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BUSINESSDIMENSIONS

FINANCIAL STRATEGIES FOR THE ENTREPRENEUR

A perfectly timed – and planned – exit

Though selling a business is rarely a cakewalk, the right preparation can help you make the most of your hard work.

A booming bakery, a recovering market and a well-baked plan: That was one couple's recipe for successfully selling their business in 2017.

Founded during the 2008 recession, the bakery was a fall-back plan for real estate industry professionals Daniel and Jenny Ramirez. In 2017, they knew the timing was right to return to their real estate careers, they told *Forbes.* So they made a plan, hired a broker to price the business, and did their homework. To their delight it quickly sold, leaving Daniel with enough money from the sale to earn a master's degree to boost his earnings potential.

It's an excellent example of how a thoughtfully planned exit strategy can help kick-start the next stage of life – and of the importance of timing.

BUSINESSES SET TO CHANGE HANDS

Experts say it's a seller's market for those looking to cash out. Small-business sales saw a big jump in 2017, with a record 9,919 small businesses sold, up from 7,842 in 2016, according to BizBuySell, a business-for-sale marketplace. Asking prices jumped 11% in 2017 to a median of $250,000, with associated sale prices rising 14% to $227,880. At time of publication, 2018 was set to surpass that high water mark, with 5,383 businesses sold in the first two quarters of 2018.

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A perfectly timed – and planned – exit (cont.)

These conditions have many entrepreneurs thinking of selling – and on top of that, retiring baby boomer owners are bringing even more businesses to market. Nearly 60% of baby boomer owners surveyed by BizBuySell plan to sell their business within the next two years.

Adding to this trend is the Tax Cuts and Jobs Act passed in 2017. It created a 20% deduction for qualified business income for small-business owners (general guidelines say single owners with a taxable income below $157,500 and married owners with taxable income below $315,000 qualify). Many owners plan to invest those potential tax savings into priming their businesses to sell.

ASKING THE RIGHT QUESTIONS

Whether you're looking to retire or just ready for your next venture, it's important to define what you want to get out of the sale of your business and make a plan. To start with, how much money is enough? Once you have a clearer idea of the amount you'd like to make from the sale of your business, net of expenses and taxes, it might be time to see how that lines up with what a broker says is a fair price for your firm. Your advisor may be able to help you coordinate with a valuation expert. If there's a gap, you'll want to increase the cash flow and value of your business before trying to sell it.

The next big question is about timing. When do you prefer to exit or take a more passive role? In order to answer this, you'll want to know the broad brushstrokes of your next stage of life. If that phase is retirement, you should start defining what it is you'll spend your time on, whether it be travel, hobbies or spending more time with family. You'll also want to consult with a professional advisor to ensure you have enough income to maintain your desired quality of life and optimize your strategy for claiming Social Security. If you're going to jump right back in to another business or line of work, you'll want to make sure you have a firm foundation and strong network to make the next venture a success.

Finally, you must determine who your ideal buyer is. Businesses valued at less than $500,000 are most likely to sell to a first-time buyer (50%), serial entrepreneurs (36%) or existing companies (13%), according to 2018 International Business Brokers Association data. You might have a family-owned business that you'd like to sell or transfer to a family member, which may affect your timing so you can prepare them for the responsibility. Keep in mind that such a transition will likely take more planning and preparation than a sale to an outsider. You can also sell it to your employees using an employee stock ownership plan. These are just a few of the many options to consider with your advisor well ahead of time. You don't want to make major decisions under a pressing deadline if you don't have to.

THE SECRET IS IN THE PREP WORK

For a smooth exit, you'll be far ahead of the competition if you take time to prepare. Nearly 67% of sellers did not do any in-depth planning before putting a business on the market and nearly a quarter of them did less than a year of planning, according to a 2018 Market Pulse Survey produced in part by the International Business Brokers Association.

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After doing some soul searching about your vision for the future, turn to your advisor for specialized guidance for this important next step in life. Your advisor can tap into the expertise of a network of specialists to help formulate a strategy to optimize the sale, giving you confidence in handing over the reins. ■

NEXT STEPS

- Consider who you want to sell your business to, how much you'd like to get for it and a general timeline.
- Explore strategies to protect assets, both business and personal, in the meantime.
- Turn to professionals for guidance in putting together a customized exit plan.

Sources: Forbes, BuyBizSell.com, International Business Brokers Association

Six ways to build business resilience

Play to your strengths to run a lean company.

Many of us are familiar with post-traumatic stress disorder, but are you aware of post-traumatic growth? Psychologists such as Martin Seligman have highlighted that, indeed, what doesn't kill us often does make us stronger.

The good news is that you don't have to wait for the next stumbling block to start building up resilience in your business. Put the energy you spend worrying about issues like tariffs, potential downturns and market turbulence toward something more productive with these six ideas.

1. Have your safety net in place.
Whether it's a line of credit or an emergency fund, access to liquidity will allow you to take advantage of any opportunities. "I have always believed that the only way to cope with a cash crisis is not to contract but to expand out of it," Virgin Atlantic founder Richard Branson wrote.

2. Lock in favorable supply pricing with contracts.
If you're able to fork over the cash to lock in the prices of materials, this might be the right strategy for you amid tariffs and trade uncertainty.

3. Diversify where you can.
One North Carolina bicycle manufacturer was forced to hike prices by as much as $425 due to tariffs, *The Wall Street Journal* reported. In this situation, a firm might decide to expand into related services with higher profit margins, such as bike repair and maintenance, to diversify and offset razor-thin profit margins elsewhere.

4. Strengthen ties with existing customers and vendors.
This is where you show how grateful you are for what you have. For example, you can over-deliver on your promises, the way firms like Zappos do with shipping estimates, or offer a special deal to your best customers.

5. Trade fixed costs for variable ones.
There are many ways to do this, such as outsourcing to a contractor to help you reduce overhead and increase flexibility. Get creative and you may find new ways to run lean.

6. Stress-test your business.
Your advisor can model hypothetical scenarios using financial planning software that gives you an idea of where you stand and what your business can endure with confidence.

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If you take some of these steps now, when you're not under pressure, you might be able to navigate challenges nimbly, while your competition lags behind. You might have to try various options to find what works best for your business, but coming out stronger on the other side makes it all worth it. ■

NEXT STEPS

- Take stock of your lines of credit and the state of your safety net.
- Scan through your fixed costs and find creative ways to trade them for variable ones.
- Ask your advisor about conducting a stress test using financial planning software.

Sources: Entrepreneur magazine, Losing My Virginity by Richard Branson, The Wall Street Journal

Be a cultural chameleon

Adapting your style to the norms of another culture isn't being inauthentic – it's just smart business.

"Don't you even care enough about me to write your name?"

If you've ever written a short email response with no greeting or signature line to someone from another culture, you might have triggered this response. The quote above was a pet peeve voiced by a Russian attending a seminar by Erin Meyer, author of *The Culture Map.* A professor at international business school INSEAD, Meyer expertly highlights the importance of cultural differences.

"If you go into every interaction assuming that culture doesn't matter, your default mechanism will be to view others through your own cultural lens and to judge or misjudge them accordingly," she writes.

For business owners in a globalized world who may one day find themselves negotiating with vendors in Asia, building a new business partnership in Europe or simply leading a diverse team, cultural competence is key. It might mean the difference between a successful negotiation or launch in a new market and a failed one (see Walmart's flop in Germany or Home Depot's missteps in China).

A good place to start learning about cultural differences is the quiz Meyer put together at the *Harvard Business Review* (search What's Your Cultural Profile at hbr.org). You can also try reading *The Culture Map* or *Leading with Cultural Intelligence,* the latter by David Livermore, who leads the Cultural Intelligence Center in Michigan.

Livermore details on his blog the many cross-cultural behaviors that could be interpreted as rude. The list is long, everything from looking a superior in the eye (offensive in Nigeria) to not looking someone in the eye (offensive in Canada).

Sources: Harvard Business Review, Cultural Intelligence Center

BIG-BOX BLUNDERS ABROAD

Walmart in Germany: The discount retailer's famous greeters were a put-off in Germany. It was one of many factors that led to all stores in the country closing in 2006.

Home Depot in China: The company disregarded the fact that the Chinese see DIY as a signal of poverty. All stores were shuttered within six years, the last in 2012.

Source: Forbes

The truth is, all of us need to work on our cross-border business etiquette. "Most all of us adapt how we dress, behave and talk based on the situation. We should do the same thing during intercultural encounters," Livermore wrote. A keen sense of observation will get you far. "When interacting with someone from another culture, try to watch more, listen more and speak less," Meyer advises.

Making the effort to respect another person's culture can be the secret sauce that helps you build strong business relationships. Somewhere out there, success is just a proper email signoff away. ■

NEXT STEPS

- Working with someone from a different culture? Do some etiquette research to make sure things go smoothly.
- When doing business across borders, be aware of legal and taxation issues. An experienced team of professional advisors can help.
- Assume the best about people to keep cultural misunderstandings from getting blown out of proportion.