A Comparison of Financial Analysis Software for Use in Financial Planning for Small Businesses

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Abstract: *While there is a plethora of tools, methods, and alternatives for financial planning for individuals, there is a minimal variety of tools or methods available to help small business owners with their planning. Of course there is abundant information that relates to successor planning, but there is virtually nothing designed to help small business owners evaluate the efficiency of their businesses or seek areas for improvement to help in the evaluation process for loans, sale, or perpetuation. Separating small business owners from their business is nearly impossible, so planners should offer assistance in valuation and improving the salability or financial position when the owner seeks to either borrow funds to expand or sell the business. To that end, the authors have reviewed a variety of software packages designed to help evaluate and improve the ratios and efficiency of small businesses for both the valuation for sale and funding of succession planning by a comparison of the ratios addressed by lending institutions as measures of efficiency and return.*

This issue of the Journal went to press in February 2011.

Baby boomers all over the world are planning to retire and either hand over their businesses to the younger generation or sell them and retire on the proceeds of a life's work. While the economic downturn over the last three years will change the timing and may reduce the number of businesses actually transferred because of failures, the quantity will still be large and have a huge impact on financial planners. There have been a number of studies conducted in the United States addressing the vast number of small businesses that will change ownership in the near future. In a newsletter by David L. Twibell, the author quotes the result of a study done by MassMutual Financial Group/Raymond Institute, saying that "roughly 40% of family-owned businesses in the United States will experience a leadership change over the next five years." In addition, the study concludes that "many of these will be sold by aging baby boomers looking to fund their retirements."[1] A study done by George S. May, a wealth management consulting firm, is more specific. The firm polled 921 small business owners and found that "65 percent of small business owners plan on selling their businesses, leaving only 35 percent of business owners planning on passing their business to the next of kin."[2] Surveys conducted in other parts of the world show that this development is not confined to America's borders.

Similar statistics are reported in Canada. Lopez-Pacheco states that studies by the Canadian Federation of Independent Business conclude that "70% of small business owners are planning to retire within 10 years."[3] And Down Under studies are telling the same story. Richard O'Brien, the CEO of a company that helps businesses prepare to sell, argues that in New Zealand, "between 40 and 60% of businesses are predicted to be on the market in the next 10 years."[4] Currently, there are about 26 million small businesses in the United States,[5] over 1 million in Canada,[6] and 350,000 in New Zealand.[7] With about 70% of the owners around the world nearing retirement, the market will become overextended, making it harder to find a buyer willing to pay top dollar. Lopez-Pacheco explains that "if the demographics say there's going to be a lot of businesses coming up for sale in the next decade and there are going to be fewer buyers, you need to do everything you can to structure your business to make it more attractive for the buyer than your competitors."[8] This may be bad news for the majority of business owners who assume that their hard work and lifelong investment in their company will pay off after the business is taken over by their offspring or sold to an outsider. Unfortunately for some, the sale of their business will not generate enough money to start enjoying the lifestyle they dreamed would await them after reaching retirement age.

Succession Planning

A survey taken in 2006 by Glenn G. Kautt, in alliance with *Entrepreneur Magazine,* gives some insight on the topic of transition planning. Among the 1,500 U.S. small business owners surveyed, "only 11% thought about a transition plan from the beginning, while 41% hadn't thought about it. The remaining 48% had been thinking about a plan for 5 years or less."[9] This survey also reports that "61% of respondents have no transition plan or have only thought about it; 28% have a plan in process, and 11% have completed their transition plan."[10] A year later, for example, the 2007 Business Barometer Survey of business owners concludes that "only 10% of business owners surveyed as part of the report said they had a formal plan to close up shop. That is despite the finding that half of them are hoping to retire in the next five years."[11] A Canadian survey by the Canadian Federation of Independent Business shows that "just 10% of small and medium-sized enterprise (SME) owners have a formal written business succession plan, while another 38% have an informal, unwritten plan, and 52% of SME business owners have no succession plan at all."[12] Obviously, most business owners only think about how and when to leave their businesses; unfortunately, having a plan in one's head is not sufficient when the owner becomes incapacitated or dies unexpectedly.

Having a succession plan should be a part of the overall business plan, as should be the evaluation by lending institutions on the solidarity of the business in order to fund that succession. It is time consuming, and many financial planners hear complaints such as "too complicated" and "too expensive,"[13] but not having a succession plan is risky business and can leave the small business owner with a meager retirement. It takes months to develop a succession plan and years to implement it. Owners should start planning as soon as possible to have more options available over the course of their and the business's lives. In an interview with freelance writer Lopez-Pacheco, CFP Tina Tehranchian points out that "succession planning should be a priority because the primary asset for most small business owners on retirement will be their business."[14] Though small business owners and entrepreneurs don't spend a lot of time on long-term planning, starting preparations for future life changes is in their best interest whether selling the business, retiring, or facing other unforeseen events, such as disability.

Retirement planning for a small business owner is not a cookie cutter plan. It is a complex plan because most small business owners' finances are entangled with their personal affairs. To incorporate both personal and business finances into one comprehensive plan is important. The CEO of Amvest Financial Group, Charles Oppenheimer, states that only few business owners "will seriously look into succession planning ahead of time." In addition, he points out the importance of a succession plan by stating that "the difference that [succession planning] makes can be the difference between selling and not selling."[15] The existence of a properly formulated exit plan is clearly an advantage for the selling party due to the preparations taken.

For a smooth transition, a business owner needs to work closely with an "accountant, a financial planner, and an insurance agent" according to CFP Malcolm Ross.[16] In addition, Ross states, "These people need to work together to devise a perfect retirement plan and to make sure personal assets are protected."[17] Ross continues by noting that "reducing the tax bills" is critical to a well-formulated succession as well as having "adequate insurance provisions."[18] Likewise, certified financial planner Leon Rousso claims that a strategic succession plan includes life insurance, which will give the heirs a better "position to negotiate a better sale price" in case the business owner dies and the result is a forced sale of the family business.[19] Even though the death benefits paid by the life insurance will the give heirs extra time to make a sound decision on to whom to sell the family business, to assume that the heirs can live on the proceeds of the sale of the business is unrealistic if they don't even know the value of the business.

Know the Value of the Client Business

While it's important to create a succession plan, how to value the business or how to improve its marketability for either a loan to fund the transfer or to improve the day-to-day efficiency in comparison to peers is not addressed. For many small business owners the majority of their life and net worth is tied up in the business they own, yet they have little concept of how to compare or value it. According to the National Association of Self Employed, 30% of small business owners have no retirement savings whatsoever.[20] They will only have what their business is worth for their retirement. With so many business owners having little to nothing saved outside of their business, for them to understand what the business is worth and what business valuators will look at to determine the value of the business is extremely crucial. However when polled, many owners admitted that they didn't understand how to value businesses like theirs. A poll in conjunction with *Entrepreneur* magazine asked 1,500 business owners their knowledge of business valuation. The poll found that "47% of owners said they have no idea or are not sure how businesses are valued in their industry. Of the 53% who said they know how companies are valued, 26% stated the source of valuation was themselves."[21] The severity of many business owners not knowing how to value their business compounds with the fact that the majority of business owners plan on selling their business in the near future. Furthermore, this is why business owners, small and large, need to understand the various methods of how to value a business. This is an area that simply has not been addressed by financial planners and yet represents a very valuable and tangible service that could easily be provided to their business clients.

How to Value a Business

In the realm of business valuation there is no set methodology to determine the value of a business; there are, in fact, several different methods currently employed to determine the value. Andrew Soshnick states in an article published in the *American Journal of Family Law,* "There are three basic valuation approaches available to valuators: income approach, market approach, and asset approach."[22] In practice, each of these three methods can lead to substantially different valuations, which in turn can lead to differing conclusions and confusion for the business owner. This might reflect poorly on the financial planner's abilities to provide meaningful and relevant data. Llewellyn Evans, a business owner, consulted two different brokers to value his business; however, Evans questioned their usefulness "noting the extreme disparity between their prices, one 2.5 times higher than the other. He says he is stumped by the huge gap in valuations."[23] Even though each method of business valuation may result in a huge disparity in values of a business, all three valuation approaches are found in the American Institute of Certified Public Accountants (AICPA) "Statement on Standards for Valuation Services," often referred to as SSVS1. No one method is any better than another and, in fact, all three are used at various times for comparisons and ranges, somewhat similar to FICO scores when applying for a loan.

James Di Gabrielle, an accredited business valuator, states in an article about business valuations and the SSVS1 that two frequently used valuation methods under the income approach include the capitalization of earnings and the discounted cash flow method.[24] Essentially, the income approach is the present value of an annuity. Where the annuity would be the year-end earnings or operating cash flow, one would then select a discount rate to the annuity to arrive at the present value of the expected future earnings or cash flows.

The second approach to valuing a business in accordance with the AICPA's SSVS1 is the asset and cost approach. Di Gabrielle states the adjusted asset method is a frequently used method under the asset approach. He explains that "when applying the adjusted net asset method in valuing a business, [...], the valuation analyst should consider, as appropriate, the following information related to the premise of value: identification of the assets and liabilities; value of the assets and liabilities (individually or in the aggregate); and liquidation costs if applicable."[25] Furthermore, the asset and cost approach is the method of valuing the business by taking the assets of the business and subtracting the liabilities to arrive at the net assets of a company. The assets can be adjusted for market value, when one exists, or the cost basis can be used, adjusted for depreciation, when no objective market data is available.

The market approach is the third method for business valuators to use. This method follows the process of valuing a business by finding a publicly traded company similar to the private company in both industry and size, and then looking at the market cap of the publicly traded company to determine the value of the privately held company. "One common method of valuing a public company is the guideline public company method, in which pricing multiples are calculated from the market prices of stocks of public companies identified as comparable to the subject company."[26] These multiples can be applied to EBITDA (earnings before interest, taxes, depreciation & amortization), revenues, or bottom-line net income as long as the approach is consistently applied between companies. The most common method is a multiple of EBITDA because this assumes that the acquiring company will have its own interest, tax, depreciation, and amortization structures, which may be different than the acquired company. The market approach methodology in business valuation is not only the most cumbersome method but will yield the biggest variance in valuations due to publicly traded companies' exposure to systematic risk.

Benchmarking Ratios and the Financial Condition of Client Businesses

Peter Patsula, the bestselling author of *Successful Business Planning in 30 Days,* states that benchmark ratios "include both operating and financing ratios."[27] According to Patsula, "Operating ratios are usually shown as a percentage of some income statement item divided by total sales." However financing ratios can come from either the balance sheet or income statement. "A financial ratio is a mathematical comparison between two or more items from the balance sheet or income statement."[28] These operating and financing ratios from every industry are compiled, creating what are known as benchmarks for that industry or standard industrial classification groups, otherwise known as SIC codes. There are many databases that provide benchmark ratios for businesses; one such source is the RMA or Risk Management Association (nee, Robert Morris Associates). The RMA is a "nonprofit Risk Management Association that publishes balance sheets, income statements and financial ratios, for each of the 330 standard industrial classification (SIC) groups," according to PDI Global, Inc.[29] A business that has favorable benchmark ratios within that business's SIC group may entice more buyers or more easily obtain a loan than a business that is out of line with its SIC benchmark ratios.

The most common business ratios are divided typically into profitability, liquidity, solvency, and leverage. While this paper does not intend to argue the pros and cons of each ratio, the reader is referred to any basic accounting or finance textbook to review how each ratio is computed and used. What is important to this article is calculating the ratios for a client's business and then using them to compare to a standard database to see how the client's business fares with its competition.

Benchmark ratios are not only important for the business owner to evaluate the company's performance against competitors or to look appealing to prospective buyers of the business. Using these benchmarks ratios may also mean the difference between survival and death for the business. A business that has benchmark ratios that are out of line with its SIC benchmarks may not be able to secure financing. "Often lenders will require loan covenants which will require the business borrower to maintain certain financial benchmarks or the loan will be in default."[30] Many times a bank may even provide the benchmark ratios for the business. Thacker states that "your banker may also be able to provide you a printout of your industry ratios for comparative purposes."[31] If the bank is unable or unwilling to provide the business owner with the benchmark ratios for the business, the business owner can hire a person to analyze the benchmark ratios. An article in the journal *Accounting Today* speaks of Terry Rogers, a CPA from Alabama, who implemented financial analysis into his tax preparation business. Rogers uses Thomson Tax & Accounting Financial Analysis CS software to compare his client's benchmark ratios with those from the Risk Management Association, which is directly integrated into the software. As a result, since Rogers "started using Financial Analysis CS, he has never had a bank loan denied for any of his 150+ clients."[32] In conclusion, the prudent business owner, who not only needs to understand what the business benchmark ratios are and how those benchmark ratios can affect the business, also needs to implement benchmark ratio evaluation and strategy into the business plan. How can a financial planner help clients through this evaluation process and continue to build a bond that will survive any transition? The authors believe that the updated software commercially available is the simple solution to providing a unique service and a method of attracting new clients.

In a paper published in the *Journal of Accountancy*, Estes, Savich, and Ivanova addressed the then available software to help the accountants value a business.[33] In this paper, the authors opened the door for financial planners to offer direct assistance through updated software.

The Software

The software (Table 1) was evaluated both via the Internet and personal contact where available. In some cases, company representatives were not available for direct feedback or comments so the evaluation and the matrix were developed through available information and updated research from Estes, Savich, and Ivanova.[34] Table 1 is a matrix that allows an easy comparison of the costs and features of the software outlined below.

ACCPAC CFO (Comprehensive Financial Optimizer)

ACCPAC CFO by Sage Software is a financial diagnostic and strategic analysis tool providing an overview of key financial information and indicators relating to a business. The program includes budgeting and forecasting capabilities, cash flow analysis, and includes "what-if scenarios" to allow users to test the impact of decisions prior to implementation. The software includes Insight (which utilizes Excel to provide enterprisewide reporting, forecasting, consolidation, and budgeting), Financial Link Professional, Financial Reporter, KPI (Key Performance Indicator), Sales Analysis, Sales Optimizer, Crystal Enterprise Express, and ACCPAC Query. The current price of this software package is $1,180 for a single-user license. The price increases to $1,900 when purchased for use by five separate users. For this reason, the initial expense of this product can be better absorbed in a facility that has at least five separate users.

The core accounting tools of the Sage MAS 90 software include modules on accounts receivable, accounts payable, bank reconciliation, federal and state e-filing, fixed assets, electronic reporting as to W2 and other employee information, a general ledger, updated sales tax information, and allows for the user company to begin, and eventually complete, the transition to a paperless office.

BizBench

This software is a multipurpose financial analysis and consulting tool that identifies client strengths and weaknesses and generates potential action steps to improve areas of weakness. BizBench is a financial benchmarking tool that calculates performance ratios, offering a variety of functions, ratios, and equations. These features allow the software to be applied to a large variety of small businesses.

For this company, much like ACCPAC, the authors conducted Internet research and communicated directly with product representatives from BizBench; the authors found that many of the tools offered in the 2007 version of BizBench are no longer included in the software. For instance, the 2007 version of BizBench would allow the user to produce and offer reports on projections, forecasting, and budgeting to the company and consumers alike; the newest version does not. Additionally, the z-score distribution calculation function (a predictor of bankruptcy) has been stricken from the program. This might be a score that bankers are interested in before making a loan. It would not appear to be as effective a tool as it once was.

Financial Analysis CS

This software allows clients to understand what the data provided by the software actually means. The system's benchmarking features are a result of integration of the Risk Management Association's annual statement studies. This system is capable of reviewing data at varying levels of depth, so information can be carefully examined and interpreted. This allows clients to use benchmarking tools for comparing their financial data to other participants in the industry for their own development.

Similar to the findings in 2007 and still absent in this product are the "what-if analyses" and the "goal-seeking" tools. This is noteworthy in that most if not all other financial analysis and planning software companies include their own versions of these functions in their products. This may be a significant drawback since the authors believe that these functions are among the most important financial tools employed during the financial strategy process. Additionally, Financial Analysis CS no longer offers the cost-volume-profit analysis portion of the software (used by many manufacturing businesses to see what profits are earned at various volumes of production and sales) or the z-score model calculation tool (mentioned above as a bankruptcy predictor). However, this product promises updates at least every six months. While this may allow the product to remain current, the loss of the cost-volume-profit analysis portion diminishes the value of this software in today's environment.

iLumen Solutions (Enterprise Financial Solutions)

This software allows access to customer data to reduce expenses and enable the planner's client to explore offering new and competitive services. Leading banks,

TABLE 1

Product	ACCPAC CFO (Comprehensive Financial Optimizer)	BizBench	Financial Analysis	iLumen	PlanGuru	ProfitCents	ProSystem fx Profit Driver
Web site	sagesoftware.com	bizbench.com	creativesolutions. thomson.com	ilumen.com	planguru.com	sageworksinc.com	completetax.com
Single-user pricing	$1,180.00	$985.00	$600.00-$900.00	Ask	$499.95	$89.00 w/1 employee/monthly	$750.00
Five-user pricing	$1,900.00	$1,585.00	N/A	Ask	$1,249.90	Depends on employees in firm	$2,275.00
Purchase or subscription?	Subscription	Subscription	Subscription	Subscription	Purchase	Subscription	Subscription
User groups	No	No	No	Yes	No	No	No
Web based	No	No	No	Yes	No	Yes	No
Program on disk	Yes	Yes	Yes	No	Yes	No	Yes
Import data from Excel	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Import data from Microsoft Dynamics GP	No	No	No	Yes	No	No	No
Import data from Peachtree	No	No	No	Yes	No	Yes	No
Import data from QuickBooks	No	No	No	Yes	Yes	Yes	No
Import data from Sage MAS 90	Yes	No	No	Yes	No	No	No
Import data from SAP Business One	No	No	No	Yes	No	No	No
Import data from XBRL	No	No	No	Yes	No	Yes	No
Exports data to PDF Files	No	Yes	Yes	No	Yes	Yes	Yes
Exports data to Word	No	Yes	Yes	No	Yes	Yes	Yes
Exports data to Excel	Yes	No	Yes	Yes	Yes	No	No
"What if" analysis	Yes	Yes	No	No	Yes	Yes	Yes
Goal-seeking	Yes	Yes	No	No	Yes	Yes	Yes
Industry benchmarks data	No	Yes	Yes	Yes	Yes	Yes	Yes
Source of industry benchmarks	N/A	Yes	Yes	No	Yes	No	Yes
Proprietary	N/A	No	No	Yes	No	Yes	No
Industry percentile ranking	No	Yes	No	Yes	Yes	No	No
Frequency of updates	N/A	Annually	Semiannually	Monthly	Annually	Daily	Annually
Financial ratios	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Multiple periods available	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Narrative text report	Yes	Yes	Yes	No	Yes	Yes	Yes
Dynamic text	No	No	No	No	No	Yes	No
Preformatted	Yes	Yes	Yes	No	Yes	Yes, can be customized	Yes
Number of divisions/ subsidiaries allowed	Unlimited	Unlimited	Unlimited	Unlimited	40	Unlimited	Unlimited
Available in another language	No	No	No	No	No	Spanish/UK English	No
Projections, forecasts, and budgeting	Yes	No	No	No	Yes	Yes	Yes
Nonfinancial information	Yes	No	Yes	Yes	Yes	Yes	No
Cash flow analysis	Yes	No	No	Yes	Yes	Yes	Yes
Break-even analysis	No	No	No	No	Yes	Yes	No
Z-score calculation	No	No	No	No	No	Yes	No
Training classes	No	No	Yes	Yes	No	Yes	Yes
Problem resolution help	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual financial statements	No	No	No	Yes	No	Yes	No
Digital dashboard	Yes	No	No	Yes	No	No	Yes
Not-for-profit organization compatibility	Yes	No	No	Yes	Yes	Yes	No
Free trial	No	Yes	Yes	Yes	Yes	No	Yes

accounting firms and other institutions use iLumen to solve problems and develop initiatives in their business customer portfolios. iLumen's on-demand delivery model scales intelligently for both small and large organizations. It offers three solutions that can be enabled independently or bundled in any fashion to integrate with other applications: IDEA Data Platform™, Portfolio Connection™, and Customer Connection™.

IDEA Data Platform™ collects, standardizes, aggregates, and delivers customer data in partnership with legacy systems to provide a unified data analytics foundation for customer intelligence and customer management.

Portfolio Connection™ provides a portfoliowide desktop view into the IDEA Data Store, providing an overall view of the customer to every financial advisor. Users can search, query, and benchmark their portfolios to spot opportunities, identify risk, and gain visibility across industries, geographies, and portfolios. It allows for customer mining and identifying "at risk accounts."

PlanGuru

This software provides users with the ability to automatically generate client-ready integrated balance sheets, income statements, and cash flow statements, and includes tools for analyzing data, making projections, forecasting, and budgeting. Projections, forecasts, and budgets can be made for up to five years in the future, and the system can store an unlimited number of projections for any number of companies. PlanGuru offers basic projection methods: fixed amount, percentage of another category, function of a nonfinancial item, and trend projections. It adjusts prior period amounts and supports multiple-scenario projections. The system can automatically calculate up to 21 financial ratios as well as the break-even point (http://www.planguru.com/products/ index.html).

The company offers three editions: professional, forecaster, and consultant. Also available is an add-on component called the Business Analyzer, which offers benchmarking capabilities against comparably sized businesses in the client's industry. The system provides a client-ready report with narrative commentary.

The authors' research shows that PlanGuru is priced at $499.95 for the consultant edition, which offers a similar version of nearly every tool present in the more costly software packages. The drawback to the newest version of the software is that it is no longer compatible with Peachtree accounting software, which is widely used by CPAs and CFAs.

ProfitCents

This software has become one of the more popular financial statement analysis and benchmarking tools for financial professionals due partly to its Web-based nature that requires no software or updates, and the array of comparisons and analyses that the system provides. The system uses easy-to-read, client-ready reports that use plain language and visual charts and graphs to help clients understand the financial condition of their business—from credit analysis evaluations to comparison with other businesses in their industry, forecasting, and detailed ratio analysis.

ProSystem *fx* Profit Driver

This software now empowers planners to advise their clients on how they stack up against a number of important financial benchmarks and lay out specific steps for improvement against those benchmarks. Profit Driver is a financial diagnostic and analytical solution from CCH. The program integrates with ProSystem *fx* Engagement and ProSystem *fx* Tax, which reduces redundant data entry and enables users to access reporting and analysis features. Profit Driver's dynamic budget versus actual reporting tool helps make projections while in the process of budgeting and shows the difference that changes in budget can make. While this system is designed for an accounting practice, the tax system need not be purchased.

Summary

Each of these packages has features and benefits that are different from one another. We are not trying to advocate one over another, but rather to make the reader aware of the breadth of the packages available. In conversations with the vendors, we determined that these seven packages cover over 90% of the market. A financial planner would be well served to contact each of the vendors within a particular price point, ask questions that relate to the individual practice, and ask for a demonstration. Only by testing the packages can the planner decide which is best for his/her practice. Rather than reiterate what is in Table 1, our suggestion is to think about what is most important to your practice and make your own informed decision.

Conclusion

The use of this type of financial analysis software by financial planners in the planning process undertaken with clients who own their own business can greatly enhance the value provided by the financial planner. It enables the planner to become more intimately involved in succession planning and in helping business owners position their companies for sale or business loans in a very tight lending environment.

It will help build fee income that is not subject to market risk and open the door for a new client in the event of a sale of the business. The information remains with the planner as it is part of the software package and would enable the planner to begin a strong relationship with the successors or buyers of the client business. This article, and especially Table 1, will enable planners to make an intelligent decision about the need or opportunity presented in expanding the scope of their practice and in evaluating the alternatives available to them. As in all financial decisions regarding software, it is a blend of features, cost, and ease of use that should be considered.

In these times of uncertainty it is important that planners explore every possibility to expand the scope and depth of their practice. This approach, more fully helping small business owners position and enhance their business, allows planners to reposition their practice and develop a specific niche since their business clients are certainly watching how and where they spend their incomes, seeking maximum impact for each dollar spent. ■

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