

FOCUSED EXIT STRATEGY

Business Support Plan



Accredited member of the Institute for Independent Business

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60 million "baby boomers" will retire in the next 15 years.

Are you one of the owners who will retire in the next few years?

Who will buy your business?

Basic Methods for Selling a Business

Here are the basic methods for selling a business:

- Close the doors and sell off assets
- Sell to a strategic buyer
- Sell as a going concern to a financial buyer
- Sell to current employees
- Sell to a younger person such as a relative, employee, or a person that you recruit

If the business is highly profitable with sales over \$5 million then a strategic of financial buyer is possible.

A business in a flat economy

As one business owner remarked, "Every time I see a competitor go bankrupt, I don't know whether to be glad or scared."

When a "For Sale" sign goes up, it is doubtful that buyers are going to rush in and start throwing money at the owner. Some of these businesses are not highly profitable and many are showing slow growth rates. Let's face it; things have been tough on small businesses. Therefore people are not flocking to buy small businesses.

Only 10% of businesses for sale sell in less than 18 months.

Who will buy the business?

The most likely candidates to buy the business are individuals in their 30s who are already in the owner's business or perhaps in a competitive firm. In some cases a likely candidate is a relative of the present owner. In many cases the individual wants to stay in this part of the country because of friends and relatives. However these candidates bring a whole new set of challenges.

Let's review three of the major challenges.

Does the candidate have the ability to finance the purchase of the business?

No bank is going to loan money to a young person with no track record and a limited amount of assets. The recent home loan problems have made things worse.

Therefore, the present owner is going to sell the business over time usually between seven and ten years. Even with strong cash flow it is difficult to sell a business under these circumstances in less than five years.

As a general rule the longer the period of time of the buy out the greater the amount of money the original owner will obtain from the business.

During the first two to three years the original owner will maintain the majority ownership and control the business. Ownership transfer is structured in such a way that as the younger person achieves preset milestones then a portion of the business is transferred to them. As time goes on the buyer gains experience and greater ownership until the younger person becomes the owner. There is a strong incentive for **both** the person selling the business and individual buying the business to see the organization succeed.

Does the candidate have the innate abilities and personality to be a successful business owner?

Is it possible to determine if the individual has the potential to be a successful business leader? Fortunately the answer is **yes!**

Applied Assessments Inc. is a personnel testing and assessment company that was founded over 50 years ago. Over the years they have perfected the art and science of successfully identifying individuals that have that capability and personality to be successful as managers and leaders of business enterprises.

Candidates can be quickly evaluated to determine if they have the ability to successfully manage the business and, therefore, successfully complete the purchase of the business from the present owner.

A young new owner probably cannot afford to buy the business outright and therefore will purchase the business over a period of years from the present owner. The present owner's retirement may depend on the successful sale of the business and therefore the success of the new owner is of critical importance.

Does the candidate have the knowledge to successfully lead and manage a business?

An interesting fact about the generations following the boomers is that the growing technical complexity of our society has led us to educate them as technical experts. Many of our technical two-year, four year, and graduate level programs are so packed full of specialized information that there is little room for courses in human behavior, leadership, communication, interpersonal relations, or training skills. In fact in many large organizations these topics are assigned to "experts."

This is not a criticism, only an observation. Those of us who grew up in an era of generalists must remember that the thundering masses of people behind us are specialists. But our current engineers, computer technicians, medical professionals, finance people, and other specialists do not have the experience or knowledge to become broad organizational leaders and successful business owners.

Can the technical experts answer these questions?

"How do I manage an organization?"

"What is my strategy for leading an organization?"

"Why would people follow me?"

It is not hard to find numerous examples in business, government, or nonprofits where smart people with excellent track records moved up to senior positions and became spectacular failures.

On the other hand, organizations such as General Electric and the US military have proven that effective leaders and managers can be created through management and leadership training. In fact, this can be done rather quickly.

To deal with the issue of developing successful organizational leaders and business owners we have developed the Focused Management Leadership Strategy with a comprehensive curriculum to develop organizational leadership and management skills. This program contains approximately 20 hours of instruction and discussion supported by 300 pages of reading materials. Topics will include

Building an owner/organization partnership:

- How different are people and what does it mean to a business?

- What really motivates people?
- The basics of communication and how to improve company communications.
- The nature organizations and how they react.
- The Focused Management leadership strategy model that is a visual representation of effective management of a business organization.
- Goal and objectives. A review of personal and company goals and objectives.

What is the Business Worth?

There are three major ways of evaluating a business.

- Asset value.
- A ratio based on cash flow.
- Comparing what similar businesses are selling for.

As a general rule we tend to look at a ratio based on cash flow using what other similar businesses in our area are selling for as a rough guideline. Then the value of the real estate is added if there is real estate involved in the transaction.

We will help you come to a win-win agreement that will provide the owner with a reasonable return on investment and enough money to ensure the continuation of the enterprise.

Terms and conditions of the sale will also be suggested.

Your accountant will probably be involved in the evaluation process and the final agreement will be drafted by a lawyer.

Growing the Business

The best insurance that the current owner will be paying by the future business owner is to ensure that the business continues to grow and prosper.

Your business advisor will work with the new owner to develop a strategic plan to increase new sales, business volume, margins and the size of the organization.

This will include the following actions:

- Analysis of present and potential markets
- Identification of new opportunities
- Build a business plan
- Building a marketing image
- Sales training
- Building a relationship with a bank

The ultimate goal of the EXIT STRATEGY Business Support Plan is to achieve the current owner's long-term goal to obtain a reasonable value for the business and to ensure the long-term survival of the enterprise through developing a successful new owner.

Contact information: