

Our mission is to shepherd as many business owners as possible to fulfillment of their goals and their ideal lifestyle.

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BUSINESS WEALTH SOLUTIONS, LLC

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Jack Strikes Gold

by

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Up until now, Jack thought he was a business owner when. In fact, he was self-employed because he viewed his business as a source of income that provided a handsome lifestyle for himself and his family. From that standpoint, he had reached his original goal. Unfortunately, he never gave much thought to value. Why should he? Value is not part of the discussion unless you are talking about an asset. Jack did not view his business as an asset, but rather as a source of income. Now that he was thinking about exiting, he discovered that the value of his business would not produce sufficient net proceeds to support his post-exit life style. Jack decided that it was time to set a new goal. His new goal was to increase the value of his business.

Jack's exit planner created a Business Action Plan and a Personal Action Plan. The Business Action Plan prioritized the issues that needed to be addressed that would result in increased value and marketability of his company. The Personal Action Plan outlined areas that Kathy and Jack needed to address to prepare themselves for their post-exit lifestyle and to protect their largest asset, their business.

Here is a list of the broad categories that were explored in addition to at least 10 sub-categories for each. There are approximately 55 Value Factors to be examined when evaluating a company's and the owner's position. The following is a summary of what the exit planner discovered about Jack and his company:

Strategic Plan

- Jack's strategic plan was in his head. He had not done any research or credible financial projections to determine if his plans to expand products and services were sound. He assumed that they would result in sufficient profitability to justify the risk, or, he totally ignored the risk.

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Operations

- Company processes were not as efficient as they could be. Data was not collected, stored, and analyzed so that management and ownership could easily see how each department was functioning, or, where problems originated that resulted in inferior company performance.

Human Capital

- Jack had cut a lot of corners during the recession. He had let people go, changed their work status, and eliminated benefits, incentives, and retention plans. Several employees wore more than one hat, often resulting in inefficiency and declining employee morale.

Management

- There was an experienced management team on place, but key management was aging and planning to retire. Younger employees were not being trained to assume leadership positions.

Financial Record Keeping

- Financial record keeping was not in GAAP format.

Financial Performance

- The company's level of profitability was average for its industry.

Personal Posture

- Jack and Kathy did not know what they needed to net from the sale of the business to meet their post-exit needs. Because they had paid for so many personal expenses with corporate dollars, they were unclear about how much additional after-tax income they needed to cover these expenses after they exited the business. They had done no estate planning and were at serious risk if one or both of them became disabled or died before ownership transition was complete. Lack of quality, funded, estate planning left their family vulnerable to having to sell the business quickly (most likely court-ordered by a judge) and for less than it was worth to satisfy estate tax or to pay bills if either of them became incapacitated or died.

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Corporate Structure

- The company was a C corporation that would require significant tax planning to minimize the tax liability when they sold.

Marketing

- There was no well thought out or funded marketing plan. They depended on “word of mouth” and “repeat customers” for business. They thought this was a good thing. The website was ineffective and unimpressive.

Sales

- The company had salespeople, but their compensation structure did not reflect the direction they wanted to take the company. There was no sales management system to ensure peak performance of their salespeople, or to weed out poor performers.

IT

- The company had a patchwork of outdated software. Some was pirated and some was developed by them. There was no industry-standard software. The hardware was out-dated.

Industry Outlook

- Potential growth for the industry was good. However, there was no clear, written strategic plan to take advantage of opportunities in the market or to perform well even if the market declined.

Governance

- There was no formal governance except for Jack.

Business Continuation

- There was no formal written plan in place for business continuation if Jack became unable to work for any reason.

Great Odds for Jack the Gold Prospector

Jack knew that if he had invested in his company every year instead of buying personal goodies for himself and his family, his company would have been worth a great deal more than it was. But, there was still time to bring it up to speed.

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Three years later Jack was pleased with his decision to go for it. Here is what he accomplished with the guidance and oversight of his exit planner who assembled and managed a top-notch exit planning team:

- Wrote a strategic business plan backed up with sound market research and credible financial projections. Jack, his management team, and the employees are now in lock step about the direction of the company
- Improved processes that positively impacted profitability
- Developed performance dashboards so he and his managers could easily monitor performance of their departments and spot a problem before it had a negative impact on profitability and company value
- Developed and installed a new website that actually attracts business
- Brought in a Sales Manager and established a sales management system to monitor the salesmen's performance and help them pursue new business. Got rid of poor producers.
- Redesigned the salesmen's compensation to maximize revenues and profitability. The new compensation is now consistent with the direction the company wants to go and the mix of services and products it aims to sell.
- Brought in a business coach to train the next generation of management
- Installed and funded key person performance incentive and retention plans
- Hired a CFO, and, a bookkeeper to enter and maintain quality financial record-keeping in GAAP format
- Rearranged Jack's and Kathy's compensation to better reflect their duties, and, improved their compensation so it is now more tax-efficient
- Wrote a business continuation plan and shared it with employees and family
- Consulted with an estate planning attorney who drafted a complete estate plan for Jack and Kathy
- Worked with a business insurance expert to implement the estate plan

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- Created a relationship with a financial planner who helped them determine the amount they will need to net from the sale to support their desired lifestyle after they exit the business
- Consulted with a corporate tax planner and a corporate attorney to determine what strategies they could implement now to reduce the tax when they sell, and, how a sale should be structured to minimized the tax

Jack Brought Home the Gold

The company was acquired for 34% more than the company's original estimated value four years after Jack began working with the exit planner. He had invested less than 10% of the company's original value to make the needed changes. Jack was pleased. He had received several offers and was confident that he had accepted the best one. He received a few offers for a higher price, but they either netted him less after taxes and fees, or, they were not the best match for his people. Jack thought he had struck gold. He exited sooner than he thought he would or could. He netted far more than he would have with no planning, and he had plenty of money to do everything he wanted to do after he left the business.