

Goltz

On Business

by Jay Goltz



Be a Picture Framing Millionaire

Here is the harsh reality: you can only work for so long, and then it is so long. If you have a job, you can hopefully retire and ride off into the sunset. But, if you own a custom picture framing business, it is a little (or a lot) more complicated. You could just ride out your lease, sell the equipment, and liquidate your inventory. Or you can sell the store to someone else who has gotten the picture-framing bug, but this is where it gets complicated.

While you might have started the business because of passion, when you go to sell the business it is about math. Ouch. There is not much passion

in that—or color for that matter. It is all black and white. But it gets worse. All of that inventory you're sitting on? It is worth next to nothing to someone else. And the equipment? A fraction of what you paid for it. That is the bad news.

However, there is some good news. What is valuable is called EBITDA, which stands for “Earnings before

Interest, Taxes, Depreciation, and Amortization.” It is basically the cash flow of the business. The question is, does your business have enough EBITDA to actually sell to someone else? Probably not, if you own a typical frame shop. That is why most frame shops, whether they try to sell or not, just close.

So why is there not enough EBITDA? This is where things get pretty simple. If the income you are making from your store is the same or less than someone could be making as an employee, you are

basically selling a job. If you consider all of the responsibilities and exposure of owning a business as well as the money tied up in it, why would someone do that?

I know the answer some of you are thinking. Passion. Or stupidity. After all, we all did it. Passion and stupidity are not mutually exclusive. But when you sell your business, the prospective buyer has something most of us didn't have when we started from scratch: sales and profit history. For the buyer, it is not a start-up; it is an investment. And people expect returns on their investments, which gets to the EBITDA number. Businesses sell for a multiple of the EBITDA number. I should say “old school” businesses, because in the high tech world the rules are very different.

So what is the multiple for a picture framing business—or for most retail businesses? That gets even more complicated. There are many variables. Do you have a great lease? Has business been growing? Do you have some great untapped potential? Are you in a location that is very appealing? These are just a few points. But it is probably safe to say that the multiple is going to be between three and four times, and here is why. It is my good friend, math, and its brother, Return on Investment (ROI). If someone gave you four times EBITDA, and your EBITDA was \$50,000, the sale price would be \$200,000; the “return” of the \$50,000 on an investment of \$200,000 would be 25 percent. If it were three times EBITDA, it would be \$50,000 on an investment of \$150,000, or a 33 percent return.

There needs to be a high return because it is a risky investment and requires work. No one can be sure that the customers are going to like the new owner or that the new owner has the skills to continue the success of the store. Picture framing is hardly

Yes, a frame store owner can become a millionaire—by providing quality and making the right business decisions

KOOL TACK

Here is what the custom framers are saying about Kool Tack!
We could not put all of the framers on this page.

THE FRAMERY INC Seattle WA
"I liked that my drymounting came out even and very smooth. Very predictable with Kool Tack. Keep up the great work on your fine products."

Art Partners Minneapolis MN.
"What I like is that the adhesive is so consistent. No glops. I have tried other brands, and still come back to Kool Tack. When you find something good, why mess with anything else."

Artistic Framing Rochester Hills MI.
"It's my go-to for drymounting for mounting photos, posters and fabric. I strongly recommend those framers who have not tried Kool Tack to do so. It gives excellent results every time."

Fast Frame Solana Beach CA.
"I love Kool Tack... it takes the guess work out of drymounting. Produces an end product that looks the way I want it to. My customers are always amazed."

The Hut Stuff Hueytown AL.
"I have enjoyed using Kool Tack. It makes mounting pictures, certificates, and diplomas a breeze. So quick, and easy. Prints come out perfect every time. Thanks so much for introducing this quality, and time saving product. You are the best!"

Mikki's Frame Shop Crossville TN.
"Kool Tack is my go-to mounting board. I get smooth consistent results every time. The final product makes me look good. I have found Kool Tack E2 to be the best solution for drymounting photographs at very low temperatures"

The Great Frame Up Naples FL.
"Thanks to Preserve Ultra we were able to accommodate a new customer. We recommend Preserve Ultra for archival drymounting without any reservations. We never have a problem."

Michael Mesnik Art & Frame Restoration Naples FL..
"During a mounting procedure of an oversized poster with Preserve Ultra By Kool Tack, we were unhappy with our results. We decided to remove the print since the product is reversible, and remount it. The product works as indicated. The real experience has proven it's value."

Prior to Kool Tack we struggled to take in fine art to be drymounted. Now we take in fine art without hesitation. Using Kool Tack we drymount without fear of damage. It gives a much higher quality drymount every time."

For more, go to www.kooltack.com and read all about it!

a “turnkey” business. There is also another problem; many people would subtract from EBITDA the amount of labor expense for running the store, maybe \$35,000, leaving a more realistic EBITDA of \$15,000. That would result in a purchase price of between \$45,000 and \$60,000. Subtract any commissions from a broker and legal fees, and you aren't left with much. And that is assuming an EBITDA of \$50,000, which many or most frame shops do not have.

At this point you are probably shaking your cane at the sky and yelling, “That’s not fair!” Or maybe you view your business as a profession and, when you are done, so is the business. There is certainly nothing wrong with that—unless, of course, you need the money for retirement.

So let’s talk business. Here is a brief overview of how you can make it work. If you want the whole talk, you

will have to come to the WCAF Expo in Las Vegas in January.

How do you retire a picture-framing millionaire? Marry a millionaire. Then go into picture framing! Just kidding. Maybe. But if that isn't an option, here is the plan. There are five parts.

1. Make a conscious decision and commitment that you want to grow your business to be a valuable asset. Doing it because you like it is not enough. There have been many very passionate, talented, and skilled picture framers over the years that have never enjoyed financial success to the point where they could retire comfortably from their earnings as picture framers.
2. Learn what professional picture framing is really about. Read, take classes, and hire excellent people. Learn design, selling, and conservation. Buy good equipment. Set high

standards for yourself and everyone else who works in your shop.

3. Accept and embrace the fact that growing a successful picture framing business requires a split personality—part artist, designer, craftsperson, and businessperson. The business portion consists of good management, marketing, finance, and accounting. This includes things like hiring and keeping the right people, pricing that drives a profit, and branding. Branding includes differentiation—having a more interesting selection, the look of your store, and the look of your framed samples. It does not mean having more corners than everyone else, a common misconception. Give great service, get the orders done on time, and have enough staff on hand to take care of customers in a reasonable amount of time.

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Only Preserve Ultra from Kool Tack lets you safely drymount valuable pieces!

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NOTE: We do not recommend dry mounting original art, one-of-a-kind prints, or anything of exceptional value.



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4. Time. This is not a get-rich-quick scheme. This is a get-a-little-rich-slowly plan—as in 20 or 30 years. Stop whining. If you want to make your million quicker, go into computers. Do I really need to tell you that? I don't think so.

5. Here is the math; the average frame shop in America does about \$180,000 per year. When you go to sell that business, you are NOT going to get a check for a million dollars. So here is the plan. Two parts. I'm serious. Do steps #1 through #3. Do them extremely well. So well, in fact, that you grow your business about 7 percent a year. Do-able—if your market is big enough. If your sales are now \$180,000 per year, and you grow at 7 percent for 22 years, your sales will become \$797,000. If your EBITDA is 10 percent, and the business could be

sold for, let's say a 3½ times multiple, you will get a check for $\$79,700 \times 3.5 = \$279,000$.

But I promised you a million dollars. No problem. After five years on your growth plan, you can buy a building to house your frame shop for about \$500,000. Because of your successful track record, you will be able to get a 20-year Small Business Administration (SBA) loan for 10 percent down. You will have the \$50,000 down payment because you are making money and saved it. Seventeen years later, the building will be worth \$700,000 (at a very conservative 2 percent appreciation rate), and the mortgage will be paid down to \$96,000. That is \$604,000 more in equity. Add that to the sale price of \$279,000 and you get a total of \$883,000.

I know, I'm still short by about \$117,000. But you will not be.

There will more than that in the “building account” from the rent increases that you will pay yourself over the 17 years you have owned the building. You see, you are no longer just a picture framer; you are a real estate investor and landlord. And you eliminated the biggest risk of investing in real estate by being your own tenant. This is why more people get rich from real estate than from the picture framing business. Go figure. And then go plan. I'll see you in Las Vegas to iron out the details. **PFM**

Jay Goltz, Business Editor, started Artists' Frame Service in 1978 fresh out of college. AFS employs more than 50 people at its main framing operation in Chicago, IL. Jay has received numerous business honors and is best known for his straight talk on how to succeed in business. He has taught at The National Conference.