



While You Focus on Surviving, Don't Forget Your Endgame

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In previous posts we've discussed three areas where business owners can focus their energies to emerge from the current recession with a business that is prepared for sale. As you may recall, those areas are:

- Preserving and Protecting Value
- Building Revenue and Cash Flow
- Creating Value

Most owners are currently focused on the first area, i.e., cutting expenses and lowering overhead in order to protect their companies. For that reason, we decided to focus on the last area: creating value.

While this may seem counter-intuitive, it really isn't. While you are busy cutting expenses and minimizing risk, you also need to stay focused on your endgame: someday leaving your business and generating a liquidity event that will enable you to live the rest of your life comfortably and with minimal financial risk. As a result, the actions you take today must not only preserve value, they must ultimately create value for a future buyer.

Even the most pessimistic among us must acknowledge that the current difficult economic conditions will not last forever. We may never return to the days of an over-heated M&A market, but once credit loosens and confidence returns, good companies will sell. Your job is to make sure that your company be one of them?

When the economy recovers there will probably be a wholesale rush of business owners who want to sell. We suspect that the market's inability to support business sales over the last eight months has forced many owners to put their sale plans on hold. We also suspect that the experiences of the last eight months have forced many owners to decide that this is the last economic cycle they want to go through. If those two assumptions are correct, when this market turns around, we anticipate that there will be a host of business owners scrambling for the exit. When that happens, the market will become "cluttered" and only the "best" companies will sell.

What can you do today to prepare for tomorrow's scramble? Re-examine and realign your objectives to adjust to today's realities.

Assuming, as we do, that the most effective strategies for dealing with this crisis are those that address short-term challenges and support long-term goals, let's revisit your long-term goals.

Identifying a Successor/Buyer

Most owners have a successor in mind: a child (or children), a member of your management team, or a third party. Use this time to carefully examine your choices. You may, for example, feel that your only viable exit strategy is to just leave the business to a son or daughter and that a sale to an third party is just not in the cards - now or in the future. Given the current economic climate that feeling may be even more pronounced. However, it may very well not be accurate. Talk to an M&A advisor to understand your options.

Set Your Departure Date, but Understand How to Time the Market

The current economy has forced many owners to postpone their exits. We encourage you to talk candidly with an M&A advisor about how to determine the best time to exit your business, taking into consideration that for most business owners, their sale date does not equal their retirement date. (Most buyers require a seller spend 1-2 years after the close date working for the company to ensure a smooth transition to a buyer.)

Understand What Financial Security Means for You

Most owners have a rough idea of how much money they need (from both the sale of their businesses and from other investments) to fund a comfortable "life after business." (If you don't know that dollar amount, talk with your financial advisor about getting a financial needs analysis done today.) With today's challenges you may have overlooked that both the amount you can expect from the sale/transfer of your company and the value of your other investments have changed. Every owner should be working closely with his or her financial advisor to re-assess the make-up and performance of non-business assets, and with an M&A advisor to better understand the new value of your business today.

Focus on Long-Term, Profitable Growth

In addition to your identifying the best type of successor or buyer, setting a departure date and understanding your definition of financial security, you should include long-term growth in your short-term decisions about expenses and risk. As you prune expenses - especially in key employees - make sure those cuts don't inadvertently stunt future growth. This can only be done if you have a good sense of where you want to take your company as the recession wanes.

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