



January 2012

New Year's Resolution – Plan Your Transition

The New Year brings with it a time of renewal and a fresh perspective on business ownership and transition. There is a real possibility that come next January 1st, the current tax rates for capital gains, gift and estate taxes will sunset. If this change occurs, it will most likely leave you and your family with significantly less wealth as the government executes a new plan to increase its share.

So what can you do about it? Not much about tax policy, but keeping an eye on what is occurring in Washington is a prudent thing to do. Although you won't have much say regarding what happens on Capitol Hill, you do have control of what is happening in your business. Creating and having a plan to build the business value you need to successfully transition your business is a great New Year's resolution.

Unfortunately, fully 90% of private business owners don't plan, or at least put their plans in writing. It's true that business plans, strategic plans, continuity plans, succession plans, and transition plans all take time to think about and write. In many cases, the owner doesn't have the personal talent or the talent in-house. That's where companies like Owner's Edge can help. We have a process for planning each and every one of them.

Perhaps this is the year for you to resolve to break out into the 10% that do have plans? You may want to consider the following as a framework

for a plan to build your business with your transition in mind.

Finding your Omaha: Goal Setting

It cannot be stated enough times that setting goals is the first step towards achievement. This is particularly true when those goals are in writing. We have a process we call 'Finding Your Omaha' as a marker you can use to start the process. Is it something you need? Answer these simple questions:

- Have you taken the time to determine what it is that you really want from your business?
- Do you have a timeline or at least an ending age in mind?
- Do you want your business profile to look like it looks today?
- Is your business all about you? Can it survive without you?
- Have you shared your goals with anyone in your business? More than just one or two people?
- Are you stuck in the mindset of 'running' and not 'owning' your business?

If you answer 'no' to any more than two of these questions, you probably don't have a plan, or you have one that is not working.

Owners who manage their businesses need to weigh many different considerations in their daily decision-

making process. Namely, should the personal or business needs of the day take priority? Somewhere along the line, owners strike a balance between these competing needs. In order to recalibrate your mindset in this New Year, ask yourself, ‘do I perceive my business as a job or as an investment?’

The Risk of Private Business

This Great Recession has forced owners to confront the real risks that they face with the ownership of their private businesses. Like any investment, the return should outweigh the risk. Once again, because of the personal dynamic associated with business ownership, this distinction gets blurred for private business owners.

The fact is that most small business owners have concentrated their wealth in a single, illiquid investment – their business. Moreover, this investment is inherently risky. The simple recognition and reminder of this is a powerful backdrop against which you can begin your New Year planning.

Reducing Risk

The process of transitioning one’s business is systematically reducing the risks that are within your business. As you look ahead, what are some of the risks that you can eliminate from the business that would reduce the co-dependent relationship that you have with your business? Perhaps the following list will help you identify some areas of risk:

- Personal expenses run through the business.
- You, the owner, as the key employee within the business.
- You, the owner, as the key salesperson within the business.

- You, the owner, as the key relationship manager within the business.
- Your management team [or lack thereof] and how empowered they are to perform tasks in your absence.
- Your balance sheet and the company’s total liabilities (are you extended with credit in this tightening cycle?)
- Your product lines and protection of your intellectual property and/or non-compete agreements amongst staff members.
- Your benefits packages and the relative competitiveness in the marketplace.

Labor and Capital Expenses

As this new economy evolves, it is helpful to remember that two of the expenses that all businesses face –that represent an ongoing ‘overhead risk’ to your business – is real estate and people.

Although many business owners have an investment in the real estate in which their business is located, this situation has further concentrated more illiquid assets. You should ask yourself if you are not only dependent upon the income from your business, but also from the real estate leases and rents that are derived from the business. If this is the case, you may consider this impact to your total financial situation with your planning.

If you have a service-based business you must assess the intangibles within your business, i.e. those systems and processes that make your service business run efficiently. Have you documented those processes [and protected your intellectual property] for the benefit of your future owner? If you are a manufacturing-based

business, this should be second nature. If not, the same situation applies. The fact is, businesses that have their processes documented and intellectual property protected are significantly more valuable than similar companies who do not.

Plan for Transition

As a general rule, the transition of a business to its key employees (management buyout) takes three to five years. There is a check and balances approach to empowering your management team to take a larger and larger role. Alternatively, the straight sale of your business is a nine (9) to eighteen (18) month process.

As part of your planning, you should factor in the timing of your decisions and continue to empower your team to assume expanded and more responsible roles. These changes within your business are necessary for you to maximize the leverage of your company; making it transferable.

Set the Plan

This newsletter highlights many of the areas that owners are addressing today with their businesses. Although these insights cover many different areas for your business, your planning should also cover your personal concerns.

When you write a plan for your transition, you take a ‘best guess’ as to

Our Commitment to Our Customers

We help our business owner clients articulate their vision into measurable strategies and operational actions needed to make their profits sustainable and their business transferable. This creates true and meaningful value.

About Owner’s Edge

Owner’s Edge is a business advisory and consulting firm specializing in helping business owners work on their businesses by devising and implementing strategies to drive operational excellence every day. We are one of the few advisor firms that can provide a formal and comprehensive Transition Planning service for business owners. Call us for a no-obligation consultation today.

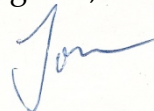
what the future will look like and begin to align your resources to meet those challenges. The proper amount of thought needs to go into your planning as this is, in all likelihood, the largest financial decision of your life.

Conclusion

Unfortunately many owners will read this and feel overwhelmed, not knowing where to start and may therefore, do nothing. A simple solution is to call us for a no-obligation consultation. Using an outsider to facilitate your planning process is very short money to bring your business value to a higher level and you closer to defining your transition goal.

In the freshness and promise of this New Year, resolve to make these changes and set a written plan for the ultimate transition, succession and legacy of your business wealth.

Regards,



Tom Stocker
Managing Director
(401) 451-9799
tstocker@OwnersEdgeLLC.com

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Executive Briefing: *Business Transition Strategy Planning*

Wednesday February 22, 2012 8:00_{AM} – 10:00_{AM}
Hope Club, Providence

This educational breakfast briefing is tailored especially for business owners and their key advisors. Learn why it is important to plan your transition, where you should start, what your transition options are, who is involved in the process and when they need to enter into the process. A continental breakfast will be served. Reserve your seat today and feel free to invite members of your advisory team.

Speaker: Tom Stocker, Managing Director, Owner’s Edge

Admission \$25.00

Kindly RSVP by February 17, 2012
to Lauren McCarthy, Newberry PR & Marketing,
401-433-5965 or lauren@newberrypr.com.