



WHEN TO PULL THE PLUG ON YOUR BUSINESS

BY JACK GARSON

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You went into the venture with the highest of expectations. Then, you invested time, money and considerable effort. You may have a company that has been in operation for years. Now tough times have hit and you need a solid objective means of determining whether to pull the plug. Consider a few factors before you make the decision and watch out for thoughts that seem logical but actually distract you from good reasoning.

This, too, shall pass

You need to determine whether your business is caught in a permanent downtrend or just the bad stretch of a business cycle. In the former situation, you may be making the best buggy whips on Earth, but it is likely time to wind things down or steer your business in another direction. I encountered a classic example of this situation when internet-based companies started taking business away from mom-and-pop travel agencies. One owner of an agency was working 60 hours per week and making less than she would bagging groceries. I asked her why she continued in the business and she replied that it was all she knew. While I was sympathetic to her situation, she did not have a good reason for staying in business. She could have to work for someone else and made more money with fewer headaches. Or she could have used the internet to help her evolve into a new business.

On the other hand, some businesses just need to buckle down through bad times. This is often the case in businesses like home building. Here, it is highly unlikely that people won't need housing, even if there are years when demand is slow. Prudent practices may include keeping debt low and cash reserves high and, overall, reducing your risk. For example, some of the home builders that fared best in the recent recession avoided amassing large inventories of land. Instead, they paid relatively small amounts to buy options that would allow them to purchase land when needed. These cautious builders also kept their staffs lean and subcontracted much of their work. When tough times hit, these builders neither went through the agony of laying people off nor the burden of paying for unneeded personnel. They simply had less work for their subcontractors.

There are a variety of other factors to consider, including the following:

Risk versus reward: Is the risk of staying in business greater than the potential rewards? For example, are you jeopardizing your nest egg by operating a company that is losing money? If you have been in business for a while and established financial security for you and your family, be careful about keeping a business alive if it requires you to feed money into the company. Of course, there are times when loaning your business money makes sense, especially if you are experiencing a short-term downturn in

business or a one-time event such as a natural disaster. But set limits, be realistic and remember that sometimes it pays to walk away from a business.

Business model change: Can you change or retool your business to make it profitable? Some businesses find that their main products or services are no longer in demand, yet demand is growing for a particular niche in their business or a related service. Many companies have evolved from their traditional core and found great success in what were previously small or even neglected aspects of their businesses. Similarly, you may be able to take the infrastructure you have today and adapt it to a new business that is in great demand.

Best time to leave: If the end is inevitable, pick the most advantageous time to leave. For example, over the last few decades, the high-end furniture business has been decimated. Many of these retailers have shut their doors. But some closed on their own terms while others did so in bankruptcy court or under the strict supervision of their leaders. If shutting down is unavoidable, don't wait until you lose control over the process. If you start early and take charge, you can control the liquidation and negotiate better deals with your creditors.

Green grass syndrome

Many business owners mistake weariness or ordinary problems for a failing business. I have one client who owned a tiny business netting \$1 million to \$2 million per year – which went directly into his pocket. Still, he was considering shutting down the business and opening a restaurant – a type of business with a remarkably high failure rate. This guy imagined that a restaurant would be easy to run and remarkably profitable.

I have counseled many entrepreneurs who have fantastic businesses and were considering shutting their doors when all they really needed was a break or some perspective. I gave them repeated examples of the problems that other businesses experience and pointed out the excellent attributes of their own companies. Often, this was enough to convince them to appreciate what they have built and how hard it would be to replace.

The truth is that too many business owners live in a bubble where all they know is their own company. So it is critical when deciding the future of your company that you speak to financial and other trusted advisers as to how your business stacks up against others.

Spilled milk syndrome

Ignore the time and money you've already sunk into your business when deciding whether to shut it down. Rather, you should consider whether your company will produce profit in the future. Many business owners ignore the likelihood of future success frozen by a focus on their past investments. The same phenomenon occurs when people buy stocks. Many people won't sell a stock below the price at which they purchased it. But if the price of the stock has fallen, then the loss has already occurred it's spilled milk. The right question is where that stock or, in this case, your company) is going. So focus your analysis on whether your company will recover and produce profits in the future.

Entrepreneurs often struggle when their companies face big issues. Whether to continue in business is certainly one of the biggest and most difficult. But if you approach these questions with logical analysis, you will make the best decisions

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