilver, Wet Seal, and The Sports Authority have also sought to reorganize their finances in that way.

PacSun’s comparable sales fell 2.5% last year, certainly not a dramatic drop compared to some peers and mitigated by a small increase in the holiday quarter. Still, PacSun, the go-to store for years for California cool, hurt itself in recent years by focusing more on streetwear.

This is not Golden Gate’s first such deal. The $15 billion buyout firm bought Eddie Bauer out of bankrupcty in 2009 for $286 million, then almost sold it for $875 million five years later in a deal that ultimately didn’t go through.

WRITING ASSIGNMENT #16 BUSINESS VALUATION

Answer the questions related to the article on BUSINESS VALUATION

1. Why might it be necessary for someone to put a valuation, or price tag, on a business?
2. When valuing a business, why would it matter how a similar business in a similar situation recently sold?
3. What is meant by Price/Gross and Price/Earnings, and why are those ratios important?
4. Of all the methods of valuation, which one applies to every business?
5. If a business has gross revenues of $500,000 in a year, and the "rule of thumb" values it at 25% of the gross, what is the value of the business?

More to it than Numbers: INC Magazine

http://www.inc.com/articles/2003/07/pricetosell.html

Business owners seek business valuations for many different reasons -- partner buyouts, divorces, estate planning, death of a partner, and, as Randall Lane points out in the July 2003 feature *What's Your Company Worth Now?* as a tool to run and improve a business. Another reason business owners seek valuations is to simply sell their companies. But arriving at a sales price isn't a simple process, and often proves to be more complicated than most small-business owners expect. A lot of analysis has to go into pricing a business to sell. Even though information on valuation methods abound, using them takes much more than pulling out your financial statements. Pricing a business to sell takes careful consideration of present earnings, future potential, and a slew of factors that business owners quite often don't recognize.

"There are couple of things that small business owners have to be able to do [to value a business], and they stink at both," says Michelle Miles, executive director of the Institute of Business Appraisers (IBA), a professional society based in Plantation, Fla., which provides business appraisal education and professional accreditation. "They have to be able to recognize the money they're taking out of the business and not reporting as income," she says. So, that money you're paying your cousin Chuck to work at your business, even though he's worthless, should be reported. Quite often, owners overlook these resources as less valuable, but still they are applicable to the value of their businesses.

Second, owners need to have a realistic view of the potential of the business. "Owners have to be objective about how strong a performer the business is in the market and the future of the company," Miles says. Where this gets most difficult, according to Miles, is when small family-owned businesses are trying to determine a price. Strong emotional ties to the business often cloud owners' ability to see it in a realistic light.

Furthermore, many business owners oversimplify the process. "Two businesses both netting $500,000 do not necessarily have the same value," says Jeff Jones, president of Certified Business Appraisers Inc., and chairman of Certified Business Brokers, both based in Houston, Texas. Assuming a business is worth as much, if not more, as a competitor's that recently sold, or determining a price based on an arbitrary number deemed acceptable to retire for the next 20 years are two mistakes Jones sees small-business owners frequently make. "I don't think the seller fully understands the perspective of the buyer," adds Jones. "The seller wants as much as he can get," he says, "but the value has to be supported by the business itself."

Not All Market Data Created Equal

Many business owners rely solely on what their competitors received for their companies or other industry data to determine a price. One set of market data that owners frequently use is industry "rules of thumb." Rules of thumb are generally used to get a rough, seat-of-the-pants estimate, according to Miles. Most rules look at an industry and derive an average upon which businesses in that industry are selling. Miles explains the downfall of using a rule of thumb this way: "If the average value of a pizza joint is 25% of gross revenues, why should the value of *your* pizza joint be the same, when the pizza comes hot, the crust is hand-tossed and the joint down the street, which a rule of thumb would say is also worth 25% of gross revenues, was just cited by the Health Department and has employees who never wash?"

According to Jones, the data that many rules of thumb rely on is inconsistent. "Rules of thumb are rules developed in an industry without any supporting empirical evidence," he says. "You're never really sure what the number represents."

The only resources Miles recommends if someone wants to use a rule of thumb to gain a basic perspective on what his or her small business might sell for are Tom West's *2003 Business Reference Guide* (Business Brokerage Press), which contains discussions of value drivers for various businesses as well as the rules. "Tom West is highly qualified and well respected," she adds. And, Glen Desmond's *Small Business Valuation Formulas and Rules of Thumb* (Valuation Press, April 1993). "It discusses commonly used rules, but it also discusses business appraisal," Miles adds.

In contrast, market transaction data maintained in databases by such organizations as the IBA, Pratt's and Bizcomps, uses specific, detailed information on sales of businesses. For instance, the IBA's market database includes ratios that are expressed in terms of Business Selling Price to Annual Revenues (or gross revenues -- this is the P/G ratio), and in terms of Business Selling Price to Annual Earnings (or profits -- this is the P/E ratio). To use this data, an appraiser will plot the universe of transactions, and then place its subject company within that universe. The appraiser then takes the data, does further research on what it would take to set the business apart in the industry, i.e., better technology, strong capital structure, and then compares these value drivers to the subject company. If the drivers exist, the appraiser places the business in that market segment. From there, the appraiser applies the P/G and P/E ratios of the market segment to the company's adjusted earnings to yield the value of the business.

That Magic Number

To derive that magic number for a business, appraisers weigh the outcomes of many valuation methods, which helps explain the, what some might consider, high fees they command (See, *How Much Should an Appraisal Cost?*) But the complexity of the job commands professional guidance.

"Everyone looks for magic methodologies to value their unique businesses," says Jones. "The reality is there aren't any."

As an appraiser, Jones never relies on one method to determine a price. In fact, he uses five or six different methods before he arrives at a final figure. For example, Jones use methods within three different valuation approaches: an Asset-based Approach, a Market Approach, and an Earnings Approach. Doing this forces me to look at that company in five or six different ways," Jones.

"The first thing we look at is the balance sheet and what assets go along with the transaction," says Jones. The method he uses here is a method from the Asset- based Approach: the Accumulated-Asset Method. This method sets for the floor for selling price of the business. "At a minimum, a business is going to be worth what the tangible assets are worth," he says. "We're trying to discover what the hurdle needs to be for the earnings to support a value higher than that."

Next, Jones looks at the earnings of the business to determine if it is providing a return on all assets, both tangible and intangible. In specific, Jones uses a popular method for valuing very small businesses (less than $1 million in revenues), the Multiple of Discretionary Earnings Method. Here, Jones looks at the earnings that are available to the owner to pay himself a

salary and get a return on both the debt and equity capital in his business. Next, he selects a multiplier derived from his analysis of how the risk factors might affect the price of the business.
Last, a Market Approach, the Direct Market Data Method, offers Jones perspective on how businesses in the company's industry are selling. Based on two data points, Price to Gross (P/G) and Price to Earnings (P/E), Jones evaluates subject companies against industry data. "I adjust the subject company up or down from that, and adjust those ratios based on my whether my company is better than average," he explains. "If my company isn't one of the top players, then I might reduce my value."

After considering all three approaches, Jones selects one or more methods that he deems applicable. "Then based upon my final analysis of the company, I have to correlate those indications of value into my opinion of value," he says. "It's a subjective analysis that may put more weight on one method than another."

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WRITING ASSIGNEMT #17 MARKETING

Answer the following questions related to the videos:

1. What does he mean by "interrupting" people?

2. What does he mean by "shelving allowance"?

3. What does he mean "focusing on the patent part"?

4. Who was Copernicus and why is Godin referring to him?

5. What does he mean by "idea diffusion"?

6. What does it mean to be in the "fashion" business?

7. What does he mean by "geeks, laggards, and the center"?

8. Why does he say that marketing should be directed toward the "geeks", the "early adopters"?

9. What does he mean that "the riskiest thing you can do now, is be safe"?

10. What does he mean that the "industrial age is over"?

Video1: https://www.youtube.com/watch?v=xBIVlM435Zg

Video 2: https://www.youtube.com/watch?v=Qao7yCG1mKA&spfreload=5

WRITING ASSIGNMENT #18 CAPITAL MARKETS

Answer the following questions related to the videos:

Video 1: Introduction to Capital Markets https://www.youtube.com/watch?v=ujLFsZfa_MY

Video 2: Corporate Bonds https://www.youtube.com/watch?v=jeRxswiPJBs

Video 3: Types of Stock https://www.youtube.com/watch?v=oVVt6P2q-6c

1. What does it mean for a company to be operating at "full capacity"? If a company wants to expand, but is already at full capacity with existing plant and labor, what will the company have to do? In what ways can a company raise money in order to fund its expansion? What is a rupee?

2. What is the difference between a stockholder and a bondholder? What is the primary difference between secured bonds and unsecured bonds? When might that difference matter to a bondholdher? Will the interest rate on an unsecured bond be higher, or lower, than the rate for a secured bond?

3. What does it mean to "own stock" in a company? What is the difference between "common" stock and "preferred" stock? Which has higher priority in case of bankruptcy? Which is more likely to have voting rights?