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## NOVEMBER 2022

### Reflecting Yet Again & Planning

Our past November Newsletters have been titled "Reflecting" (2019), "Reflecting Again" (2020), and "Business Planning" (2021). So now in 2022 it's an opportunity to look back, look at where we are now, and look ahead. This might be quite a challenge, but a very much part of the **Planning Process**.

Covid was the unforeseen issue that began in 2020 and changed many things for us as individuals and as business owners. 2021 could be called "The Recovery" or "The New Normal". Then 2022 arrived – with some new and some old challenges.

For Planning, some things to consider are the following.

**Inflation** arrived in 2022 and became the topic of conversation, but what does that mean? In the October 27<sup>th</sup> 2022 Wall Street Journal article "True Inflation Rate Proves Difficult to Discern", the author asks questions but doesn't provide any definitive answers. Why? Because there aren't any! Cost of Living Adjustment "COLA" measures, or at least tries to measure, costs now compared to a year ago. It includes a lot of things which don't apply to everyone as most people's lives are different. How do cost changes affect businesses? Again, the answer depends on each business and what it does and how it does it.

**Interest rates** in 2022 have risen. The Prime Rate of Interest, considered a base rate for the lowest risk business borrowers was 5% as of 9/18/2019 and dropped as low as 3.25% in March 2020. It then started rising in March 2022 and quickly rose to 6.25% as of 9/21/22. Just for perspective, the Prime Rate was 21.5% in December 1980, stayed

## Bad Timing - Waiting too Long to Sell

When making the decision whether to sell your business there are generally three types of timing considerations:

1. Your personal timing
2. Your company's timing
3. The nature of the economic climate

To achieve perfect timing, you would be mentally prepared to sell when the company is coming off three great years. In addition, interest rates would be low, financing would be readily available, capital gains taxes would be low and the local and national economies would be in growth mode. How often does that happen? Well, maybe in the fall of 2007, but were you mentally prepared then? Not likely if you are reading our newsletters. And who's to say if we will ever see an economic climate similar to 2007 again?

### An example of how the economic climate can affect business valuations

Let's take a look at what General Electric (GE) has experienced primarily due to the economic climate since the fall of 2007. If you owned 10,000 shares of GE stock on 10/31/07, it was worth \$411,600. One year later, it was worth \$172,900, two years later \$134,400, three years later \$155,100 and four years later, on 10/31/11, it was worth \$167,100. The stock lost 58% of its value in the first year, and since then has continued its downward trend. GE lagged the overall market since the market crash in the fall of 2008 through the fall of 2011, but it is very representative of how quickly things can change and how difficult it is to recover.

### Your small business valuation can fluctuate greatly from year-to-year

Much like the stock market, business valuations are dynamic, not static. As discussed in previous issue of this newsletter series, small business valuations are primarily driven by Sellers' Discretionary Earnings (SDE), which might fluctuate a fair amount from year to year. That issue provides a realistic example of a business valuation dropping by 33% in just six months because the owner could not maintain the pace of SDE in the current interim year of sale that had been achieved in the prior three years. So, things can change quickly.

### The economic climate is unpredictable

It is definitely better if you can sell coming off good years for your company and in a favorable economic climate. But even the experts can't predict what the economy will do in the short-term or the long-term. Just two years ago most businessmen would say things were pretty good.

As I write this, we are experiencing a most volatile issue with rising inflation, interest rates being raised quarterly, or

above 15% until 8/29/82, and was still above 10% until June 1985.

**Other factors** – there are many to consider when Planning. They include finding and retaining staff, employee compensation and benefit costs, material costs and supply chain issues, insurance costs, taxes, and all other cost categories.

Planning is a necessary endeavor when operating a business. The "planning process" often includes asking the following difficult questions:

- How are we doing now, are we profitable, and are we profitable enough?
- Do we need to increase Prices, and by how much?
- Are we efficient at what we do compared to our competitors?
- How do we grow revenue?
- Should we "fire" customers that aren't profitable enough?
- Do we have capacity to grow?
- How can we control and maybe reduce costs?

A fundamental issue when planning is having good numbers. If you don't know the costs and profitability by customer, by type of Sales/Revenues, it's not easy to effectively plan.

Planning is often thought of as something we do once a year, and that's not the best way to view the process. Laying out a plan and comparing it to what's happening during the year is essential to success. A Plan may only be good for a very short time after it's prepared, but it does serve as a tool to use to ensure success.

We advise business owners who are often in the business sale or acquisition process. Whether you would consider selling or are looking at an acquisition, we are available to discuss business value and options

even sooner. And it is not just the U.S but the entire World Market suffering great losses. Do I need to say more!

### **Business values decline much faster than they recover**

When your company's results are down, your business valuation goes down immediately. It usually takes three years of improving results to significantly increase your business valuation, whereas one bad year can immediately and significantly decrease the value of the business. At first glance, that doesn't seem fair. (It is fair and can be explained, perhaps in a future article on this website.

### **The timing of a decision to sell is a personal decision**

So, when should you sell? Only you can make that decision. One of the most important things to do to achieve flexibility in the timing of your decision is to start planning for the sale of your business regardless of when you might sell. You need to identify the obstacles to a successful sale and address/mitigate them. Doing so enables you to be confident of a successful sale when you determine the personal timing is right for you.

### **Holding on to a business too long**

Too many owners think they can buck their negative trend and turn the business around. It seldom happens, especially when an owner is experiencing burn-out symptoms. A turn-around after a bad year requires a time investment of at least three years, and may require more. That's a huge commitment to ask of yourself if you are experiencing burn-out symptoms such as lack of enthusiasm for the daily activities you perform at your business; tiredness of doing the "same old, same old;" an overwhelming feeling that things are beyond your control; carelessness leading to mistakes/misled opportunities; or physical symptoms such as exhaustion, moodiness, or irritability.

The most common timing mistake business owners make is trying to hold on and turn around declining results when they don't really have the enthusiasm or mental drive to make it happen. The turn-around effort can be stressful and lead to health problems that might further detrimentally affect the business value.

### **Is your commitment and enthusiasm to turn around your business waning?**

While it is hard to predict the future economic climate, it is easy to see a downward trend in your operating results. Unless you are sure you have the drive to turn things around, it may be best to sell your business before the value declines further. Ask yourself this: "If I knew my business was declining over the past few years and I was unable to do anything about it, what's going to change to provide me with the inner fortitude to take on such a large task? Can I really generate the internal motivation to get it done?"

If your commitment and enthusiasm for a turn-around isn't similar to the feelings you had when you started or acquired the business years ago, you may want to consider selling your business in the short term.

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to either buy or sell a business.  
Contact us to begin a discussion, of  
course with no cost or obligation.

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**Suspicion**  
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