What's the plan?

Set goals for the final stage of your business so you can gain maximum value. **Interviewed by Kristen Hampshire**

You have probably been setting and reaching business goals for some time, marking your progress by market share, sales or percentage growth. Regardless of your stage in business, you set targets for performance and reaching them assures your success.

But what about setting goals with the business? How will you exit the business five to seven years from now? Your immediate goals for your business should align with these plans for the future.

"If you want to pass the business to family or key management, do they have the skills or will you need to train them?" asks Joel Guth, an advisor with Citigroup Global Markets Inc.'s Citigroup Family Office in Columbus. "Or do you want to sell the business, and if so, what is your strategy to grow it over the next three to five years so you can get a premium for it?"

Because answering these questions requires internal analyses, financial projections and a well-laid plan, *Smart Business* talked to Guth to determine exercises to help you determine if you are on track to reach your goals with the business.

Joel Guth
Advisor
Citigroup Global Markets Inc.

How does a business's life cycle affect an owner's future business plans?

Businesses go through various stages. The first stage is start-up, when you work toward profitability. The middle stage is profitability, when you ramp up growth. The third stage is maturity. By then, your business is much more stable, it is paying dividends and the growth rate has slowed down. Before this stage, you must ask yourself if you want to take the business to the next level, to grow and become an industry player — and if not, what are you going to do with the business?

Understanding your position in the business life cycle is critical before developing a strategic plan for growth so you can eventually sell, or for training so you can pass the business to family or employees. You always want to time the sale or succession to your advantage.

How does performance during the mature stage of a business, even if an owner doesn't plan to exit for several years, affect the future value of the business?

If you allow the business growth to slow to a 5- or 6-percent rate during the mature stage, you could reduce the value of the business. You get a better premium for a business that grows at 20 percent versus 5 percent.

Timing the sale at a high point for your business is critical. If growth has slowed, you may need to consider ways to ramp up growth before selling. That may mean taking on debt to expand the business, developing a new product line or reaching out to new customers.

When the goal is to sell the business, you must sell at the best time, meaning the best profit margins and the best point in the industry's economic cycle.

What if an owner wants to pass the business to family or key employees?

Then, ramping up growth is not necessarily the best approach. For example, if you grow your business from $50 to $100 million and you want your son to buy it, you have to fund a $100-million purchase. So if the business is growing rapidly and you want to pass it on, you should enter an arrangement that allows you to give shares to the heir at today's value, before you pass the baton. When growth occurs in the successor's name, it is much easier for this person to purchase the business down the road.

Regardless of whether you sell or pass on the business, you should do a S.W.O.T. (strengths, weaknesses, opportunities, threats) analysis. This is a standard exercise designed to get you thinking about what areas of the business you need to improve. This analysis also serves as a springboard for developing a strategic plan for the next five to seven years.

What projections should owners figure as they develop a goal for their business?

You may need to make operational adjustments and invest in growth if you plan to sell. For example, you may need to expand your sales force or hire a manager. You'll need to plan for these expenses and determine whether the investment of time and money you put into the business to make it more saleable is worthwhile.

Meanwhile, it is equally important to project financials if you are planning to pass the business to family or employees. This way if you foresee rapid growth, you can discuss options with your financial advisor to ensure the business will be within reach for your successor.

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