



NEBA News

July- August 2005

Exit Strategy

by: **Jerome Osteryoung**
The Jim Moran Institute

Two of the happiest times for entrepreneurs are when they buy the business and when they sell it! When they buy businesses, they have so much excitement in terms of how they are going to operate and improve them. When they sell the business, however, most entrepreneurs are even happier! This exit is inevitable, like life and death, but with a business, you do need to have a specific time in mind for this to occur.

While many entrepreneurs want to eventually exit their businesses, many have not thought through the necessary harvest plan. With an exit or harvest plan, you need to be thinking about when you want to sell the business, to whom you are going to sell it and what you need to do to get the highest price for your business. I believe the day you buy the business is the day you need to start planning an exit strategy.

There are four critical things you need to consider when going through exit planning. The first step in planning a harvest strategy is to estimate when you plan on getting out (of course, this can change). Saying that you want to get out in five years, puts a cap on how long

you will be there. Deciding how long you want to remain in your business helps in your thinking of how long you have to be there. Many entrepreneurs feel so much relief after they have made this decision.

Second, the business must, and I do mean must, be able to operate without you at the helm. If the business is the least bit dependent on you, its value is much less (roughly, at least 30-50% less) than if the business is not solely dependent on you.

With an exit strategy you must find someone and nurture this person so they can be ready to take over for you. Think of this approach as a your succession plan. There should be nothing that you do that this person cannot do equally as well. Additionally, this person should have developed relationships with major customers. In essence, the business should be able to operate just as profitably with you or without you!

The third step in developing an exit strategy is to clean up the balance sheet and the income statement to show as much profit and growth as possible. Clearly, someone who is going to buy your business is going to be looking for both growth in sales and high

profits. The better these things are, the higher the value.

One of the things that you can do to cosmetically improve profitability is to eliminate any personal expenses that might be run through your business. Also, pay careful attention to how much salary you are taking out which might act as a damper to profitability.

The final step is to ascertain who might purchase your business. Will it be a relative, will your business be acquired by another business or will you just sell your business? If you know the type of potential purchaser, you can focus your attention on that market. It takes from 12 to 18 months to sell most businesses.

An exit strategy is crucial for you from the moment you buy the business till the moment you sell the

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NEBA News

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President's Corner

From Maureen Thompson:

One of the goals NEBA's Board members have focused on this year is to keep open lines of communication with our elected officials. Program Chair Ted Thomas helps us in this regard by regularly inviting commissioners speak at our monthly meetings, but all of us also make efforts outside of NEBA as well. For this reason, when we learned that City Commissioner Mark Mustian would be attending June's Council of Business Associations (COBA) meeting, most of NEBA's Board Members made plans to attend as well. What follows is a summary of what was discussed that morning:

Commissioner Mustian was specifically asked to comment on impact fees, since he had recently been quoted as being of the opinion that they "were worth looking into." Mustian indicated that his primary concern is to make sure the finances of our city are in balance, and he further stated that he feels that communities that prosper are the ones with adequate infrastructure. That is why he is interested in pursuing impact fees – they are used specifically to improve infrastructure in the area in which they are assessed. He also pointed out that most of the major communities in

Florida have impact fees on development; currently Tallahassee only charges water & sewer impact fees.

A larger concern the Commissioner expressed is that the City's expenses continue to rise while revenues remain flat, leading to "a budget deficit 3 – 5 years from now." He believes that the City will have to look at cutting services in the near future in order to balance the budget. Some areas he said might be looked at include garbage service (currently City residents receive 2 pick-ups per week) and employee salaries.

When asked about increased revenues from the real estate boom, Mustian indicated that since City millage rates are relatively low, the budget gets a relatively minor boost from increased property values.

The proposed Coal Plant also entered the discussion, at which point Mustian said that from what he'd been told, "they will build a coal plant in Perry whether we participate or not." He said that Tallahassee currently has the highest utility rates in the state, and our dependence on natural gas is the reason. He also said that we can't buy coal generated power from other states; it is too expensive to ship in.

Finally, when told bluntly by a NEBA board member that many small business owners feel that we
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How Do I Incorporate My Business?

Once the decision to incorporate your business has been made, the legal process begins with the preparation of a certificate of incorporation. Whereas in the past this was prepared by three or more legally qualified individuals—today, only a single incorporator is needed. The incorporator may or may not be a person who will own stock.

The state is likely to have a standard form for incorporating a small business. The three typical pieces of information requested are: corporate name, purpose and corporate life span. The corporate name is usually required to be a business name dissimilar from any other firm incorporated within the state. In addition, the name must not be deceptive or misleading. The state charter office can tell you whether the name you want is

available. The purpose of the business must be stated. It is a good practice to use a “specific object” clause that spells out the specific purpose for which the corporation is being formed. While most corporations are formed for an indefinite period, it is possible to set up a specific limited life. Often the reason for creating a corporation is because the life span of the business is unlimited.

Incorporation documents will require: the names and address of incorporators; location of the registered corporate office in the state; the maximum amount and type capital stock to be issued at the time of incorporation; a provision for preemptive rights; a provision for regulation of internal affairs of the corporation; names and addresses of corporate directors until the first stockholders’

meeting; and the right to amend or repeal provisions within the certificate of incorporation.

The above requirements cover incorporating as either a “C Corporation” or Sub-Chapter S Corporation.” However, the sub chapter S Corporation has several additional incorporation requirements such as: it must be an independent group not affiliated with any other; it may have only a single class of stock; no more than 35 stockholders and it may have only individuals or estates as stockholders; and it must be a domestic corporation. Before signing any legally binding documents, consult with your attorney for legal advice.

Source: U.S. Small Business Association

Forestry Is Economic Heavyweight

In the changing face of Florida agriculture, University of Florida researchers say the forestry industry now has the biggest economic impact on the state- eclipsing citrus, vegetables and ornamentals in terms of output. Annual output or sales impacts in the forest products industry exceed \$16.6 billion creating 133,475 jobs, with \$7.5 billion in value-added personal and business income

and generating more than \$581 million in local, state and federal taxes (excluding income taxes), said Alan Hodges, an economist in UF’s Institute of Food and Agricultural Sciences or UF/IFAS.

“Citrus is the crop most people associate with Florida, and the state still leads the nation in citrus production, but our study indicates forestry is now the economic heavyweight



in the state’s \$67 billion agricultural and natural resources industry.,” he said. The study, “Economic Impacts of the Forest Industry in Florida, 2003” (FE538), is available on the UF’s Electronic Document Information Source (EDIS) Website: <http://edis.ifas.ufl.edu/>

Calendar

NEBA meetings are held on the second Tuesday of each month at Lucy Ho's- 1700 Halstead Blvd. from 1:00 p.m.- 2:00 p.m. Cost is \$9.00 per person

August 9- Tony Grippa- Leon County Commissioner

September 13- Kevin Wailes- General Manager Electric Utilities- Discussion on Coal Plant Issues

October 11- Regina Davis- Frenchtown Revitalization

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business. Not only will this strategy increase the likelihood that you will sell at a high price, it will also insure that you have peace of mind knowing that you will not be forever tied to this business.

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don't have a voice on the City Commission, Mustian expressed surprise. He said that he was of the opinion that he is pro-business and that he is always willing to listen. Whether or not you agree with Commissioner Mustian's self-assessment, be sure to take him (and all of our elected officials) up on the fact that they're "always willing to listen." I think if you ask them they'll all say they think they *listen* to our concerns – the larger question is whether or not they actually *hear*, and act, on them.

I can assure you that you will continue to receive representation downtown as a NEBA member, as well as being guaranteed great and timely speakers at our monthly meetings. If there are any issues you would like us to address as a Board, or to bring to the membership's attention, as always, feel free to call.

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