



# LIVING LEGACY

## While Managing Short-Term Issues Don't Forget Your Endgame!

In this issue, we discuss the four areas where business owners who want to both survive in today's economic climate and emerge from it poised for growth (or sale) can focus their energies. These areas are:

- Preserving and Protecting Value
- Identifying Value and Cash Flow
- Creating Revenue
- Creating Value

Most owners are currently waist-deep in the first area: cutting expenses and minimizing risk and taxes in order to protect their companies. For that reason, we kick off this more detailed discussion of each area by focusing on the final one: creating value. While this may seem exactly backwards, it is not. While you are busy cutting expenses and minimizing risk and taxes, we want you to keep your eye on your endgame: someday leaving your business for an amount of money that will enable you to live the rest of your life in style. *The actions you take today must not only preserve value, but must ultimately create value for a future owner.*

Even the most pessimistic among us acknowledge that these tough times will not last forever. We may never return to the days of an over-heated M&A market, but once credit loosens and confidence returns, good companies will sell. *Will your company be one of them?*

Demographically, we know that the future holds many more sellers than buyers. What we don't know is how this crisis has affected that imbalance between the number of sellers and the number of buyers. We suspect that the market's inability to support business sales over the past few months has put the sale plans of many owners on hold. We also suspect that many owners are not having a whole lot of fun getting lean and mean. If those two assumptions are true, when this market turns around, there will be a host of owners scrambling for their exits. If (or when) that happens, only the "best" companies will sell.

What can you do today to prepare for tomorrow's scramble? Re-examine and realign your objectives to adjust to today's realities.

Assuming, as we do, that the most effective strategies for dealing with this crisis are those that address

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short-term challenges and support long-term goals, let's revisit your long-term goals:

## **Successor**

Most owners have a preferred successor in mind: a child (or children), a key management team, a third party or an ESOP. We encourage all owners to re-examine their choices. You may, for example, feel that your only viable exit strategy is to just not leave the business; that a sale to an outside party is just not in the cards — now or in the future. That feeling may very well not be accurate, especially given the changes in the Small Business Administration loan programs promoted by the Obama Administration.

## **Departure Date**

As we mentioned above, the current economy has forced many owners to postpone their exit dates. We encourage you to talk candidly with your advisors about how to re-set your exit clock including in that discussion the fact that for most owners, their sale dates do not equal their retirement dates. (Most buyers require sellers to work past their closing dates to ensure that the company continues to perform.)

## **Financial Security**

Most owners have some idea of the amount of money they need (from both the sale of their businesses and from other investments) to fund a comfortable "life after sale." (If you don't know that dollar amount, ask your financial planner for a financial needs analysis *today*.)

What you may have overlooked in your focus on surviving today's challenges, is that both the amount you can expect from the sale/transfer of your company and the value of your other investments have changed. Every owner should be working closely with his or her financial advisor not only to re-assess the make-up and performance of non-business assets, but also to establish a new benchmark of the value of your business today.

## **Long-Term Growth**

In addition to your desires about successor, departure date and definition of financial security, we think you should include long-term growth in your short-term decisions about expenses and risk. As you prune expenses – especially in management – make sure those cutbacks don't prevent new growth. This can only be done if you have a good sense of where you want to take your company as the recession wanes.

Try to keep in mind that future owners (of whatever stripe) will not be interested in investing millions of dollars in a company that either does not have a motivated management team or in one whose management team is not willing to stay on after the sale.

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