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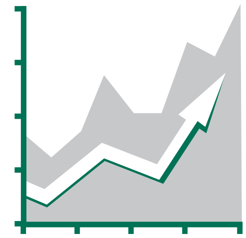

Baby Boomer Wealth Transfer: Are You Prepared?

A study published by Paul G. Schervish, John J. Havens and the Social Welfare Research Institute at Boston College estimated the "Baby Boomer Wealth Transfer" for the years 1998 through 2052 would approximate $41 trillion. Even in light of the recent recession, the authors of this study still believe their estimate is realistic. Of course, a significant portion of this wealth resides in the value of businesses owned by the boomer generation. The question - "Are you prepared for the transfer of your business?"

If you are a business owner and anticipate such a sale in your future, does your company currently present the best image for achieving its optimal value? In simple terms, business value generally depends on its future income potential and the risk associated with achieving that potential. The article will focus on enhancing future income potential and reducing risk associated with achieving this potential.

Value is usually determined by applying a factor to some measure of net income. Often, in a business acquisition, EBITDA (a measure of income) times a multiple is the approach used to quantify value. EBITDA is earnings before interest, taxes, depreciation and amortization. The multiple applied is derived from the yield expectation and reflects the risk considerations perceived with the investment. In comparing two businesses with similar earnings potential, the company with the least risk will have the higher multiple, and accordingly, the higher business value.

Any meaningful plan to increase company value will, most likely, take a period of time. The plan should consider increasing net income and reducing risk in the realization of that income. The net income component can be separated into two pieces — the enhancement of revenue piece and the reduction of cost piece.

Implement Growth and Pricing Strategies to Enhance Revenue

- The company marketing plan should include the identification of industries and customers that demonstrate significant growth potential. Faster growing customers will create growth opportunities for the company.
- Develop a niche that provides specialized products or services distinguishing the company from the competition.
- Add technical capabilities that enhance products or services and provides the potential to attract new customers.
- Consider "value added services" that distinguishes your product or service from the competition and eliminates a commodity pricing mentality by the customer market.

Cost Structure Strategy

- Obtain industry benchmark data in the size range of the company to perform a cost comparison analysis.
- Compare each cost category of the company to the industry benchmark data. Implement approaches to achieve at least industry levels and, if possible, reduce costs to amounts below the industry benchmark levels.

Let's now discuss company risk. There are a number of areas that a buyer will think about in assessing this risk. Ultimately, any potential negative impact on the future income stream will be considered a risk affecting company value. Most risk can be minimized or eliminated by proper planning. Some risk, however, is inherent and may not be changed by the planning process.

Management

The strength of company management is usually assessed. If the owner is principally the management team of the company, with no apparent successor, this would be a concern. If there are other members of the management team close to retirement age, that would be a concern as well. The capability of the management team is another consideration.

Customer Base

A high concentration in one, or a few customers, is generally a concern. The objective should be no more than 5 percent to 10 percent of the business with one customer and a good distribution across a number of industries and geographical areas.

Supplier Base

Supplier base is similar to customer base, a concentration in one, or a few suppliers, is a concern. Supplier diversification should also be the objective.

Industry, Products or Services, Competition, Customer Loyalty

What is the long-term viability of the company's industry? Is it in a growth mode or moving off-shore? Do the company products or services have long-term viability or are they close to the end of their life-cycle? Is the market oversaturated with competitors or is there potential for new entrants? What is the status of customer loyalty and satisfaction?

Earnings History

Is the company's earnings history stable with growth or is it volatile? Earnings volatility signifies risk.

As noted, some of the risks are inherent but most risks affecting future earnings can be minimized or eliminated through proper planning. Because income enhancement can benefit currently and again at the time of sale, the planning process should start now. ☆

Due to the space limitations of this article, a segment regarding sale considerations and the discussion on transfers to the next generation were omitted, but has been included on our website. For more information, please access www.mpbcpa.com/businessmagazine, or call 814/453-6594 or 814/724-5890.

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