

# PLANNING STEPS TOWARD SUCCESS



We offer exit planning consultation, a wealth of proven success strategies, as well as strategy implementation management. We're available for keynote presentations, seminars, and workshops in exit planning.

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Key value drivers

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## Five Misconceptions Every Business Owner Must Avoid

by Chia-Li Chien

In football, basketball and many other sports, games are won or lost in the second half. A good coach helps a team continue their winning efforts and turn around losing ones. Most families and business owners could use a good strategic coach to help plan for the second half of their lives.

Successful business owners don't plan to fail, but most do fail to plan early enough for second half success.

### A Comprehensive Approach to Strategic Planning

We help privately held businesses create a game plan for a successful business transition at the optimum time of opportunity. You see, because every owner eventually leaves his or her business – voluntarily or otherwise – it is of the utmost importance to maximize business value now, to realize dreams and goals for a future without the business.

***Five misconceptions every business owner must avoid*** to maximize the value of the hard work put into the company:

1. Believing you have plenty of time to think about and plan your business transition.
2. Believing your key employees will want to buy you out.
3. Believing your child in the business will take care of your transition.
4. Believing you will continue to get "offers" all the time.
5. Believing your competitors will buy you out.

### ***1. Believing you have plenty of time to think about and plan your business transition.***

On average it takes between 3 and 5 years to prepare your business for sale or transfer. This includes 1 to 2 years of planning; getting your books ready for audit and getting your business ready for a successful transition. You will need the remaining years of preparation in order to cash out within the best window of opportunity.

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However, most business owners don't think about or plan how to transition their business. They are simply too busy running their business.

John and Gloria owned an auto parts subscription-based catalog business. In the 70s, they were in the top 15 firms in the country, employing well over 100 people. However, John, now in his 80s, is today burdened with a company with only two employees remaining – he and his wife.

His business has very little value, not even in his outdated equipment. John missed the window – the window of opportunity – to sell when the company was in prime position, because he failed to plan his exit strategy.

Missing that window cost John and Gloria a fortune. Today, John and Gloria will have to just close the door, without any hope that someone will be interested in the company's outdated equipment, and with no other equity to attract a buyer.

## ***2. Believing your key employees will want to buy you out.***

Your biggest intellectual property is your employees. You want to reward them in many ways. Many times, key employees may even express an interest in buying the business from you.

In reality, most key employees just don't have the money to buy you out. They may make an offer, while relying on YOU to provide the financing.

Don't make the mistake of expecting or assuming your key employees can buy your business from you without your help. And think about it – is this your only plan to transition your business?

Todd is the key employee of Mike's top area retail film store. Todd obviously has no money to buy Mike out. After a discussion, Mike agreed to finance Todd with a 15-year note. Two years into the 15-year note, the digital camera dominated the market, and Todd's retail film business could no longer survive in the market place. Todd was forced to close the business; meaning Mike just lost his entire retirement funding.

Why wait and then decide to finance a deal like this when you are ready to leave your company? Most importantly, why would you depend on the future of the business you leave as your retirement resource?

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### **3. Believing your child in the business will take care of your transition.**

You may feel fortunate that your child is part of your business. He or she contributes to the success of the business and gives you a vision of the future they could have with continued hard work and diligence.

And you've created a comfortable lifestyle that your child has enjoyed along the way. However, do these things alone qualify them to take over the business? Have you ever considered that they may not have the aptitude, or money, to buy you out?

Don't make the mistake of expecting or assuming children will be there ready to take the lead when it's time to transition your business. Take time to reconsider, if this is your only plan to transition your business.

George is the general manager of a top regional packaging manufacturer. He is Diane's son from a previous marriage, but her husband Eddy is thrilled to have the option of passing on the business to George. George lives a very luxurious lifestyle, mostly funded by the success of Eddy and Diane. The reality is that George not only has personal financial issues, but also has not demonstrated any capability to run the business on his own. Despite these realities, Eddy and Diane gifted the business to George. Three years later, George filed for bankruptcy.

Can you rely on your child's capability and an unpredictable economic environment to secure your future?

Why not create an experience for your child to learn how to earn his way instead of simply offering a free ride?

### **4. Believing you will continue to get "offers" all the time.**

Have you ever received a call from a business broker or investment banker with the news that they have a ready buyer for your business?

How do you know you're getting the best price? Who is your ideal buyer? When is the right time?

Don't fail to consider offers only because you aren't thinking about transitioning now.

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Joe has a very successful I.T. consulting firm. Many corporations found that I.T. outsourcing only works to a certain extent and that they still need I.T. resources locally. Joe benefited greatly from that niche market. But he also has a minor health issue that drains his energy, and he feels too tired to keep dealing with the ups and downs of economic cycles. He was encouraged by the fact that he continually received offers to buy his business, since so many investors wanted to invest in a US company while the US economy cycled down. He even went so far as to sign a two-year contract with a business broker. But Joe never entertained any offers that came in. Why? Because he kept thinking and believing that the price was not right and he simply did not like certain type of investor making the offer.

Without proper strategy in place, you will not get the price you want, expect and need from the sale of your business. Without a strategic plan, you will not attract the right buyer. Most importantly, you may not have enough for your NEXT JOURNEY®.

## ***5. Believing your competitors will buy you out.***

Your major competitor across the street wants to buy you out.

Sure, that will increase their market share and potentially allow them to dominate the market place. But how do you know what is the “fair” price for the market share that you have?

Kevin and Keith created a booming Internet retail business, complete with a bricks and mortar storefront, and became one of the major eBay selling partners within five years. Their revenue was almost \$40M by the end of their fourth year. Their main competitor, just a few blocks from their business location, wanted to buy them out or “merge” with them. This competitor’s goal was to dominate the market. However, Kevin and Keith have much more sophisticated business processes and systems in place, as well as better profit margins. Unfortunately, when their competitor first approached them, they did not do the necessary research and investigation into the total value of the business they created. They “merged” and effectively sold their company to their competitor, later finding out that it was a great deal – for the competitor.

How do you know your competitor is offering the right price? How do you factor in the value of your proprietary systems value when considering an offer?

Without proper strategy in place, you will not get the right price. Caution – your competitor’s offer may not be in your best interest.

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Avoiding these common misconceptions can lead to stronger value drivers for your business. This will position your company well ahead of the game and create an environment for a proper transition. And don't you deserve to maximize the value of the hard work you put into your company?

Your business deserves an in-depth assessment if you think your business is worth it. To thoroughly understand your value drivers in a much more detailed scale, take approximately thirty minutes to fill out the detail rating. We'll email you an in-depth assessment upon request and provide a complimentary assessment reading over a conference call.

We partner with business owners like you to help create a value-driven strategic plan. We are there to help you develop the right solutions as you make important decisions about how to best benefit from the value you have created in your business.

Call us today to find out how we can help you win in the second half by:

- Becoming your strategic partner as you face life's big decisions and changes.
- Helping you identify obstacles and barriers and assist you in overcoming them.
- Implementing, coordinating, and integrating solutions unique to your situation.
- Keeping up to date with you personally through quarterly reviews, annual assessments.
- Being someone to help you brainstorm when making important choices.

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