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DECISIONS - FOCUS

We make decisions every day - most are pretty simple - some not so simple. The "not so simple" ones are the ones that are likely to have a greater impact on our lives, personal and business.

My wife and I have been dealing with her Father's Estate - a home, household items, and many personal items that in some cases mean more from the emotional perspective than dollar perspective. What to keep, what not to keep, what to do with things that are kept and where to go with those that aren't. I'm pleased to say that my wife has made good albeit very difficult decisions.

Business decisions - we make routine decisions every day. Major decisions normally don't come along often, but when they do, the impact on our businesses and often our personal lives can be huge. One thing we rarely think of as

IT'S NEVER TOO EARLY TO START PLANNING YOUR BUSINESS EXIT

The Number One Reason to start today is that it will likely lead to increased profitability! I will say it again, " It's never too early to start planning your business exit."

Conquering obstacles to a sale requires time

In one of our previous issues, 66 Obstacles to a Successful Business Sale, we identify a comprehensive list of impediments that might be encountered. If not addressed, each of those obstacles can potentially squelch your ability to close on the sale of your business. Many of the obstacles require time to properly address them. Most professional advisors recommend at least a 3 to 5 year exit planning time frame because it can take that long to overcome some obstacles.

Second-level management

For instance, one major obstacle is lack of second-level management. It is almost imperative to have a key person who is capable of running the business in your absence. If you don't have that currently, it's not going to happen overnight. That obstacle can easily require several years to properly address it

C-Corporation Tax Implications

As another example, here is an obstacle that can require 10 years to overcome. Owners whose companies are organized as a C-Corporation face very significant and detrimental tax implications when the business is sold. As the tax regulations are currently written, to garner the tax benefits of S-Corporation status upon an asset sale of the business, the entity has to be an S-Corporation for 10 years. That's a significant time period and it's an obstacle that is frequently encountered. We can help you with this issue.

Three years . . . 10 years, but does that adequately make the argument that it's never too early to start planning? "**Never**" can be a long time, so, no it doesn't really adequately make the argument. But the following paragraphs do:

Overcoming obstacles can also increase profitability

involving decisions is the FOCUS of our business - where we want it to be, how will we get there, and how will it affect us.

So that our businesses have a better opportunity to be what and where we want them to be at some point in the future, we need to analyze, plan, and make decisions about what we need to do differently and most importantly - better. This process does take time - to analyze where we are, how we got here, where we want to be, and how to get there with the resources we have - or obtain the resources we need. Creating alternative strategies is part of the process, then studying them to see what is likely to work and focusing on whether we can implement them.

I'm currently involved in the long-range planning process with a local manufacturer - I'm a Member of their Board of Directors. They have what looks like a huge opportunity, will need a larger facility if it happens, and it will involve the risk of having one customer that represents over 50% of their Annual Revenue. I commented that five years ago when they acquired the Business they now own they took a huge risk. One of the Owners responded that they had little to lose at that time - now they have a successful, growing business, and have much more to lose. I heartily agreed - part of the process is to see what's at risk and if taking the risk is likely to be worth it.

An issue we often don't focus on is that at some point all of us will exit our businesses. Hopefully it will be following retirement or a sale or transfer of the Business, and not unwillingly or due to

Identifying and overcoming obstacles not only helps make your business salable, it will also lead to increased profitability as an example. After you identify and conquer common obstacles - Inadequate Seller's Discretionary Earnings, Low or Inconsistent Gross Margins and Inadequate Marketing and Sales Efforts, your bottom-line earnings will improve.

Developing second-level management can free you up to concentrate on growing the business. Diversifying your customer base to overcome concentration issues may also result in more revenues. Understanding and tracking the unique metrics of your business can help you identify growth opportunities.

Understanding buyers' risks and motivations may force you to address issues that might otherwise linger. The list could go on and on. Almost every obstacle you identify and address can have a positive effect on your profitability.

EXAMPLE - WITH A BUSINESS EXIT PLAN, TOM IS \$2,700,000 RICHER AT AGE 60.

To better illustrate the benefit of an early start, let's put numbers to an early start vs. a late start in business exit planning using Tom as the business owner.

In scenario #1, at age 35, Tom acquires a business with \$200,000 of seller's discretionary earnings (SDE) for \$600,000. Let's assume he runs the business until age 60 and consistently generates the same \$200,000 in SDE for the full 25 years. Over that time frame, with no exit planning, his 25-year cumulative SDE is \$5,000,000 and he's able to sell the business for the same \$600,000. Cumulative SDE plus sales price equals \$5,600,000 (25 years x \$200K + \$600K).

In scenario #2, let's assume Tom begins to plan for his exit at age 55 (five years before he sells) and successfully implements changes to overcome obstacles over a two-year period and raises his SDE for the last three years (before he sells at age 60) to \$300,000. With the \$300,000 SDE, his business is now sold for \$900,000. Cumulative SDE plus sales price equals \$6,200,000 (22 years x \$200K + 3 years x \$300K + \$900K).

In scenario #3, let's assume Tom begins to plan his exit the day he acquires the business. As the buyer of the business, he and his advisors had already identified obstacles. They successfully addressed the obstacles in the first year and increased the SDE to \$300,000 starting in the second year of his ownership. Tom again runs the business at a consistent SDE of \$300,000 until age 60 and then sells the business for \$900,000. Cumulative SDE plus sales price equals \$8,300,000 (1st year x \$200K + 24 years x 300K + \$900K).

By getting an early start on planning his business exit, in scenario #3 Tom is \$2,700,000 richer than he is under scenario #1. Why? The obstacles were identified early. It not only

health or passing. A huge first step is to see what the value of the Business would be from a sale. Get an unbiased Appraisal. It will provide a lot of information in addition to a number. It should identify strengths and weaknesses and areas to focus on to maintain and increase value. It should provide valuable input to help make small and large decisions as they occur.

Whatever you have to decide, gather information, thoroughly analyze it, focus on the risks and rewards, and you will make the good decisions.

FINAL THOUGHTS

Picture in your mind \$500,000 in \$100.00 bills neatly banded and sitting in front of you on a table. The condition to be able to deposit this money into your retirement account tomorrow is simple. You have decide to start planning now or the money will simply vanish within 24 hours. What will your decision be?

WHAT IS MY BUSINESS WORTH

It will cost you absolutely nothing and there is no obligation in giving us a call or an email to request a simple valuation of your business. Relying on a professional that understands your industry is important. It is also wise to work with someone who is aware of current trends; and that is working with both buyers and sellers daily. This

assured salability of his business, it improved operating results for his period of ownership.

Contingency plan for unexpected death/disability

There's another benefit to starting the business exit plan early. We can all die unexpectedly. Therefore, every business owner should have a contingency plan to deal with that possibility. Without such a plan in place, it may not be possible for your surviving family to sell the business. If your net worth is primarily comprised of your business, as it is with most owners, your family may experience a devastating financial loss as well as the personal loss of the entrepreneur they love. That is not the legacy any of us would want to leave. Developing a contingency plan should be accomplished from the get-go. As long as you are accomplishing that goal, take it to the next level and develop a formal exit plan at the same time.

Hopefully, you are convinced it is never too early to start planning your business. Just do it! Let's get started NOW!

INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE

Our presence as a Professional Business Broker is extended nationally as a result of being associated with associates located nationwide. We also bring decades of experience and functional expertise in all the popular market segments as a result. Nothing takes the place or value in that of experience.



We partner with our clients to deliver solutions that help solve their most complicated needs prior to, during, and at the conclusion of the selling process. Our services are designed specifically to help small/medium size businesses and at a small business price. We go beyond the norm to develop new insights, prepare, market and drive results in the sale, thus insuring you receive the most value at closing.

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NEXT ISSUE

approach insures you plan for and receive the maximum return on the transfer of your business.

[RISE ABOVE THE EXCUSES FOR NOT PLANNING YOUR BUSINESS EXIT](#)

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