



## CENTER FOR ECONOMIC DEVELOPMENT

# NewsWire

March 17, 2009

### HELPING ENTREPRENEURS AND BUSINESSES GROW AND SUCCEED

A joint program of the Labovitz School of Business and Economics, Natural Resources Research Institute, and Swenson College of Science and Engineering.



**WEDNESDAY, MARCH 18, 2009**  
**10:00 AM – 4:00 PM**  
**DECC**  
**ADMISSION FREE with ticket**

**The Duluth B2B Expo is the Twin Ports largest business event, and only happens once a year!**

Find nearly 100 exhibitors with the newest products and services for your business, attend seminars and featured keynote addresses, participate in a Speed Networking event, the Out2Lunch and afterhours party "Workin' Late".

**Seminars sponsored by the UMD Center for Economic Development:**  
**DEBT COLLECTION ISSUES**  
**10:15 am – 11:15 pm**  
**Rm. Split Rock I**  
**Presented by Diana Bouschor Dodge, Attorney at law, Johnson, Killen & Seiler**  
Do you need to improve your business cash flow? Diana will discuss how debt collection can improve your bottom line.

**SMART SELLING IN TOUGH TIMES**  
**11:30 am – 12:30 pm**  
**Rm. Split Rock I**  
**Presented by John Kratz, Marketing Instructor, UMD Labovitz School of Business and Economics**

## IRONWORLD Economic Development Presentations



### INSIGHTS TO OUR REGIONAL ECONOMY

Cost for both presentations: \$8 for adults, \$7 for seniors, \$6 for students and free to Ironworld members.

**"The Next Generation of Mining: Opportunities, economic benefits and challenges facing non-ferrous mining in Minnesota,"**  
*-MiningMinnesota Executive Director Frank Ongaro*

**March 21, 2009 . 2:00 pm . Ironworld's Theater**

With its vast, low grade, largely sulfur deficient non-ferrous deposits, the Duluth Complex holds true global significance. Demand for base and precious metals is growing both domestically and globally, with the United States dependant on foreign imports for a majority of our consumption of these metals. As proposed base and precious metal mining operations move forward in Minnesota, it is important to understand the benefits, the risks, and the reclamation assurances being addressed in the open, transparent, and very public State regulatory process. These operations will provide hundreds, potentially thousands, of great-paying, enduring jobs to our struggling Minnesota economy. The environmental concerns are also being addressed within our strict and demanding environmental review and permitting process, assuring water quality and financial responsibility.

**"Economic Development on the Iron Range: Reflecting on the Past and Thinking about the Future"**

*-University of Minnesota Researcher Jeff Manuel*  
**April 4, 2009 . 2:00 pm . Ironworld's Theater**

Minnesota's Iron Range has a unique history of economic development policy. Through the combined efforts of local, state, regional, and federal agencies, the Iron Range has been the focus of economic development efforts since the early twentieth century. This talk will look back on some of the major economic development policies on the Iron Range and reflect on what worked, what did not, and why. Additionally, the talk will consider economic development efforts in other mining and industrial regions to compare the Iron Range's experience with similar examples around the nation and the world.

**LEARN MORE ABOUT IRONWORLD'S UPCOMING EVENTS AND EXHIBITS AT**  
[www.ironworld.com](http://www.ironworld.com)

## *Business to Business Expo (Cont.)*

Less than 50% of today's business-to-business salespersons have ever sold during an economic downturn, so what's the plan? What are the selling strategies and tactics for a reeling economy? This workshop will expose the misconceptions and time-tested action items that don't work and give you the bottom-line advice for smart selling in tough times.

### **DOING BUSINESS IN TODAY'S ECONOMY**

**3:00 pm – 4:00 pm**

**Rm. Split Rock I**

**Presented by Elaine Hansen, Richard Braun, Jan Zigich, Curt Walczak, Jennifer Pontinen and Terry Rupar**

UMD CED has assembled a panel of Professional Business Consultants who will be at the Business to Business Expo at the DECC in Duluth Minnesota. They will be discussing some of the key issues every business owner needs focus on when doing business in today's economy. This will be an open forum where you can ask questions and get answers about issues you may be dealing with in your business.

### **For FREE tickets to the BUSINESS TO BUSINESS EXPO:**

Cut out ticket on the last page of this newsletter, call 218-726-7298, stop into the UMD Center for Economic Development office: 11 E. Superior St., Suite 210, Duluth, or: [www.duluthbusinessexpo.com](http://www.duluthbusinessexpo.com).



**D U L U T H**  
BUSINESS-TO-BUSINESS EXPO

## **FIVE STEPS TO A SUCCESSFUL BUSINESS EXIT STRATEGY**

A business owner's exit is a once-in-a-lifetime transformation. We're not talking about selling a house or a car. This is a complex process that requires the technical expertise of a team of trusted advisors. It must begin with personal reflection on the part of the owner regarding what he or she wants out of the business exit. Only then can the owner, along with his advisors, design an appropriate exit strategy. Contrary to what many believe, a sale to an outside party isn't the only option. This article provides a Process by which to assess all the options.

Like snowflakes, each business exit is unique. However, any business owner can use the following five steps to determine his or her Primary Goals and align his thoughts and plans accordingly. These five steps break down into two parts:

**Part I** includes Steps 1, 2 and 3 which work together to define the owner's goals, determine the value of the business, and the type of transaction required. If goals are not met, then the process repeats until the right solution is found.

**Part II** includes Steps 4 and 5, which guide the owner in the practical steps to completing the transfer defined in Part I.

### **Step 1: Define the Personal Goals of the Owner**

Since personal goals intertwine so closely with the daily existence of a private business owner, it only makes sense to begin with the basic albeit crucial question, 'What do I want to accomplish with my business exit?' The answer seems obvious--make the most money after taxes and fees. Often, however, it isn't this simple. Owners have nourished and raised their businesses from infancy; they typically care a lot about who will take the reigns. Family members might also be involved in the business. Their fate depends on the owner's next steps. Aside from money, other motives for a business exit can include 'transfers to family', 'transfers to employees', 'transfers to co-owners', 'partial transfers to gain some liquidity today but still run the company's day-to-day business', or 'an initial public offering'. The decision often comes down to a question of liquidity. A substantial source of liquidity outside the business makes for a much easier choice. More often than not, however, an owner's wealth is tied up in the business. The owner must therefore balance his financial and interpersonal goals in order to find the best possible exit strategy. An assessment of the range of values for the business is therefore a crucial next step.

### **Step 2: Understand that a Range of Values Exist for the Business**

The value of a privately-held business depends largely upon who buys it. It's not as simple as watching the ticker tape for today's stock price. The type of buyer can impact both the price placed on the shares (or assets) of the business and the tax consequences to the selling owner. Value, or 'net transfer price', is therefore a 'range concept'. 'Internal' transfer to employees, family, and co-owners provide fewer dollars up front, but allow for greater 'control' of the business, 'continued income', and flexible timing and tax characterization of payments to the exiting business owner. By contrast, 'External transfers' to other industry players, financial groups, or by initial public offering, command more liquidity 'up front' while the owner relinquishes more control over the Company and the timing and tax characterization of payments. A closer examination of the transfer options can help an exiting business owner determine the right balance of money and control over the future of the business.

### **Step 3: Examine the Options Available for the Transfer of Shares**

There are 7 primary purchasers of privately-held business stock (or assets). Parties to the Transaction and Types of Transactions Available (samples; not a complete list)

#### **Internal Parties:**

- |              |                               |
|--------------|-------------------------------|
| 1. Employees | Employee Stock Ownership Plan |
| 2. Charity   | Charitable Remainder Trust    |
| 3. Family    | Gifting Program               |
| 4. Co-owners | Leveraged Buyout              |

## BANKING BASICS FOR TOUGH TIMES

In these challenging times, it pays to be as prepared as possible. Here are some suggestions from the banker's side of the desk that will help increase your chances of success when it comes to renew or renegotiate your current loan structure.

### Stay in touch with your banker

Bankers don't like surprises. Even if you don't like the results, share your financial statements with them on a timely basis. Don't wait until they come to you. "Make sure you share all the news with your banker: the good, the bad, the ugly," said Bob Stewart, senior vice president for the Center for Commercial Banking at the American Bankers Association. You have a partner relationship with your banker. You wouldn't keep your other partners in the dark, would you?

### Don't kid Yourself (or Your Banker)

Your banker sees a lot of businesses in all industries. She might bank your competitors and probably reads the national statistics. Be upfront about the state of your industry and how your company stacks up.

### Know Your Numbers

Know your past trends, current situation, and put together the most realistic cash flow projection possible. Show the banker that you know what the real situation is so he doesn't have to spend time and energy bringing you back to reality.

### Have a Plan

Show that you have a plan to deal with the situation and have a strong handle on cash flow, especially if you are asking for an increase to your credit line or an extension on paying it back. If you were a banker, who would you rather work with – an

### Exit Strategy (Cont.)

#### External Parties:

- |                             |                                |
|-----------------------------|--------------------------------|
| 5. Financial Groups         | Recapitalization               |
| 6. Industry Buyers          | Acquisition (at Synergy Value) |
| 7. Initial Public Offerings | IPO (at Public Market Value)   |

Based on the primary Goals defined in Step 1, an exiting business owner chooses the 'party' to whom the business will be transferred. That designee, once chosen, will determine the limits or expansion of the Value. At the end of this phase, the process comes full circle as the Value (after taxes and fees) is matched against the owner's goals. If the two meet as one, congratulations! A successful business exit strategy has been devised. Now it's time to execute.

#### Step 4: Provide Full Financial Disclosure to the Buyer

The next step isn't going to be easy on the owner. Assembling financial records and presenting them to a buyer/successor is very time consuming, not a lot of fun, a very personal survey of how the business is run, and, therefore, a huge psychological block for many exiting owners. Remember that any savvy buyer (or successor) to a business will need to understand the financial condition of the Company. When an owner must fess up to any 'creative accounting' they have employed over the years to help build wealth and reduce tax bills, the process goes smoother. Full disclosure is the best path to a seamless process. An old saying is that 'if the truth will kill a deal, then there is no deal'.

Not only that, but it may reward the owner in the end. Full disclosure is not about passing judgment but instead, affords the buyer or successor an opportunity to assess the business's true profit potential. The astute exiting business owner will recognize this in advance. Why? Because most 'creative accounting' practices depress the profitability of a business. Clear those away and the Buyer will recognize a higher earning power and in turn a higher Value for the Company.

#### Step 5: Assemble Your Advisory Team - Don't Go It Alone

Remember, a business owner's exit is a once-in-a-lifetime transformation. It's not the time to take short cuts or pinch pennies. Invest the time and money in the right team of advisors; a successful business exit is more than worth it.

We understand business owners are independent self-starters. If they weren't, their businesses wouldn't be so successful and we wouldn't be talking. But these strengths can lead many owners to attempt the 'do-it-yourself' business exit strategy. This can create an unnecessary time and money drain on the owner and the business. Think about all the tasks a business owner delegates every day because it's simply more productive than doing it himself. Why not make the exit strategy more productive by getting educated, making a sound, proactive plan, and hiring the right people to execute it? Think of it as an investment in success.

#### Conclusion

Exiting a business brings both satisfaction at achieving an important life milestone and an unexpected challenge. The key to any successful business exit is planning. The planning steps in this article are designed to help the business owner define his or her personal goals, understand all the transfer options, and act as a primer for the advisory team to execute a successful transaction that meets the owner's Goals. If you've come to the end of this discussion, you're already ahead of the game.

For more information: [www.straticainc.com](http://www.straticainc.com)

# NewsWire

UMD Center for Economic Development

owner who's pretending that everything's ok when it isn't, or someone who is facing the situation head on, taking active steps to address it, and has a plan going forward?

## About Credit Lines

There are two types of credit lines. One is a contractual line of credit, which the bank is obligated to maintain. These usually come with an upfront fee. The other is a guidance line of credit, which the bank is not obligated to maintain. In a guidance line letter, you'll see terms like, "terms that are mutually agreeable to both parties," and "subject to review from time to time." Stewart suggests that if you received one of these letters a year or so ago, "you should talk to your banker and ask him point blank if this money is there for you if you need it tomorrow."

## Then Have a Plan B

If you're not comfortable with your banker's answer, shop around.

## Don't Go It Alone

Even those who are good with numbers can benefit from input and advice. People to ask? Your CPA is a good source, as is the network of Small Business Development Centers (SBDC). They offer skilled counseling at no charge to business owners. To find one in your area, go to your favorite search engine and type in "SBDC" followed by your state name.

Reach out and communicate with your banker, your vendors, your management team, and your advisors. Get advice and input, then get a plan and take action.

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<http://www.brs-seattle.com/>

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**ADMIT ONE**  
Wednesday, March 18, 2009  
10AM - 4PM at the DECC  
duluthbusinessexpo.com  
No Cash Value. Not valid for DECC parking fees.

expo · seminars · workshops · networking · after party  
Visit [www.duluthbusinessexpo.com](http://www.duluthbusinessexpo.com) for an event schedule, exhibitor directory, seminar & activity information!

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MASTERSOLUTIONS

The University of Minnesota Duluth Center for Economic Development offers numerous workshops to help entrepreneurs and employees operate more efficiently. All workshops are held at the Duluth Technology Village, 11 E. Superior Street, Suite 210 unless otherwise noted. To register call: 218-726-7298, 888-387-4594 or register online: [www.umdced.com/workshops](http://www.umdced.com/workshops).

**The mission of the University of Minnesota Duluth Center for Economic Development is to assist entrepreneurs and businesses to grow and succeed.**

*Funded in part through a cooperative agreement with the U.S. Small Business Administration, Minnesota Department of Employment and Economic Development and sponsoring centers. Reasonable accommodations for persons with disabilities will be made if requested at least two weeks in advance. For arrangements, contact: UMD Center for Economic Development, 11 E. Superior Street, Suite 210, 218-726-7298.*

**1986 – 2009** Celebrating 23 years of excellence and also recognizing UMD's 25 year partnership with the Minnesota Small Business Development Centers

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