

## Keeping the Fire in Your Belly as the Economy Cools

Faced with a barrage of bad economic news, business owners wonder first how they will survive in what promises to be a tough environment and then, if they'll be able to leave their companies when they planned. Before we can help owners to answer that question, let's look at their three options: (1) hunker down until the market recovers; (2) actively work to build business value; or (3) sell now for whatever you can get.

Before we look at the pros and cons of each option, remember that there is no "right" or "one-size-fits-all" answer. You and your advisors need to sit down and look at your particular circumstances before choosing the path that is right for you.

### Option One: Batten Down the Hatches

- How old are you and how long do you want to work?
- To whom did you plan to transfer your company: a third party? children? key employees?
- Exactly how much money do you need from the sale of your company to support a comfortable retirement?

These are the questions that you and your advisors must answer as you analyze whether this strategy is the right one for you.

*How long do you want to work?* We find that owners who have time on their side (they are nowhere near retirement age) are looking at this option as their best one. Before you join them, we hope you'll finish reading this newsletter.

*To whom do you plan to transfer your company?* If your original exit plan was to transfer your company to your children and they are approaching transfer age, you may wish to move your exit date forward. As the value of your company falls (on paper) it is a perfect time to consider beginning a gifting program and to transfer the company to your children while still reaching your financial *and* other objectives. A lower business value reduces gift tax complications and income taxes if you decide to sell part of the business to children. Additionally, simply transferring part of the business to children need not ultimately reduce the



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amount of money you receive from the business.

If your original goal was to transfer your company to your employees, this is an optimal time to begin that transfer. For example, a lower stock value means lower overall taxes in a well-designed transfer because more of the company's cash flow can be paid directly to you rather than being used by the employee to buy your stock.

*How much money do you need from the sale of your company to retire?* This number varies from owner to owner depending on the type of retirement one chooses (annual world cruises or a simpler lifestyle) and on the value of the owner's other assets (real estate, retirement plan accounts, stock portfolios, etc.). Another variable among owners is the type of assumptions they made about growth and income in their investment portfolios. If your original assumptions need to be a little more conservative, remember that you will need more money/capital from the sale of your company.

## **Option Two: Build Business Value**

In boom times, building the value of a company drives every business owner. What many owners don't recognize, however, is that tough times provide no reason to abandon that goal in favor of riding out the storm. In its recent study of 400 companies, Diamond Management & Technology Consultants looked at what led to success or failure during the last recession (1998-2004). Diamond found that just over half improved their gross profit margins because they: 1) made targeted rather than blanket cost-cuts; 2) were smart about automation, customer relationships and investments; 3) managed vendors to reduce and variabilize their costs; and 4) focused on core strengths. ("Don't Waste A Crisis: Emerge a Winner by Applying Lessons From the Last Recession," Diamond Management and Technology Consultants, Chicago, IL, October 13, 2008).

- Is this the time for you to cut back or to commit additional resources to marketing?
- Could your company benefit from hiring the top-notch talent that is becoming increasingly available as your competitors downsize?
- Is this the time to acquire smaller, less adaptable, less capitalized or less well-managed competitors? In this buyer's market we see not only lower purchase prices, but also much more attractive seller-based financing and earn-outs.
- Have you designed incentive plans for your management team that reward long-term employment and provide short-term incentive to increase your bottom line? There are many ways to structure incentive standards so that they support your goals in a changing business environment.

These are the questions you and your advisors must ask and answer as you decide how to proceed.

## **Option Three: Sell Now**

There are several types of owners who are choosing to sell their companies today rather than hunker down or actively build value. These include:

- Owners who just don't have the fire in the belly to go to work each day ready to fight another battle.
- Owners who have "sale-able" companies that if sold at today's less exuberant multiples, will support

a comfortable retirement.

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