

Creating Wealth by Selling a Profitable Business

If your business is successful, your income statements will prove it by continually showing a net profit. A successful small business can usually be sold for between three and five times its yearly net profit. If your net profit for one year is \$10,000, for example, you might be able to sell your business for at least \$30,000 ($3 \times \$10,000$).

ENTREPRENEUR STORY

CHARLES SCHWAB, CHARLES SCHWAB & COMPANY

Charles Schwab opened his own brokerage firm in 1971, when he was thirty-four years old.¹ Schwab uncovered a market niche when he began offering discount pricing to informed investors who were tired of paying hefty commissions to stockbrokers. Investors who didn't need someone else to do their research and make their decisions flocked to Charles Schwab & Company. By 1981, the company's earnings were \$5 million. In 1982, BankAmerica Corporation bought Charles Schwab & Company for \$53 million but left Schwab in place as CEO. Today, Schwab has offices across the United States and is expanding overseas.

Investing at a Discount

We tend to think that only companies involved with social activism or progressive politics are "doing good," but, in fact, most successful entrepreneurs are improving society simply by finding a more efficient way to use scarce resources. Charles Schwab, for instance, offers stock trading at commissions that are 30 to 40 percent below average. On a \$1,000 trade, therefore, the consumer saves \$30 to \$40 that he or she can spend elsewhere. Schwab's company has also created 1,500 jobs.

THE CASH FLOW STATEMENT

Before you can sell your business for lots of cash, though, you'll need to run it for at least a few months! And to do that, you'll come to rely on your cash flow statement.

The cash flow statement records inflows and outflows of cash *when they actually occur*. If a sale is made in the Christmas rush but