Small Business Dilemma for Positioning the Firm Resale: Sales, Profit, Valuation and More

David Smith
Palm Beach Atlantic University

Jeffrey Kennedy
Palm Beach Atlantic University

John Hayes
Palm Beach Atlantic University

Serial entrepreneurs and small business owners make up a substantial portion of the economy by percentage and are generally known for starting firms, developing their capabilities and subsequent sales, then looking to exit. Commonly, the end game is to sell the enterprise and potentially start a new firm, or at some point retire. Regardless of whether this is a one-time resale, or an entrepreneurial pattern, the reselling process can be mired in issues related to achieving a maximum selling price. Although there are firms to aid in this process, there is little research that supports the optimal variables and structures for supporting the final sold price. This paper examines some common variables associated with selling a small business in an attempt to understand, and potentially maximize these transactions. Although there is a great deal of literature on small business behavior and performance including drivers for sales and growth, and drivers for success, there is much less research examining the resale of small businesses. This study investigates five firm level variables and their relationship to the sold price. These are sales or profit maximization, business valuation method, business type, years in business, and franchise orientation. A dataset that examines 8,569 small business firms sold over a 10-year period is employed to support the study's regression and analysis of variance. Results support that there are unique relationships and significant differences between the variables examined in this study.

Keywords: small business, resale, profit, sales, valuation

INTRODUCTION

Understanding small business selling price is significant for various reasons. Primary is valuation. Realizing the selling price helps owners gauge the worth of their business in the market. It involves assessing tangible assets, revenue, profits, and intangible factors like brand reputation and customer base. Another is negotiation. Knowledge of the selling price empowers owners during negotiations with potential buyers or investors. It helps them justify their asking price and negotiate favorable terms. Additionally, is competitive positioning. Knowing the selling price of similar businesses in the market enables owners to position their business competitively. They can adjust their strategies, offerings, or pricing to attract buyers. There is also timing. Understanding selling prices helps owners decide the optimal time to sell their businesses. They can monitor market trends and economic conditions to capitalize on favorable selling opportunities. Finally, is maximizing returns. Ultimately, understanding the selling price allows owners to maximize returns on their investment. It helps them make informed decisions to enhance the business's value and negotiate a favorable sale.

There have been numerous studies done addressing the sold price of small businesses and assorted variables affecting that price. This study seeks to bring the more common variables into one study and confirm general findings in previous literature. Given the longitudinal data and large sample size, this study adds to the value of understanding the underpinnings of sold price drivers in small businesses.

REVIEW OF LITERATURE

Over the last four decades, macro entrepreneurship and small business development have been reinforced as a crucial factor in national economic growth. This contribution has been seen in both developing and developed countries and has been especially true in cultures promoting and rewarding entrepreneurial behaviors and risk taking (Acs et al., 2008, Szerb et al. 2019). However, recent studies, (Nightingale and Coad, 2014; Acs, et al., 2018) suggest that although there appears to be macroeconomic benefit from small business activity, in fact most small businesses and entrepreneurial ventures do not add to economic growth. Wong et al. (2005) further noted that true economic contribution comes from the more innovative, faster developing firms, and not the small business overall.

When focusing on entrepreneurial thinking, Leibowitz (1997) observed the dynamic that potential buyers put on purchasing an existent small business. He found that efficiencies and cost containment were not barriers to buying an existing business. Additionally, any cost containment realized was not a driver of purchase intent, and sales had become the valued factor for purchase and premium purchase behavior.

Mazzarol and Reboud (2020) examined the drivers of entrepreneur motivators and decision-making processes when buying a small business. Findings provided numerous entrepreneurial characteristics. These included potential financial gain, industry potential, lifestyle, and personal goals. In addition, Hayes, et al., (2022) offered similar research, focusing on entrepreneurs who bought existing small businesses compared with those that bought franchises. Variables such as risk tolerance, access to resources, independence, and franchisor benefit offerings where differentiating motivations between the two small business purchase opportunities.

Valuation of a small firm can be a complex issue, as there is no established formula for determining its worth. Factors that drive the value of a small firm in a sale include the terms of the transaction, the number of potential buyers, the attributes affecting profitability for the buyer, and the nature of the practice (Lopez, 2008). When the valuation theory is rightfully perceived and correctly applied, it becomes an essential instrument in determining a small business's economic value and distribution (Sinkin, 2014). Nevertheless, small business valuation is complex because these entities have peculiar attributes, like working in an imperfect market and uncertain future profits. For such occasions, the functional contractualization theory, combined with the Monte Carlo simulation, could offer a more suitable approach to the peculiarities of entrepreneurial businesses (Mazzarol & Reboud, 2020). The valuation becomes essential when selling a small business, especially when the owner decides to find its worth and sell it (Brosel et al., 2014).

The small business selling process is multilevel and influenced by factors such as sales performance, profitability, the duration of the business, and the business model used. Sales and profitability metrics are critical in the decision-making process, as they reveal the financial position and viability of the business. As small businesses grow over time, they generate valuable intangible assets that determine their total value and potential for resale. In addition, the small business model adopted type has a significant impact on the business valuation, whereas solution-oriented models seem to generate more value to the customers and high profitability. Furthermore, franchise orientation plays an important role when reselling a small business, whereas franchises attract higher resale premiums because they benefit from the brand name and organizational know-how. This review paper describes these aspects in detail, highlighting the complex interrelation of the sales, profitability, duration, business model, and franchise orientation, with their combined effect on the value and resale ability of small businesses.

Sales and Profit

Sales and profitability are directly linked with selling a small business. Many other circumstances can drive the determining sale factor of a small business. This kind of decision occurs when the owners no longer have a passion for the business, want to retire, or do not want to be in the position of running the business (Mantel, 2005). The value of the business is an important consideration in this decision-making process, as maximizing revenue may involve retaining some shares to benefit from future dividends, while selling all shares may be necessary to sell to the most efficient candidate (At and Morand, 2003).

Profitability indicators are important in evaluating the financial condition of companies and determining the level of profitability desirable in the industry (Filatov, 2022). These indicators play a crucial role in evaluating the financial condition of companies. These indicators provide insights into the efficiency and effectiveness of a company's operations and its ability to generate profits. They assess the company's stability and performance, including its ability to reach its goals. Profitability indicators are used to analyze the dynamics of profit over a few years and determine the extent of profitability. They assist in determining the volume and profitability level; these are very important for evaluating the company's financial health. Moreover, by utilizing profitability indicators, managers can make appropriate decisions to improve financial performance and, therefore, the company's competitiveness (Agabekova et al., 2023).

Profitability does not guarantee the sustainability of the entity. Although valuation may not be imperative for large firms, it is critical for small businesses, as Mohanty and Mehrotra (2018) indicated. The evolution of multiple sales channels eliminates the barrier between companies and customers, and therefore, customers start to impact corporate decisions (Karamehmedovic & Bredmar, 2013). The small business sector is the dynamic sector of the economy, with small enterprises more flexible on consumer preferences and needs (Król, 2018).

According to Ibrahim Abdelhalim Ibrahim (2022), the small business sector is an essential player in the economy and is a driver of economic growth, job creation, and innovation. Small firms can adjust to consumer preferences as they exhibit flexibility, agility, and market responsiveness (Popadić et al., 2022). They satisfy consumer requests by providing telos of products and services and continuously developing and introducing new features. Small enterprises also influence consumer trends and preferences in sustainability by providing eco-friendly products and advocating for ethical and responsible consumerism. Small businesses are essential sources of sustainability, creativity, and consumer preference in the economy and should be considered agents of change (Mazzarol & Reboud, 2020).

The performance of the business is one crucial factor in this respect. A business not doing well might need to divest and seek new prospects. Another factor is the craving to invest in a higher-yielding venture. A cost-benefit analysis is a valuable tool to establish if it is more profitable to sell the existing franchise and to invest in a new business opportunity (Kauffman & Stanworth, 1995). Other than sales and profitability considerations, other factors may also affect the decision of when to sell a franchise business. Character traits and incentives of individuals determine to sell a franchise. Factors determining the decision-making process include economic motives, personal history, and situational influences (Watson & Kirby, 2000). Franchise suitability as a growth strategy might also be relevant in some industries. Franchising is unsuitable for industries with higher human capital needs in recruiting good franchisees (Chee & Bhatti, 2003).

The small business selling decision is based on an intricate mix of elements beyond sales and profitability. Performance metrics are essential, but other factors like seeking more profitable opportunities, personal reasons, or industry suitability for small enterprises are pertinent to the divestment decision. Research studies have elucidated these multifaceted dynamics, which have revealed a complicated relationship between sales, profitability, and the decision to sell a small business. Decision-making processes, informed by quantitative metrics and qualitative insights, are vital in navigating the complexities of the entrepreneurial path and ensuring opportunities are used and growth is sustained for small businesses.

Business Valuation Method

The valuation of a small business is complicated because there is no fixed valuation method. Various valuation methods are used to determine the value of small businesses, and each method has its constraints. The unique characteristics and lack of accounting history make traditional valuation methods less appropriate for small businesses. Most of these methods are more oriented toward large-scale enterprises and do not consider the peculiarities of small businesses (Pozzoli & Marcella, 2022). Further, small businesses have a high potential for growth but with high risk, which makes traditional valuation methods unsuitable (Montani et al., 2020). In addition, traditional valuation methods are often based on historical financial indicators and market multiples that may not be present or dependable for start-up companies yet to generate profits. As such, new and creative valuation models are required to correctly evaluate the value of small businesses and startups, while standard methods verify the profitability with the help of income and profit, such as a certified profit and loss statement or business tax return.

Different businesses require different valuation methods. One approach is discounted cash flows (DCF), which requires analyzing past performance and forecasting cash flows (Lima and Santos, 2005). This method is regarded as one of the most precise valuation methods (Najar & Pare, 2019). It deals with projecting future cash flows and discounting them to their present value to determine the company's value.

The method is also considered accurate for small businesses is the Adjusted Present Value (APV) method. Due to the split of the tax shield, it is even more precise than the standard DCF method. The Economic Value Added (EVA) and Residual Income (RIM) also rest on distinguishing between growth and performance evaluation (Petkov & Patev, 2018). This approach is favorable in that it uses only current data without many forecasting assumptions. Hence, the valuation becomes more up-to-date with the business (Argenziano, 2016).

The mentioned approaches are based on subjective assumptions and judgments, and an accurate input is therefore crucial for the correct valuation. In reality, accountants typically employ a mixed-method system. Mixed methods provide the possibility to consider both qualitative and quantitative variables in the valuation process. Such an approach results in a more detailed business value estimation (Montani et al., 2020). This method considers subjective elements like the entrepreneur's impact on the business's future opportunities alongside objective elements such as financial performance and asset coherence. Heterogeneous valuation methods, discount cash flows, and multicriteria decision aid are applied jointly for the proper business valuation (the methods are applied differently) (Efremova et al., 2017). This mixed method approach is rather effective when information is scarce or subjective data needs to be considered in the valuation process (Aznar et al., 2011).

One thing to note is that small business owners hardly measure the total worth of their businesses until they are ready to sell. The correct valuation is needed for several reasons, such as settlements, taxes, and buying or selling a business. Value chain analysis is another approach that helps to reflect on the activities that create value in a company and find potential areas for enhancement (Putri & Harsanto, 2016).

From the preceding discussion, valuing small businesses is an intricate puzzle, and this is simply because of their unique characteristics and the restricted information available on the financial market. Many traditional valuation methods fail to determine such assets' value accurately, and the need to use other methods arises. In practice, a hybrid method, which combines both qualitative and quantitative aspects, represents a practical solution, making it possible to perform a holistic valuation of a small business by integrating various valuation techniques and subjective considerations. With the growth of small businesses, continuous improvement of new valuation models is crucial to support informed decisions and sustainable growth.

Years in Business

A company's lifetime is a measure of the company's assets. The company's size is usually computed by determining the total assets held by each company. A business period is how long it has been operating. This duration of operation significantly impacts the valuation of small businesses. While small businesses grow with time, they tend to accumulate some of the most important intangible assets like brand awareness, customer loyalty, and operational efficiencies. All these intangibles add to the business's value, representing its longevity in the market. With time, small businesses ' cost of debt capital reduces, which could potentially improve their financial performance (Brieger et al., 2021).

The impact of the duration of operation on the valuation of small businesses has been studied in several papers. Research findings suggests that the growth of business units is affected by the duration of operation or the age of the firm. From a theoretical perspective, small businesses that have operated for longer durations accumulate more experiences or learning curves. With these experiences, small businesses develop the capacity to operate more effectively and consequently experience faster growth, all other factors remaining constant. This notion aligns with research conducted by Beccheti and Trovato (2002), which suggests that the duration of a business's operation, or firm age, influences its growth trajectory.

Different dimensions of growth are prevalent in small businesses. These dimensions differ according to the period a business has been operating. The longer the period operating, the higher the chances of the business experiencing qualitative growth, which enhances the survival chances of the business (Somervuo, 2008). Small businesses that have identified viable business opportunities in sustaining the needs and challenges of potential customers reported gains in sales and customer retention, contributing to sustainable business growth (Vallapuram et al., 2021). Additionally, the life cycle of a business affects its valuation. Startups, especially those based on technology, have a prolonged investment stage before generating profits or positive cash flows and the shape of the life cycle varies depending on the type of innovation and the market size (Ault, 1994).

Additionally, the length of time a business has been in operation and the industry it belongs to can also impact the resale premium (Zvarych, 2017). Specifically, businesses with greater than 25 years in operation receive a higher resale premium compared to other firms in their respective categories and that Food/restaurant businesses (non-grocery) tend to receive higher resale premiums compared to businesses in other categories (Hayes et al., 2022). These findings suggest that the financial performance and industry characteristics of small businesses play a significant role in determining their selling prices.

In contrast to the evidence presented in support of an increase in small businesses' value with its duration, a limited number of studies have found different results. For instance, Hyytinen and Pajarinen (2007) found that there is no significant difference in business performance between businesses under one year old and those that have been operating for 20 years or more.

Business Type

The terminology of business type here refers to the firm's industry classification or sector. Research has been done examining the relationship between firm type and revenue and profit. Ettlie and Rosenthal (2011) found that firms in different sectors had different performance levels, specifically in the broader sense of service firms versus manufacturing firms. One of the driving factors was that of innovation. For example, Prajogo, (2006) when examining Australian firms, found that there was a distinct difference in firm sales and profit between service and manufacturing firms, with the manufacturing firms showing a significant increase. Manufacturing firms tend to have more opportunity to innovate, therefore have more opportunity to drive performance. Similar findings were also found with Seo et al. (2016).

Mallinguh et al. (2020) established that the firm's business sector also significantly impacts its performance through different channels. Specific demand dynamics, including consumer tastes, market trends, and regulatory framework, influence sales and revenue generation. In addition, the sector-specific competitive landscapes determine the degree of competition and influence on market share and pricing strategies. Furthermore, the improvements in technology and innovation in the sector impact product development, operational effectiveness, and cost structure. However, macro variables, which include interest rates, inflation rates, and geopolitical factors, may lead to sector-specific outcomes such as decisions in investment, access to finance, and the general financial position.

Using classical economic thought primarily focusing on the concept of 'use-value' as expounded by moral philosophers from Adam Smith to John Stuart Mill, Baden-Fuller and Mangematin (2013) describe how consumer appreciation and utility from goods and services determine value perception. Additionally, it is crucial for authors that use the value generation superiority of a small business as the primary profit maximization potential. This involves analyzing consumer values and interactions to identify the mechanisms that dictate value creation, emphasizing business model design as the primary determinant of consumer-firm interaction optimization. The research examines the relative effectiveness of different business models, emphasizing the use value that comes with solution-oriented models. In addition, the scalability issues are addressed, advising that scalable solutions are much more attractive and profitable than product-centered models.

From the foregoing discussion, it becomes apparent that the type of business model used by a small business is an important factor in its valuation. The studies referred to in the discussion highlight the need for small businesses to concentrate on use value generation which is an important aspect in revenue realization. There is also an emphasis on an intricate interaction between consumer values, firm actions, and organization designs within diverse business model frameworks. In this regard, solutions based models are the most successful in creating increased use value to the customers and as such, raising the profitability aspect.

Franchise Orientation

Franchise orientation plays a crucial role in the process of reselling a small business. Franchise orientation can help in selling a small business by positively impacting the relationship quality between the franchisor and franchisee (Colla et al., 2020). Reselling a non-franchised (independent) small business differs from reselling a franchised small business. Franchised small businesses have specific regulations regarding resale prices. Franchisors are not allowed to impose resale prices on franchisees, but they can provide recommended or maximum prices (Hayes et al., 2020).

The pricing process for resale in franchised businesses involves both business know-how transferred to franchisees and organizational know-how at the franchisor level (Perrigot et al., 2020). The ban on imposed resale prices in franchising has advantages such as maintaining the integrity of franchise chains and commercial dynamism (Basset and Perrigot, 2015). Therefore, franchise firms receive a higher resale premium compared to non-franchise firms. Therefore, reselling a franchised small business may yield a higher resale price than reselling a regular small business (Hayes et al., 2022). Colla et al. (2020) are also of the view that franchise firms tend to receive a higher resale premium compared to non-franchise firms.

The entrepreneurial orientation (EO) of franchisees has been linked to their performance and market responsiveness, which in turn affects franchised-outlet performance and endurance (Dada and Watson, 2013). Franchise systems with a higher EO are more likely to have better relationship quality with their franchisees. The recruitment of entrepreneurial franchisees also positively impacts relationship quality (Van Wyk and Jager, 2009).

The franchisee's perception of the franchisor's EO directly affects the financial performance of the franchisees (Chien, 2022). EO has been shown to have positive effects on firm performance within different organizational contexts (Saeed et al., 2014), such as in SMEs (Lechner and Gudmundsson, 2014), in young innovative ventures (Renko et al., 2009), or in established firms (Su et al., 2011). Despite the recent increase in the number of studies devoted to exploring EO in the franchising context (Dada and Watson, 2013), questions remain unanswered concerning the EO–performance relationship and the process of reselling of small businesses. Despite a few recent studies (Lisboa et al., 2016), we still do not know much about the role of EO and franchise orientation in the process of reselling a small business within the context of franchising.

Furthermore, the market orientation of franchises is one of the core market-based assets that positively influence the outcome of the franchise performance (Lertkornkitja, 2018). In reselling a small business, the market orientation has a significant effect. It allows the franchisee to respond appropriately to the local market and retain a competitive advantage (Chien, 2022). The impact of market orientation on competitive advantage that affects both sales and profitability is large.

METHODOLOGY

This research employs a quantitative approach when examining the factors influencing the resale of a small business. The study framework uses regression analysis and analysis of variance (ANOVA) to examine the predictive impact and differences between the variables in question. This research utilizes a large and diverse sample size and aims to provide empirically driven understandings into the resale dynamics of small businesses, aimed at furthering the knowledge for researchers, practitioners, and small business owners. There are five primary research questions addressed in this study. As noted, the purpose of this study is to identify and confirm the significance of numerous variables on the ultimate sold price of small businesses.

Research Questions with Null Hypothesis

The five research questions are focused on the selling of an existing small business.

Q1 *Are sales and profit significant predictors of the sold price for a small business? If so, at what level?*
H_{O1} *There is no significant prediction of sold price by sales volume or profit before taxes.*

Q2 *Is there a significant difference between the valuation method used and the sold price of a small business?*
H_{O2} *There is no significant difference between valuation method and sold price.*

Q3 *Is there a significant difference between the number of years in business and the sold price for a small business?*
H_{O3} *There is no significant difference between years in business and sold price.*

Q4 *Is there a significant difference between the type of business engaged-in and the sold price for a small business?*
H_{O4} *There is no significant difference between business category and sold price.*

Q5 *Is there a significant difference between whether a firm is a franchise and the sold price for a small business?*
H_{O5} *There is no significant difference between franchise orientation and sold price.*

Sampling

The data collected for this research was longitudinal, performed over a ten-year period (2009-2019). Results of the information yielded a sample size of 8,569 firms. The firms were located in one of 30 states and each firm was sold in the state in which it was listed. All firms were active, aging from 1 to 104 years in business. The firms represented business activities from 14 different categories as noted in the below variable table. The firms ranged in selling price from $25,000 to $17 million and were all defined as small businesses. Although the data was collected by a sales broker and provided specifically for this study, it is considered secondary data.

Variables

The variables included in this study are noted in Table 1. These variables were selected to support the research questions, providing further insight into the resale valuation endeavor. The independent variables are both metric and categorical, setting the stage for two types of statistical analysis. These variables are gross annual sales, annual profit before taxes, the business valuation method, years in business, the business activity category, and the franchise orientation. The dependent variable is sold price minus assets. Assets were removed to normalize the sold price.

TABLE 1
VARIABLES INCLUDED IN THE STUDY

Dependent			
Variable	***Type***	***Parameters***	***Label***
Sold Price (Sold Price – Assets)	Metric	Value	#
Independent			
Sales (Gross Sales)	Metric	Value	#
Profit (Profit Before Taxes)	Metric	Value	#
Valuation Method – ValCat	Categorical	Annualized	1
		Profit and Loss Statement	2
		Proforma	3
		Tax Return	4
		Owner Estimate	5
		Owner to Prove	6
Years in Business – YRBCat	Categorical	1 – 5 yrs	1
		6 – 10 yrs	2
		11 – 15 yrs	3
		16 – 20 yrs	4
		21 – 25 yrs	5
		Greater than 25 yrs	6
Business Category – BusCat	Categorical	Business Services	1
		Retail	2
		Personal Services	3
		Property	4
		Automotive	5
		Entertainment	6
		Communications	7
		Construction	8
		Delivery	9
		Medical	10
		Education	11
		Food	12
		Gas	13
		Manufacturing	14
Franchise Orientation – FranCat	Categorical	Not a Franchise	0
		Franchise	1

Statistical Techniques

There are two statistical techniques used in this study. First is multiple regression. This was selected because it identifies significant variables within a function, is a parametric test with metric variables and has been commonly used in previous similar studies. The specific equation will be used to address research question one is:

$$Y = (a_1x_1 + a_2x_2) + b$$
$$\text{Sold Price} = (a_1\text{Sales} + a_2\text{Profit}) + b$$

Results will identify if either of the predictor variables is significant to the function, what the predictor coefficients will be, and therefore which is more impactful to the predictive regression.

The second technique employed will be an ANOVA. This was selected because it identifies differences within categorical groups, determines if the differences are significant, and is a parametric test which uses categorical independent variables and metric dependent variables. The four specific ANOVA's will address research questions two through five. The ANOVA has been commonly used in previous research for detecting differences in groups, understanding variation, comparing multiple categories simultaneously, interpreting interaction effects, assessing homogeneity of variance, and hypothesis testing.

DATA ANALYSIS AND RESULTS

Sales and Profit

The primary research question addresses the relationship and predictive impact of sales and profit on the eventual sold price. A regression was run producing the following results (See Table 2). As anticipated, both profit and to a lesser extent sales were found as significant predictors of sold price.

TABLE 2
SALES AND PROFIT AS A PREDICTOR OF SOLD PRICE, REGRESSION

Variable	Coefficient Estimate	Standard Error	t Statistic	1-sided P-Value	2-sided P-Value
Intercept	-3368	5676	-0.5933	0.5529	0.2765
Sales	0.1470	0.004369	33.64	0.000*	0.000*
Profit	2.490	0.03380	73.68	0.000*	0.000*

Observations = 8569, Significance level = 0.05, Both variables are significant*, $R^2 = .6603$, Multicollinearity = low

So, sold price as a function of sales and profit would be:

$$\text{Sold Price} = (0.147(\text{Sales}) + 2.49(\text{Profit})) - 3368$$

HO1: There is no significant prediction of sold price by sales volume or profit before taxes. Reject

Valuation Method

The differences in how small businesses are valued prior to the firm being sold was examined using an ANOVA. Results identified that the sold price means for categories 2 (profit and loss statement) and 4 (tax returns) are noticeably higher suggesting a difference. These findings were confirmed as the null was rejected, validating that there is a significant difference in sold price with respect to valuation method used (See Table 3).

TABLE 3
BUSINESS VALUATION SOURCE METHOD TO SOLD PRICE, ANOVA

	1	2	3	4	5	6
Observations	1228	2735	368	1877	568	1793
Mean	301,703	443,512	352,199	450,592	259,817	207,067
S	601,549	850,336	1,276,915	769,920	1,129,477	400,083

Source	DF	Sum of Square	Mean Square	F Statistic	P-Value
Groups	5	86428929340000	17285785870000	28.7889	4.441e-15
Error	8564	5141507961000000	600433021200		
Total	8569	5227936890000000	610170038500		

The P-Value is less than the F-Statistic, therefore reject.

HO2: There is no significant difference between valuation source method and sold price. Reject

Years in Business

When examining years in business, expected results were confirmed. The mean sold price for each of the 6 years in business categories generally increased. However, there was one noticeable exception, firms in business from 15 to 20 years had a higher sold price average than firms between 21 and 25 years, nonetheless, trending up. Regarding differences, findings were confirmed as the null was rejected, verifying that there is a significant difference in sold price with respect to years in business (See Table 4).

TABLE 4
YEARS IN BUSINESS TO SOLD PRICE, ANOVA

	1	2	3	4	5	6
Observations	2201	1970	1266	1035	647	1450
Mean	213,021	316,308	385,154	469,890	426,962	507,738
S	413,582	674,634	643,716	1,159,747	783,949	1,032,387

Source	DF	Sum of Square	Mean Square	F Statistic	P-Value
Groups	5	99152508890000	19830501780000	33.1089	1.443e-15
Error	8564	5128784382000000	598947142500		
Total	8569	5227936890000000	610170038600		

The P-Value is less than the F-Statistic, therefore reject.

HO3: There is no significant difference between years in business and sold price. Reject

Business Category

The business activity category was examined to see if any patterns regarding mean differentiation was apparent and whether the category as a whole was different. Three categories of business activities stood out. Category 4 property (real estate and property service and management), category 8 construction (contractor, plumbing and electrical) and category 14 manufacturing had noticeably higher mean sold prices than the rest of the business categories (See Table 5). At first glance this would make sense, based on assets and equipment values. However, when tabulating sold price, all assets and equipment were removed, leaving the net sold price minus assets as the dependent variable. Regarding category difference, findings were confirmed as the null was rejected, verifying that there is a significant difference in sold price with respect to business activity category.

TABLE 5
BUSINESS CATEGORY TO SOLD PRICE, ANOVA

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Observations	1204	750	2143	72	343	443	57	422	372	330	86	1983	168	196
Mean	410497	341200	250006	980304	396793	370790	383568	726019	585954	509356	478550	220812	342657	870670
S	1037410	552470	635150	1073346	626179	486034	657510	123512	991844	725754	977723	546441	587114	1349880

Source	DF	Sum of Square	Mean Square	F Statistic	P-Value
Groups	13	231188447800000	17783742140000	30.4478	-2.22e-16
Error	8556	499674824000000	584073435700		
Total	8569	5227936890000000	610170038500		

The P-Value is less than the F-Statistic, therefore reject.

HO4: There is no significant difference between business category and sold price. Reject

Franchise Orientation

The final group of variables examined was the firm's franchise orientation, (franchise operation or not). Analyzing the mean sold prices, small business franchise firms was higher than firms not classified as a franchise. Regarding overall category difference, findings from the ANOVA were confirmed as the null was rejected, verifying that there is a significant difference in sold price with respect to franchise orientation (See Table 6).

TABLE 6
FRANCHISE ORIENTATION TO SOLD PRICE, ANOVA

	Not Franchise	Franchise
Observations	5662	2907
Mean	259,992	371,005
S	426,725	812,138

Source	DF	Sum of Square	Mean Square	F Statistic	P-Value
Groups	1	10007328720000	10007328720000	16.4304	0.00005092
Error	8568	521792956000000	609073136500		
Total	8569	522793688900000	610170038400		

The P-Value is less than the F-Statistic, therefore reject.

HO5: There is no significant difference between franchise category and sold price. Reject

CONCLUSION

Understanding that profit, and to a lesser extent sales, are significant drivers of a small business's resale price holds critical managerial implications for entrepreneurs and business owners. Firstly, it emphasizes the importance of maintaining healthy profit margins. Businesses must focus on optimizing their operations, controlling costs, and maximizing revenue streams to ensure sustained profitability. This may involve strategic pricing decisions, efficient resource allocation, and continuous improvement efforts to enhance productivity and profitability over time. Managers need to closely monitor financial performance metrics and adapt their strategies accordingly to enhance the resale value of their businesses.

Likewise, recognizing the influence of profit and sales on resale price underscores the significance of strategic planning and long-term growth initiatives. Managers should prioritize investments and business decisions that contribute to sustainable revenue growth and profitability. This might involve diversifying product offerings, expanding into new markets, or enhancing customer retention strategies. By demonstrating a track record of consistent profitability and revenue growth, small businesses can enhance their attractiveness to potential buyers and command higher resale prices in the market.

Furthermore, this knowledge underscores the importance of financial transparency and accurate record-keeping practices. Potential buyers assess a business's financial health and future earning potential before making acquisition decisions. Therefore, managers should maintain comprehensive financial records, adhere to accounting standards, and provide transparent disclosures to facilitate due diligence processes. By instilling confidence in the business's financial performance and prospects, managers can maximize the resale value and attractiveness of their small businesses to potential buyers, ultimately realizing greater returns on their investments.

In addition, business valuation method, years in business, business category, and franchise orientation are significant drivers of a small business's resale price offers valuable insights for managerial decision-making. Firstly, it underscores the importance of strategic positioning within a specific business category. Managers should carefully assess market dynamics, competitive landscape, and consumer trends within their industry to identify opportunities for differentiation and value creation. By leveraging strengths and mitigating weaknesses, businesses can enhance their market position and appeal to potential buyers seeking established players with competitive advantages.

As well, the choice of business valuation method can significantly impact the perceived worth of a small business. Managers should familiarize themselves with different valuation methodologies, such as asset-based, income-based, and market-based approaches, to determine the most appropriate method for their business. Adopting robust valuation practices not only provides a more accurate assessment of the business's worth but also enhances credibility and transparency in the eyes of potential buyers. Managers should also proactively address any factors that may affect valuation, such as outdated equipment, intellectual property rights, or intangible assets, to maximize the resale value of their businesses.

Moreover, the number of years a business has been in operation and its franchise orientation play crucial roles in determining resale value. Established businesses with a proven track record of success are often perceived as less risky investments and command higher resale prices. Managers should focus on building brand reputation, customer loyalty, and operational resilience over time to increase the perceived value of their businesses. Similarly, the franchise orientation of a business can influence resale price, with franchised businesses often benefiting from established brand recognition, standardized operating procedures, and support systems. Managers should capitalize on the advantages of franchising, such as access to a proven business model and marketing support, to enhance the resale value and attractiveness of their small businesses to potential buyers. Research on the impact of economic conditions and business cycle positions should also be considered when examining drivers of a small business' resale price.

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