

## MONEY matters

### REQUIRED READING

## Book helps owners with exit strategies, succession plans for top business value

BY JOHN TOWNES

Allen Harris, CEO and chief investment officer at Berkshire Money Management in Dalton, noticed a pattern among some of the clients he has worked with.

He explained that, as a financial advisor, he often works with business owners who have sold their business in preparation for retirement. Too often, however, these clients were disappointed by the price they had received for their business, which reduced their anticipated retirement income.

“If you’re a business owner, the value of a business is a key part of your personal net worth,” Harris said. “However, in many cases people came in with checks from a sale that were smaller than they had been expecting, and that were less than I believed their business was actually worth. As a result, their retirement income was not what they had hoped it would be. They had to cut back on some of the things they had intended to do in their retirement.”

He added that this was not limited to businesses that had been marginal or unsuccessful. “This also happens to people whose businesses were successful by most measurements and had an excellent reputation,” he said. “They did well, until it came time to sell.”

Harris said this led him to research the problem. While his firm’s focus is primarily on personal finances, he said he has also been placing more emphasis on helping business owners plan for an exit from their business, so they can receive its full value.

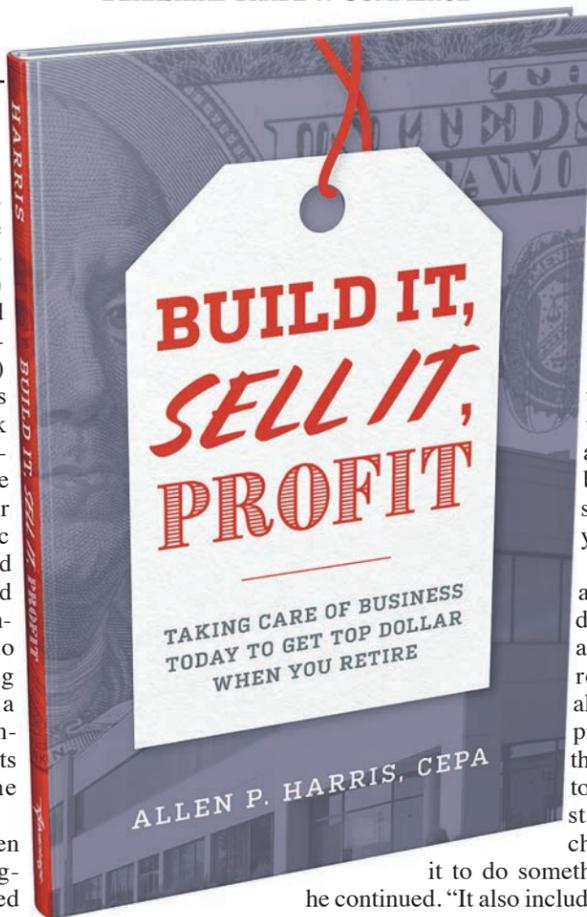
As part of that process, Harris (along with Lauren Russo, the firm’s client success coordinator) recently achieved the Certified Value Builder (CVB) designation. CVBs are trained to work with business owners to utilize the Value Builder System, a specific methodology and software designed for business owners who want to retire by selling their business at a premium, and increasing the profits and value of the business.

In addition, Allen earned the designation of Certified Business Valuation Specialist by completing specialized coursework to update and sharpen his existing business valuation skills.

His work in this field also prompted him to write a new book, *Build It, Sell It, Profit* (with the subtitle *Taking Care of Business Today to Get Top Dollar When You Retire*), which he has published through Advantage Media Group. The book is available through Amazon.com and can also be purchased directly from Berkshire Money Management (413-997-2006 or berkshirerm.com).

Harris explained that *Build It, Sell It, Profit* is intended to help business owners prepare an exit strategy and succession plan.

“A goal in owning a business is being able to eventually sell it for its highest possible value,” he said. “You should be planning and operat-



ing the business in a way that will allow you to profit from it when you retire. That also applies to younger people and newer ventures. It’s harder to think of that in a new business, but you should start as soon as you can.”

He added that an exit strategy does not only apply to literal retirement. “It also means being prepared to exit the business due to other circumstances, such as choosing to sell

it to do something different,” he continued. “It also includes being able to keep the business running if illness or other unforeseen personal problems arise which prevent you from directly participating in it.”

Harris noted that developing an exit plan includes many principles that can yield results for the business long before it comes time to sell. “A good exit strategy can also make the business more successful and profitable now,” he said.

### Objective rather than personal

According to Harris, one of the basic mistakes business owners make is looking at their enterprise in terms that are too personal. He said, for example, that owners often look at their business as a career rather than a business.

“Too often, people think of starting and running a business as creating a job for them-

selves,” he said. “They may be great at it, and the business may provide them with a good income and a nice life. And the business may have a great reputation. But if they haven’t also thought like a business owner, they’ll be disappointed when it comes time to sell it.”

One key to a successful exit is understanding the true value of a business, Harris emphasized. He suggested doing an objective analysis of the business as a starting point.

“First of all, don’t overestimate its worth because of what it means to you,” he said. “It’s vital to look at your business through the eyes of an outside buyer.”

This, he added, is similar to selling a house. “We think our home is special because of the memories we have there, and the improvements we’ve made over the years,” he said. “But to a buyer it’s just another house. Its market value is based on objective criteria compared to similar houses on the market.”

Harris noted that the value of a business to buyers is measured through a combination of tangibles and intangibles.

A business includes inventory, equipment, property and other fixed assets, he explained. These are important elements of its overall value. Having efficient equipment that is in good shape, for example, gives the business more value than if the new owner will have to replace it.

“However, a buyer is primarily concerned with how the business will perform after they take it over,” Harris said.

“There are many factors, but ultimately what they are looking at is cash flow,” he said. “The sale price will be largely based on what is called EBITDA, or earnings before interest, taxes, depreciation and amortization. They are willing to pay a multiple of that when they buy a business.”

Those multiples – and the sale price – are based on a variety of factors related to how the business is operated.

“Everything that a business is doing wrong knocks that valuation down,” he said. “There are many value drivers. For

example, not having an organized, documented workflow can knock the multiple down. If you haven't secured your key people to stay on after the sale, that can lower the multiple. All of these and other factors can reduce the value of the business and the amount a buyer is willing to pay."

(Harris noted that Berkshire Money Management has free online tools on its website to help determine the value of a business.)

### Delegation

Having an effective team will enhance the value of a business, whether it is small, medium or large, Harris said.

Some businesses are not conducive to a sale if they are entirely dependent on the personal talents and direct involvement of the owner. These might include a solo professional practice, such as a physician, attorney, consultant, creative artist, artisan or service provider.

Other businesses have teams of varying sizes and levels, including partners, managers and other staff. "These are more likely candidates for a successful sale, if the business is organized in a way that can be self-sustaining after the present owner leaves," he said.

Harris said an important step in the process is for a business owner to carefully evaluate their own strengths, and what they contribute to the business. To ensure it can continue without them, an owner should step back and not feel obligated to be actively involved in or micromanaging all its operations.

"A guiding principle is delegation," said Harris. "Figure out the two or three things that make you most valuable to the business, focus on those, and delegate the rest."

The way that is done will depend on the size and nature of the business, as well as the owner's own strengths and weaknesses. An owner may be oriented more towards entrepreneurial skills and business management, for example, while a different owner may have a specific skill or expertise that is integral to the business's product and identity.

"If you are a talented cook and open a restaurant, it would be better to concentrate on that, and get someone else to run the business, rather than trying to do it all," Harris said.

The actual process of dispersing responsibility will also reflect other circumstances, such as if it is an established business with



**Allen Harris, CEO of Berkshire Money Management, says his book was inspired by instances in which clients have gotten less than expected from the sale of their business. "As a result, their retirement income was not what they had hoped it would be," he says. "They had to cut back on some of the things they had intended to do in their retirement."**

a complete staff, or is a smaller operation in the formative stages of its development and growth. In any case, Harris said, strategic planning and specific processes of delegation will help the business to be more self-sustaining.

This includes determining and clarifying the responsibilities of others on the team and designating specific responsibilities to the most appropriate people, such as sales, marketing, production, accounting and customer service.

"One step is to set up specific, short-term goals, assign them to specific people, and then leave them to do it," said Harris. "You might determine an overall one-year goal for the business. Then break it down into

smaller pieces and bring in your top people. Explain what you want done and make individuals accountable for their assigned goals."

He added that this should be looked at incrementally, to enable the overall transition of responsibility to be manageable and realistic.

"We tend to overestimate what we can do in the short term, but underestimate what we can do in the longer term," he said. "It's important that these goals be short term, measurable and achievable. That will make it more understandable what can be done over a longer time."

Another facet to consider is envisioning what specific form the owner's exit from the business might take and preparing for that in advance.

These scenarios might include a sale to an outside individual operator or investor. Or they may involve arrangements to sell the business to a partner, or one or more current employees, or transferring it to the next generation of family ownership.

Determining the preferred outcome in advance will help to determine how responsibilities are assigned, what an employee or family member needs to learn, and other factors before the actual transition.

"In any case, there should be a succession plan in place that will enable the business to be transferrable to someone else," Harris said. "Basically, as a business owner, you should ask yourself, 'What do I have to do to make sure the business can operate successfully without me?' and prepare in advance to make that possible." ♦

## Pungl launches monthly matching-donation days

BY JOHN TOWNES

Pungl, an online marketplace for nonprofit fund-raising, has launched a new matching-donation initiative to connect local nonprofit organizations with business sponsors.

They are planning to conduct a monthly series of one-day online fund-raising drives on their website (pungl.com) in which a sponsoring business agrees to match contributions from the public to a specific project of a nonprofit based in the Berkshire region.

"It's a way that companies can give back to the community without breaking the bank, while also enabling individuals to donate with a double impact," explained Abby Tovell, CEO and co-founder of Pungl, which is based in Housatonic.

Pungl is a fund-raising website that offers a unique form of crowdsourcing in which donors can select a charitable organization and/or project listed on their website to make a donation to it as a gift for a family member or friend (November 2017 BT&C).

"It's an alternative to giving things that people don't want," said Tovell. "This is a meaningful gift that also supports worthy causes."

(She noted that Pungl is currently setting up a gift registry, in which people can post causes they would like to have a donation made to as gift, similar to a wedding registry.)

Tovell and her husband, Richard, also operate T-Square Design, a graphic design studio based in Housatonic.

While Tovell said her goal is to expand Pungl into a nationwide service, its initial focus is on the Berkshire region. As part of the process of establishing Pungl locally, she hopes to create monthly matching-donation days.

The first of these was held on May 1, with the Tovells' company, T-Square Design, matching donations made that day to Music in Common's Amplify Berkshires fund-raising project.

Music in Common (musicincommon.org) is a nonprofit organization based in Sheffield whose mission is to strengthen, empower, and connect communities through the universal language of music.

Amplify Berkshires is a three-week program this summer that kicks off with a MIC

JAMMS workshop in which selected Amplify musicians will write and record their own song. The program gives young musicians from the Berkshires and beyond an opportunity to work with professional musicians and producers. They will also learn and rehearse a dozen JAMMS songs written by previous participants from around the world, which will be performed in a public concert on Aug. 26.

Tovell said the first campaign was a success and reached the goal of the recipient organization. It received 10 donations totaling \$750, which was matched by T-Square

***"One of our goals at Pungl is to increase awareness of the great things that are being done in the Berkshires. These matching donation days will help to publicize that, as well as raising funds for them."***

Design to achieve a total of \$1,500.

Pungl is organizing a second matching donation day on June 1, which will support Connecting through Adventure in South Africa, a program of Indwe Learning Centers. Based in Great

Barrington, Indwe operates KwaZulu-Natal South Africa, an 18,000-square-foot complex housing a Montessori school and space dedicated to skills development, the arts, computer literacy, and personal development for children living in an adjoining orphanage and nearby rural village. The funds raised will support field trips to provide children with opportunities to widen their horizons through experiences they might not otherwise have, such as tours of wildlife conservation parks, or a play or a day on the coast. The children will also receive a book.

Pungl is currently recruiting area businesses to sponsor upcoming matching-donation days. To partner with Pungl by providing matching funds, contact abby@pungl.com.

Tovell noted that business sponsors can set the terms of their matches, either by setting a specific monetary amount or number of donations they will match. They can also agree to match all donations made that day.

Tovell said that the specific days for matching-donation days will be promoted in advance on their website, Facebook page (Punglup) and LinkedIn page (linkedin.com/company/pungl).

The selected organizations and the business partners will also publicize the online events to their own customers, members and supporters.

"One of our goals at Pungl is to increase awareness of the great things that are being done in the Berkshires," said Tovell. "These matching donation days will help to publicize that, as well as raising funds for them." ♦