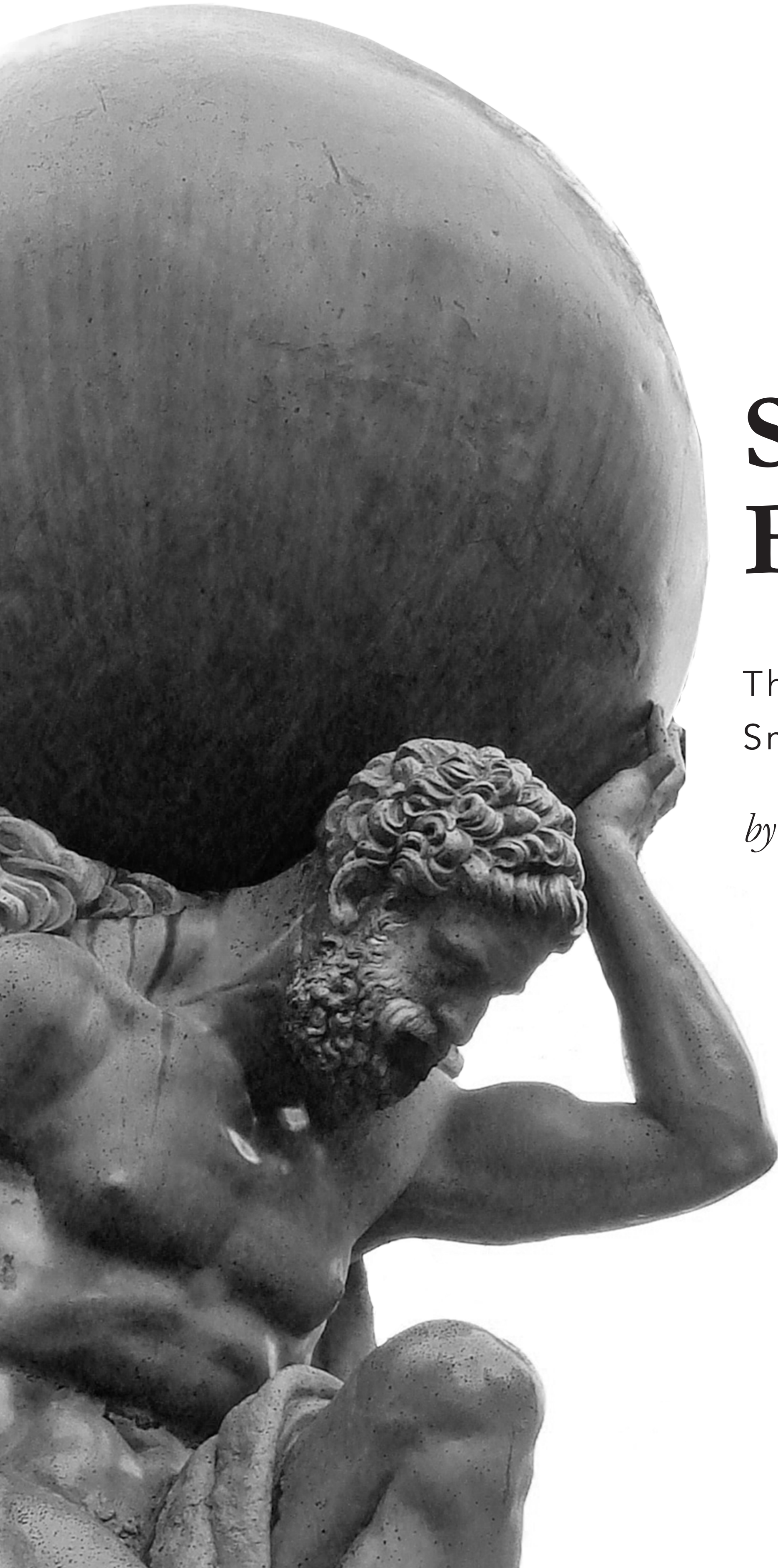

STRESS & BUSINESS

The Primary Causes of Small Business Stress

by DAN LACY

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Introduction

Owning a business can be immensely gratifying. As a business owner there is an incredible sense of accomplishment that goes along with managing the enterprise. But along with that comes stress. A nationwide survey of 1,000 small-business owners conducted in 2012 by Bank of America found that maintaining a business is twice as stressful as maintaining a relationship with a spouse. Furthermore, managing the small business can be almost three times as stressful as raising children, and more than four times as stressful as handling personal finances. It is not an easy job!

Rising stress is also a common problem for the small business owner. TD Bank found in a 2012 survey of 400 business owners that 60% of respondents say their stress levels are increasing. It goes without saying; stress is a key element in owning, growing, and running a business. But does owning a business have to be stressful all the time? No it does not! To reduce or eliminate stress we need to identify its source. But what are the sources? In my 35 years experience of working with business owners and CEOs, I have found that there are 7 primary causes of small-business stress:

> "The stress of maintaining a business is:
> - **2x** that of maintaining a relationship with a spouse
> - **3x** that of raising children
> - **4x** that of handling personal finances"

1. Inadequate cash flow
2. Uncontrolled growth
3. Lack of a revenue growth strategy
4. Lack of financial knowledge
5. Poor organizational structure and/or lack of delegation
6. No exit strategy
7. Lack of exercise and sound sleep

Now let's look at an example of how all these stresses come to life.

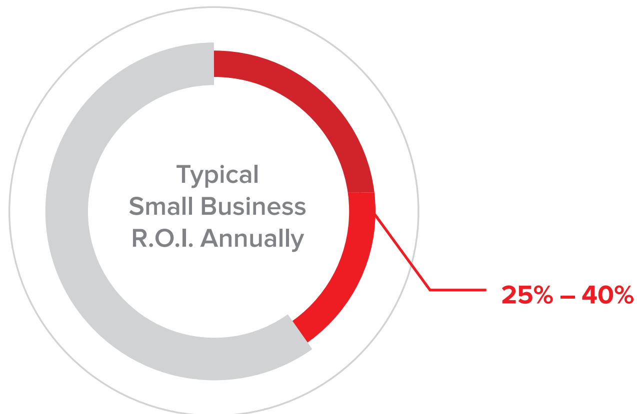
MEET BOB

Bob owns an equipment distribution business. He had a successful sales career as a manufacturer, but about 10 years ago Bob decided he would be better off if he owned his own company. Bob had the industry connections and the sales experience to move product, but his business management experience was very limited. He managed a few sales people in his previous career, but never an entire staff. He knew he could make money once he started selling, but he lacked a plan for growth and a vision for the future.

Bob was a hard worker, and he spent 12 hours a day managing his business. From the day he opened, sales were good, but cash flow was an issue. It impacted his ability to pay bills on time. If he just had more time during the day to do some planning, he could figure it out. He was sure of that. But where would the time come from? He was already so busy. And even if he could find the time, where would he get the capital to invest in more staff, marketing, and inventory? It seemed impossible. Stress started to build.

Sound familiar?

By overcoming the sources of these stress points, you can better focus on the positive aspects of running your business and reap the rewards. Successfully managed small businesses have a better return on investment than just about anything else in which one can invest, typically 25% - 40% annually. Compare that to any other investment over the last 20 years, and the small business investment will win every time. In the book, *The Millionaire Next Door,* by Thomas J. Stanley and



William D. Danko, they state that a person is 4-6 times more likely to become a millionaire by owning their own business than working for someone else. In fact, 60% of all new millionaires come from business ownership.

STRESS FACTOR NO.1

Inadequate Cash Flow

Most business stress is caused when there isn't enough cash in-flow to keep up with the weekly cash out-flow needs of the company. An indication that a company is dealing with cash flow problems is the observation that accounts payables are not paid in a timely manner. So what causes poor cash flow? There are a number of causes, so let's start with the most common.

INADEQUATE PROFIT OR NO PROFIT

This is probably the biggest problem a small business faces. Most business owners don't fully comprehend the importance of profit and the role it plays in cash flow. Usually profit comes under considerable scrutiny at the end of the year when the taxes are calculated, but profit shouldn't be evaluated at the end of the year (more on this later in this article). Lack of profit is caused by deteriorating revenue (lack of sales), deterioration in gross profit margins, or increasing overhead expenses. For some businesses, profit is something that has never been calculated properly. They simply don't build in enough profit.

SOLUTION

One of the best ways to improve cash flow is to have a plan for consistent profitability for the entire year. First, develop a monthly profit plan, defining by month the revenue, gross profit, including gross profit margin percentage, operating expenses, and, finally, profit itself. Evaluate against these targets each month, figure out what went wrong, and then fix it. If you do have a profitable year, don't be motivated to take year end actions to reduce profit just to reduce tax consequences. Sometimes that is completely the wrong solution, even if it does save money in taxes.

WIDE SWINGS IN MONTHLY REVENUE

Businesses that have planned or unplanned wide swings in revenue (the HVAC industry, for example) will also experience cash flow challenges. They sell a bunch during part of the year, and then go into hibernation mode for the remainder. Regardless of whether your swings are predictable or not, consistent revenue is critical to cash flow.

SOLUTION

Try to even out revenue or bring on another product line that will offset the down months of your current product or service offerings.

For example, Bob learned after a few years that sales dropped off during the summer months. Family vacations and activities simply prevented his customers from buying. Therefore, Bob added another service to his sales mix. By promoting a seasonal service, he was able to offset the dip in the off sales months.

EXCESSIVE DEBT

Debt that requires monthly payments can also inhibit good cash flow. Even if the company is profitable, often there isn't enough cash flow to pay the monthly principal and interest payments.

SOLUTION

Step 1. Add up the cash flow for the year (also called EBITDA)

Profit + Deprecation + Amortization + Interest
= *Cash Flow (EBITDA)*

Step 2. Add up all of the monthly principal and interest payments (P&I) on existing debt plus interest on all other debt (credit cards, line of credit and interest payments where there are no principal payments) and get a total for the year.

P&I + Interest = *Debt Payment*

Step 1 (cash flow) should be at least 125% greater than the payments (debt) added up in Step 2. This would be adequate for a typical bank evaluation.

Cash Flow : Debt Service Ratio
Example: $125,000 : $100,000 = 1.25 : 1

EXCESSIVE OWNER DISTRIBUTIONS

This problem doesn't show up on the profit and loss statement, and it can only be identified by looking at the equity section of the balance sheet. This is where the owner is taking distributions in lieu of or in addition to salary compensation, which are more than the company can sustain.

SOLUTION

Owner distributions should only be taken when the company's cash flow to debt service ratio (see excessive debt formula above) is over 150% and total liabilities divided by capital in the company is less than 4:1.

Debt to Worth Ratio = Liabilities/Capital < 4 : 1

POOR MANAGEMENT OF ACCOUNTS RECEIVABLE OR INVENTORY

Trying to collect money is a difficult task for some business owners. Even though they know the money is owed to them, they are hesitant to ask for it. Therefore, keeping tabs on receivables becomes an afterthought. Likewise, the same goes for inventory management. Inventory is cash. The faster inventory moves the better. Often business owners will stock too much or too little inventory – both are bad. Too much means you have cash wrapped up in static inventory. Too little means you can't make sales.

SOLUTION

Review the accounts receivable aging report with the person responsible for calling on late accounts. This should be done monthly and sometimes weekly. Review inventory quarterly. The growth in inventory should be lower than the growth in revenue. For example, if inventory at year-end is $100,000 and the inventory last year-end is $75,000 that represents a 33% growth in inventory year over year. Then, compare that number with the growth in revenue for the same periods. The goal is to keep inventory growth lower than revenue growth, not the other way around. Inventory growing faster than revenue will cause cash flow issues and challenges.

> "Review inventory quarterly. The growth in inventory should be lower than the growth in revenue."

NO ON-GOING EVALUATION OF THE KEY CASH FLOW INDICATORS

One of the easiest ways to determine if cash flow (also called working capital) is improving is to look at three indicators on a monthly basis:

1. Accounts receivable (AR) compared to accounts payable (AP) plus line of credit (LOC) outstanding. For example,

if accounts receivable are $200,000 and accounts payable is $100,000 and LOC outstanding is $100,000 (or both equal to $200,000) that equals 1 to 1 ratio. If the company is doing well, the ratio should improve as times goes on to 1.1:1, then 1.2:1 etc.

AR : AP + LOC = 1 : 1

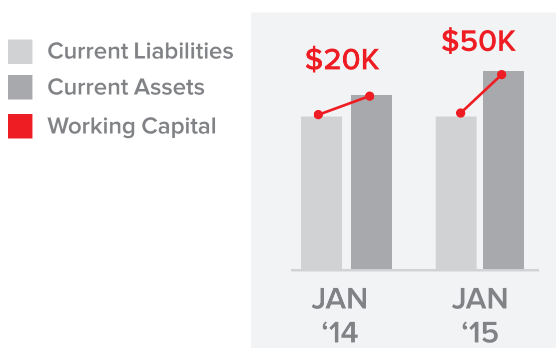
Example: $200,000 : $100,000 + $100,000 = 1 : 1

2. Working capital growth, year over year. Working capital is defined as current assets minus current liabilities.

Current Assets - Current Liabilities = *Working Capital*

Example: $150,000 - $100,000 = $50,000

This number, when plotted on a graph, should be on a continual upward trend, and the numbers should improve as the year goes on. If this number starts to weaken (the trend line starts to go down), there is trouble on the horizon. For example, last month current assets were $150k and current liabilities were $100k, which makes working capital $50k. For the same period last year, current assets were $120k and current liabilities were $100k, making working capital $20k. So there was an improvement of $30k over the last year. This is a good sign. If working capital (the number) decreases, it is a bad sign. But to know if this indicator is working, you have to do these calculations.



3. Another cash flow or working capital indicator is the current ratio. The current ratio is calculated by current assets divided by current liabilities. For example, with current assets of $150,000 and current liabilities of $100,000, current ratio would be 1.5 to 1 – or another way to look at it is $1.50 in current assets for every dollar in current liabilities. This number should continue to improve from 1.5 to 1.6 to 2.0 and above as time marches forward. If this number improves, typically the company is doing better. If it goes down, it is an indication that things are not going well and management should look for what is causing this trend to deteriorate.

Assets ÷ Liabilities = *Current Ratio*

Example: $150,000 : $100,000 = 1.5 : 1

STRESS FACTOR NO.2

Uncontrolled Growth

Early in my practice I met Judy Nagengast, who was the CEO of Continental Manufacturing in Anderson. Her company was growing fast, and she told me managing her company "felt like she was driving a car down the road at 60 mph in the fog." She knew she was still on the road, but she was unsure of how long she could go without a major crash while at the same time afraid to slow down.

This is very stressful. Lack of control can occur due to fast growth, deteriorating revenue, expenses rising faster than revenue, high employee turnover, or even exciting new opportunities that cannot be passed up.

SOLUTIONS

How do you deal with this? There are a number of steps a business owner can take to regain control of their business. We will start with the basics and work up to the more advanced processes that are used by growing successful businesses.

Make sure that you that you are reviewing accurate financial statements on a monthly basis, preferably before the 20th day of the following month. Financial statements are the cornerstones of controlling the business. They offer a black and white, objective view into what is going on in the business. It is absolutely critical to ensure you have good data from your financial statements. If you are uncertain of the data, consult an accountant, your banker, or even a third party consultant (like me!). Additionally, financial statements are the documents that the outside world uses to evaluate and make decisions on how they deal with you and your business. Timely and accurate monthly financial statements are very important (even critical).

Create a forward-looking plan. This can be a business plan, a budget or any type of planning tool that breaks down revenue, cost of goods, gross profit, gross profit margin percentage, operating expenses, and profit each month. Ultimately, you need to know what you are shooting for to be able to get there. As I often say, "The probability of hitting a target is much greater if you have one." Your plan should include goals and budget for staff too. Sales personnel need monthly revenue targets that include gross profit margin goals. Your administrative staff needs an expense budget so they know what they are able to spend. And, you need to know what your profit target is each month and for the year. Communicate these goals consistently with your key management team.

> "Create a plan that is broken down by:
> - Revenue
> - Cost of Goods Sold
> - Gross Profit
> - Gross Profit Margin %
> - Operating Expenses
> - Profit Each Month"

Measure your actual performance (from your monthly financial statements) against your forecast and see what is working and what isn't. Correct those things that are off course. For example, if revenue is under target, you call on your sales staff. If margins are off, talk to your estimators or those who create the estimated cost for the customer, if your overhead/operating expenses are high, talk to your administrative staff. Finally, if your profit is short, find a good mirror and look into it and ask yourself WHY.

Update and distribute an organizational chart on a quarterly basis to present a clear chain of command. This will bring questions, which will be good in helping people identify and clarify their key functions.

Meet with your key managers on a weekly basis, and communicate what is going on in the company, the current challenges that need attention, and ask what their needs are. Let this be a place where the managers can discuss what is going on. It will help the other members of your team to get the big picture of the business.

Bob knew how to sell and he knew how to motivate his sales staff. But he didn't know how to effectively manage the other aspects of his business. His inventory levels fluctuated. His marketing materials were cobbled together and his operations staff didn't have a clear idea of who was in charge when Bob was not around. Bob also struggled with the financial aspects of his business. He measured success in total sales, but rarely evaluated anything else except looking at the bottom line. Some months he made a profit, others he didn't. He couldn't figure it out.

STRESS FACTOR NO.3

Lack of a Revenue Growth Strategy

Many times revenue growth can be one of the biggest challenges that a small business faces. Statistically, the odds are stacked against small businesses. Only 23% of businesses with employees exceed $1M in revenue. It gets harder. Only 11% of businesses exceeds $2.5M in revenue, 5% exceeds $5M and 3.26% exceeds $10M.

SOLUTIONS

There are a number of strategies for increasing revenue, including:

S Strengths	W Weaknesses
O Opportunities	T Threats

Perform a SWOT analysis with your key managers or even just your sales team. SWOT stands for Strengths, Weaknesses, Opportunities and Threats. By performing this analysis of your business (and your market) you can find areas of improvement or opportunity. Perhaps you'll learn you are pricing your self out of the market. Or maybe you offer products your unfamiliar to your customers. Maybe your biggest competitor is dropping the ball, and you can take advantage of this opportunity.

Extend the geographic market for your product. Look at the opportunities in the neighboring counties or states.

Add additional services or products that complement your existing products or services. It is easier to sell a new product to an existing client than it is to sell to a new client.

Evaluate your marketing strategy; determine what marketing/advertising is working and what isn't. Do more of what is working and eliminate what isn't. To do this, you have to understand where your sales are coming from. Be sure to track every lead or sales source. Every time the phone rings, make sure your people capture the lead source and trap that information so you and your team can review it monthly.

Raise prices. Many businesses have been reluctant to increase prices due to the recession or the fear of losing a customer. But the reality is that prices have to go up because your costs eventually go up. Inflation does not stop, so it doesn't hurt to raise prices and see how your customers react.

Review your sales literature. Make sure that your website, product brochures, business cards and other product information puts your best foot forward. If you are unsure, get an outside opinion. Your advertising should represent your business in a positive light. If it does not, revise it.

Evaluate your sales compensation program and the historic performance of each of your sales people. Determine who is selling and who isn't. For those who are underperforming, offer training or coaching. If that doesn't work, bring in new sales staff.

STRESS FACTOR NO.4

Lack of Financial Knowledge

A report, published in November 2014 by Intuit in partnership with Decipher Market Research, surveyed 500 small business owners to uncover common challenges that small businesses face. The survey found that 41% of respondents considered themselves only "somewhat" or "not very" financially literate. Almost half didn't feel they had the financial knowledge they needed to operate their business well.

Interestingly, the majority of the respondents were not young, uneducated, or inexperienced business owners. Just over half (51%) were 45 years or older, 57% had a college or post-college degree and 51% had been in business more than three years. So, the fact that so many considered themselves "not very" financially literate is alarming.

Why the lack of financial literacy among so many mature, educated, and experienced business owners? "Small business owners and entrepreneurs are the engine of growth and the backbone of the economy," said Terry Hicks, Vice President and General Manager, QuickBooks Online, at Intuit. "But most of them don't choose to become their own boss because they love balancing the books. They go to work every day because they have an idea, seize the potential, and use an uncompromising drive to get the job done."

Despite their reported lack of financial literacy, respondents consider financial literacy important. Seventy-three percent said they considered understanding finances as an "extreme impact" or "big impact" on the way they run their businesses. In addition, 66% reported that they wished they knew more about their finances.

Still, 58% had never taken courses outside of normal schooling to improve their understanding of their business' finances, 39% do not follow financial news, and 35% do not use financial statements in their businesses.

"The reality is that most small business owners are uncomfortable with finances, recognize the importance of finance; yet choose to do nothing about it."

Despite their reported lack of comprehensive financial knowledge of, and financial expertise in, their businesses, 81% of respondents stated that they handle part or all of their business finances themselves, 20% outsource part or all of it, and 6% seek help from friends or family.

The survey also found that only 38% of respondents think that their employees understand their business' finances "completely" or "very well." Overall, though, most respondents prefer to play things financially "close to the vest."

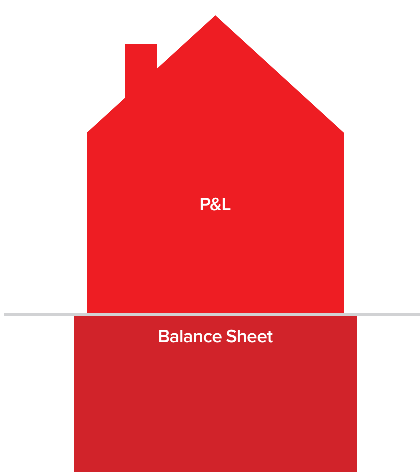
So, the reality is that most small business owners are uncomfortable with finances, recognize the importance of finance; yet choose to do nothing about it.

SOLUTIONS

Here are a number of ways you can start to improve your financial knowledge:

Realize that numbers are your friend. If you don't understand something about your numbers, ask someone who can help you learn what all the numbers mean. That can be an outside consultant, banker, or even an accountant.

Realize that your business has two crucial financial parts that reflect the health of the business in financial terms: the profit and loss statement and the balance sheet. Think of it this way; there are two parts to a building, the foundation below the ground and the structure above the ground. The above-ground structure is like the profit and loss statement – what most people look at. But, the part that provides the stability to the business is the balance sheet. Most people don't pay a lot of attention to the foundation of a building just like most business owners don't pay much attention to the balance sheet; but ignore the foundation long enough and it will affect the structure above ground. The same could be said about the financial foundation of the business and the data found on the balance sheet — it is just as important as the profit and loss statement. Seventy to eighty percent of business owners don't understand how the balance sheet is the foundation for growth in their business, and this is why many businesses don't grow.



Financial trends are key indicators to the health of your business. A monthly three-year trend line is good, and it should be updated and reviewed monthly. If the business is doing well, the key trend lines will be moving in a positive direction.

Here are a list of basic financial trends that you should be looking at monthly:

- **Revenue** – is the overall trend moving up, flat, or down?
- **Gross Profit Dollars** – is the overall trend moving up, flat, or down?
- **Gross Profit Margin Percent** - is the overall trend up, flat, or down? There should not be wide swings in the gross profit margin percentage. If there is, that is an indication that something else is wrong.
- **Operating Expenses** – is the trend up, flat, or down? Another variation of this is operating expenses divided by gross revenue to get a percent. Is this number consistent, rising or falling?
- **Profit** – this number should be on a constant gradual increase. Watch December to see what impact that has on the overall year.
- **Working Capital** – this should be trending up. It is calculated as current assets minus current liabilities. Successful businesses will see this value moving up on an on-going basis.
- **Debt-to-Worth** – This is total liabilities divided by capital, and it should be flat or trending down. An upward trend is a bad sign.

Typically most of these should have an upward trend, except for debt to worth. If they don't, then that is an indication of where to look for what is keeping your company from moving forward.

Make a list of financial information you would like to learn more about. Here are some suggestions:

- Why is a P&L arranged like it is?
- What is the difference between gross profit and net profit?
- How is gross profit margin calculated?
- How do I know that my financial statements are accurate?
- How do I find a good outside accountant?

Every month Bob would review financial reports. He was fortunate because he had a software package that enabled his bookkeeper to create reports very easily. And every month Bob would review the numbers. He could see revenue, expenses, percentages and dollars, and though he understood what each number meant individually, he could not translate the numbers into action. Basically, he was going through the motions. That's until he decided to get help. Bob called the banker that first helped him with his small business loan and he reviewed the data with Bob. The numbers then started to make sense!

STRESS FACTOR NO.5

Poor Organizational Structure and/or Lack of Delegation

The purpose of a business is to meet the needs of the customer. So it has been my experience that the needs of the people inside the business get overlooked until a major issue develops (key people leaving, high turnover, or poor morale). To avoid the potential of major issues, let's look at why a clearly defined organizational structure is important to every growing business.

Here are 4 reasons why it is important.

1. **Flow of Information** – A chain of command defines how information is passed on throughout the company, and it bridges the flow of work between each of the functions in your business. When one piece of the organization is dysfunctional, it damages the functionality of all the pieces. A complete organizational structure takes into account effective business controls, placing the right people in the right jobs, providing incentives that work, and having sufficient resources to fulfill your obligations. You'll be able to plan effectively when all the pieces of your organization work in concert with each other, allowing you to offer consistent and reliable service to your customers.

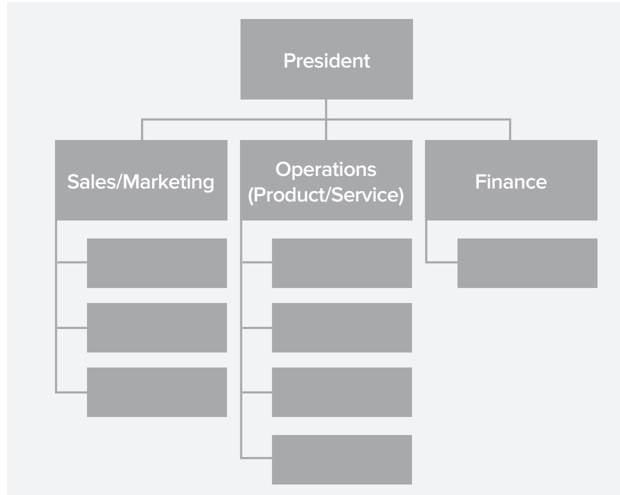
2. **Role Confusion** – When roles (job descriptions) are not clearly defined, confusion is almost inevitable. It can create wasteful duplication of effort and contradictions. This confusion will waste resources (human and financial) and it cuts into profits and morale. An example of this is often found where several people are responsible for the same project. This creates confusion for those involved and results in lost time performing the same function. Another example is when a group of employees report to two different managers. Who is in command?

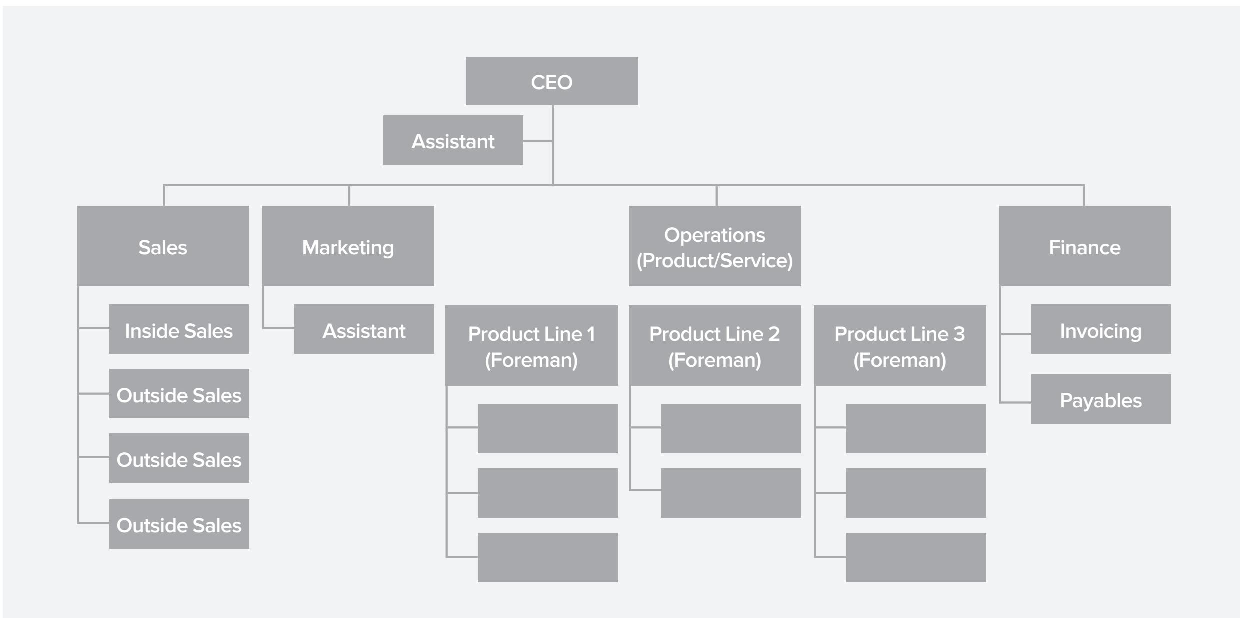
3. **Low Morale** – If employees don't have a good understanding of who they report to or their job responsibilities, it will create frustration and low morale. This is compounded when it spreads across two or three levels within your organization. Ultimately, it will impact their engagement and effectiveness, and ultimately decrease their engagement.

4. **Customer Obstacles** – The business revolves around the needs and wants of the customer. If a business makes it difficult for their customers to do business with them, then the customer will leave. It is that simple. Poor internal organization eventually reaches your customers, who lose confidence in your ability to effectively serve them. Profitable clients are attracted to a smooth operation in which they can place their confidence. While your employees' uneasiness with the bad organizational functions may cause temporary setbacks that you may be able to fix, losing customers can mean disaster. You not only lose immediate business, but your referral stream also may dry up. Dissatisfied customers tend to talk about their disappointment with vendors and providers, making it more difficult to establish new business.

ORGANIZATIONAL STRUCTURE

Organizational structure refers to the assignment of management duties and how you organize your various functions. Many small businesses start with a flat organizational structure, which has a few key employees reporting to and working directly with the owner. As companies grow, they often create hierarchical corporate structures, which include departments, executives, managers, and subordinates. They then create organization charts that show the structure, both in terms of functions and employees.





SOLUTION

Sit down and create an organizational chart for your company, and then give it to two or three of your managers and ask for feedback. Once you get their feedback and update it, date the organizational chart and distribute it to your employees. You may also place one in the main lobby where all can see it in case they lose their direction.

When Bob started his distribution business he did not hire a manager to save money. But, as the business began to grow, he quickly found himself spread too thin. Ultimately, he hired a manager.

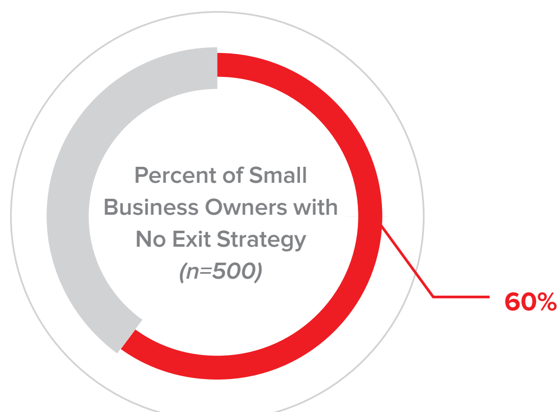
However, this created some issues. There were two employees who were already performing some of the duties of a manager, and they felt slighted when those duties were taken away. Also, his best salesman was basically running the sales department and managing all the sales staff. Was he still in charge? After several months, Bob realized that his problems didn't go away when he hired a manager. He needed more organization. After meeting with his new manager, they developed an organizational plan. The manager created an organization chart to outline the flow of decision-making and work. Bob was at the top of the org chart. The manager, Jason, was just below Bob on the org chart. Jason knew he needed help, so he delegated some key responsibilities to the staff members who were actively helping before his arrival. This allowed these employees to feel engaged again.

STRESS FACTOR NO.6

Exit Strategy? Most Small Business Owners Don't Have a Plan

Small business owners pump everything they've got into their companies. They might assume their years of hard work and substantial investments will pay off when they're ready to leave the business. But, unless they've done the prep work, the majority will not get the money they expect.

A study conducted by the Gestalt, Inc., asked 500 small business owners about their plans and assumptions about exiting the business. More than 60% of small business owners planning to leave their business in the next 10 years stated they don't have an exit strategy and aren't working on one. This study confirms my experience with hundreds of small businesses — business owners typically don't plan for their exit from the business. But, every business owner will leave his or her business—*it's inevitable*. What should you do?



WHY IS IT SO IMPORTANT TO HAVE AN EXIT STRATEGY?

Most business owners have the majority of their wealth in their illiquid, privately-held business. In addition, most owners and their companies have a rather risky and unhealthy co-dependency. In other words, the owner depends on the company for income, perks, and a sense of fulfillment while the company is dependent upon the owner for strategic, operational, financial decision-making authority, and, in most cases, personal guarantees on company debt.

Business owners need to think about who might own the business after them. This can help to alleviate some of these issues. In most cases, the potential buyer will evaluate the future value of a company based on the business' strength and its ability to perform without the current owner (e.g. the strength of the management team). If the success of the business is highly dependent on that owner, the value and future of the business is at risk, and it may affect the successful transition of the company. For instance, are the sales and customer relationships dependent solely on the owner for success? Does the owner make all critical strategic and operational decisions alone, or is there a strong management team in place? A planned exit strategy will help reduce owner dependency and, perhaps, further empower a management team, enabling that team to either ascend to ownership or help a new owner successfully continue to run the company into the future.

HOW LONG IN ADVANCE SHOULD BUSINESS OWNERS BEGIN TO PLAN THEIR EXIT STRATEGY?

Ideally, an exit strategy is planned at the outset of a business, although because businesses are so fluid, it can be difficult to know what the final version of the business will look like. For a mature company, the sooner a plan is put in place, the better prepared an owner will be when an exit is available, both personally and professionally. Owners should provide at least 3 years lead time for their planned exit.

WHAT OPTIONS DO BUSINESS OWNERS HAVE WHEN DESIGNING AN EXIT STRATEGY?

Most owners are not aware that a number of options are available for a customized exit. The private capital markets have changed substantially in the past 20 years, offering transfer alternatives that did not even exist when most owners started their companies. These options include private sales, management buyouts, co-owner buyouts, an employee stock ownership plan (ESOP), and gifting the business to family members. And there is a growing community of professional investors (private-equity groups) that have a surplus of cash to invest in the right opportunities. These private-equity groups can custom design a solution for the right-sized business with the right growth story. But in the end, the appropriate exit strategy is dependent on both the owner's personal goals as well at the company's transferability status, which is based on its financial and operational status.

WHAT STEPS SHOULD OWNERS TAKE TO PREPARE FOR THEIR EXIT?

The planning starts with your personal and business goals, and then assessing your mental and financial readiness. After that, you need to identify the exit options that are most aligned with your goals and readiness. Finally, the process concludes by attending to the executable items, such as taxes, deal structure, and other critically important elements of a plan. When owners follow these steps in order, they will crystallize their goals, determine whether they are ready, and pinpoint the best option and valuation for their situation.

Exit Strategy Steps:

- ☐ Determine your personal and business goals
- ☐ Assess your mental and financial readiness
- ☐ Identify options aligned with your goals and readiness
- ☐ Attend to executable items (i.e. taxes, deal structure, etc.)

IS IT NECESSARY TO HIRE A CONSULTANT WHEN PLANNING AN EXIT STRATEGY?

While it is not necessary to use a consultant, most owners benefit from this level of assistance. An exit-strategy consultant can help develop the written plan and hold the owner accountable as they advance toward their goals. The consultant will also educate the owners as they progress through the various phases of the planning. Theoretically, owners can do this work on their own. However, it is likely that without experience in this area, they will make mistakes that cost much more than what they otherwise would have paid an advisor.

WHAT IS THE MOST IMPORTANT THING SMALL BUSINESS OWNERS SHOULD KNOW WHEN THINKING ABOUT EXITING THEIR BUSINESS?

The exit is a process, not an event. This process takes time and will impact a lot of people, so owners should put a lot of thought and analysis into it in order to gain clarity about what the right decision is. In most cases, if owners make the investment of time, they will be rewarded for it. Likewise, if they don't take the time for this type of planning, then they leave their legacy and wealth to chance.

STRESS FACTOR NO.7

Lack of Exercise and Sound Sleep

Although this doesn't seem related to business stress, understanding the relationship between exercise and sleep is directly related to success in business. Stress is something that comes with business ownership and the better we can manage that stress, the better our businesses will be, the better relationship we will have with employees, and the better decisions we will make.

Remembering the following has worked for me and will work for you. Just give them a try, even if it is for just a week. Once you start, there is no telling how this will impact all of the other employees in our organization.

EXERCISE HELPS TO REDUCE STRESS

When you exercise, your body releases endorphins which are hormones that can boost your mood while lowering your perception of pain. The production of endorphins makes you feel better, more relaxed, and invigorated. Exercising regularly consistently boosts your mood and self-perception, and it helps you handle everyday stress more effectively.

EXERCISE HELPS YOU SLEEP WELL

I am sure that you have slept better after a good workout, a long hike, or nice bike ride. It is when we work long hours and don't take the time to exercise that quality of sleep diminishes. We make better decisions if our minds are refreshed, and this requires sleep. Additionally, subconscious thinking requires sleep. Yes, your mind does work while you sleep, and it can even figure out complex problems while you are sawing logs.

EXERCISE GIVES YOU ENERGY

The good news is that exercise will increase your determination and strength, both physically and mentally. Allocating time to exercise every day will enable you to work harder, smarter, and longer than without exercise. The next time you are feeling tired, don't sit down—do the opposite. Take a brisk walk or a bike ride or play a game of basketball with friends. Fifteen to twenty minutes of exercise every day will pay huge dividends.

EXERCISE IS YOUR 'OWN' TIME

When you take time to exercise, you're away from the job and from the issues. It gives you time to think. It is your "own" time, and you need that to stay mentally sharp. It is amazing how effective some time away while exercising can be, as it can solve so many problems.

HELP IN GETTING YOU THERE

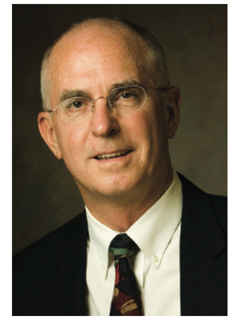
There is a little device I wear called the Jaw Bone Up 24, which is a bracelet that keeps track of my activity as well as my sleeping. It alerts me when I haven't taken enough steps to meet my goal for the day. It also tells me how well I slept the past night. It was a great investment, and I wear it religiously.

Devices like that can be purchased for less than $100, and they can integrate with a smart phone. I highly recommend them. You can also find an exercise buddy. Your spouse, a neighbor, or perhaps your children are all good choices. When you exercise with a buddy, you become more invested in the activity and are more likely to devote time to the activity. Most people who exercise with a partner don't want to let their partner down, so they exercise more consistently. Ultimately, find what works best for you. When you do, your business will benefit.

When Bob first opened his business ten years ago, he worked long hours. He was physically exhausted after 12, 13, and 14-hour days. But after he hired a manager and created a functional organization, his workdays have became shorter. He even found time to pick up his favorite pastime, tennis. Now Bob plays tennis several times a week in a league. He feels obligated to play because others are counting on him. This exercise gives him a break from his work and the chance to clear his mind. He also walks with his teenage daughter every evening after dinner. Not only does this provide exercise, but also it gives Bob the opportunity to catch up with her day and stay engaged in her life.

About the Author

Dan Lacy has mentored and coached hundreds of business owners in manufacturing, construction, service and wholesale industries. Many are the recipients of prestigious awards, such as Entrepreneur Business of the Year, SBA Business of the Year, Impact 100, PACE, Growth 100, and INC. 500 Fastest Growing Companies.



Armed with an undergraduate degree from Azusa Pacific University and an MBA from the Peter Drucker School of Management, Claremont Graduate School, Dan built the foundations for his career in finance from various business perspectives. As a bank lender, he helped scores of small businesses get the financing they needed to grow their business. Next, Dan ran a Small Business Investment Company (SBIC) responsible for business lending in a three-state region. At 32, he was running a bank-owned venture capital fund.

Dan has written numerous books, speaks, and continues to work with business owners on: growth (value and revenue), accountability and problem resolution.