

Designing Smart Strategies to Meet Today's Economic Challenges

We have been helping business owners meet the challenges presented by recent changes in the economy. In this issue we will share with you what we are learning from owners and their advisors across the U.S. about which strategies are most effective. Before we begin, however, we hope you will share with us how your company has been affected, how you are responding, and how we can help you meet those challenges.

General Observations

We can say that owners, who ran tight ships when times were flush, are navigating turbulent waters carefully, but generally successfully. That said, it certainly helps if owners operate in industries other than construction, retail, restaurant and almost anything automobile-related. Owners in those industries are being buffeted by hurricane-sized winds that threaten even the sturdiest ships.

We also have observed that owners who operate with little debt are weathering this storm better than those whose business lives depend on it. How well or how poorly companies fare also depends on the size of their capital needs, the scalability of their businesses and the proportion of fixed assets to cash flow.

In the end, however, an owner's ability to maintain cash flow has become the ultimate measure of how the company is tolerating today's economic challenges. For that reason, many of the strategies that owners are using to successfully wage this current battle relate directly to preserving and increasing cash flow. Let's look at the four primary areas where owners' efforts are resulting in a company's survival – and even growth – in the current economy.

I. Preserving and Protecting Value

Owners across the board are protecting business value by cutting expenses. Two of the most common cost-cutting measures involve examining company financial statements with a critical eye and reviewing and



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analyzing compensation, employee by employee.

To protect value, owners are taking a closer look at their exposure to risk from both inside and outside their companies. Owners also are taking advantage of ways to minimize taxes under new tax rules and are re-examining how a lower business value affects their business continuity arrangements.

II. Business Value and Cash Flow

Owners are not only closely monitoring current cash flow, they are adjusting their projections of future cash flow. In addition, they are re-evaluating their companies' value. If business value has fallen, owners are creating written plans to help address the deficiency between current value and the value that owners want (or need) when they exit. Helping owners plan is fundamental to our client representation. Please do not hesitate to contact us so that we can explain in detail how we may be able to help in this area.

Finally, owners who have plans to eventually transfer their companies to family members are taking advantage of lower business value to make gifts of business interest.

III. Revenue Creation

After reducing expenses and re-calculating business value, owners quickly turn to increasing revenues. Readers familiar with the Value Drivers in the BEI Seven Step Exit Planning Process™ will recognize many of the strategies owners are using. First, they are evaluating the strength of their management teams and the incentive programs they use to motivate those employees. Second, they are beefing up their internal systems so that they are written and enforced. Third, they are evaluating the strength and diversity of their customer base. Finally, owners are acquiring targeted (or all of the) assets of weaker competitors. (Please see The Exit Planning Review™ Issue 154 for a description of how to make acquisitions with little cash.)

IV. Strategic Value Creation

Owners and advisors alike agree that these tough times will not last forever. For that reason, smart owners are not ignoring their endgames: leaving their companies when they want, for the amount they want, to the successor they choose. While many owners have adjusted their target departure dates and expected sale prices, few have thought through all the consequences of those adjustments. For example, some owners are re-doing their financial needs analyses to incorporate changes in the performance, use and future of their investments outside their businesses.

Underlying the most effective strategies is a single common thread: the most effective strategies are those that address short-term challenges and support long-term goals.

If you would like to talk about how you can begin to implement successful strategies in your company, please contact us.

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