THE LAUNDROMAT GUYS
GROWING PROFITABLE LAUNDRY BUSINESSES

BE READY: HAVE AN EXIT STRATEGY

If you know your business goals, they can gel with your exit strategy

Don't be a sheep or a cow. If you take anything from this column, remember that point.

Livestock head out in the morning and graze the day away with their heads down. When evening comes, and they finally lift their heads, they might not know where they are or how they even got there.

In the ranching business, this isn't a huge issue because there's always the loyal border collie to steer them back. In other business endeavors, however, going out with your head down is an easy way to get into trouble, or, at the very least, arrive somewhere you never intended to be.

I've always stressed in previous columns the importance of having an exit strategy. Now, that doesn't mean that from day one you set a target that "I'll retire on April 12, 2021." What it does mean is building in contingency arrangements, succession planning, growth plans and general guides that will assist in charting the vended laundry business' course. If you don't have plans in place, it can get messy.

UNPLEASANT TASKS

So, why don't investors typically like this step in the business process? In some respects, it's like writing a will. We're so caught up in all the positives of life, we don't want to think about these things ending. Likewise, we're very excited that we've identified a great location for a new laundry. We don't want to think about what could happen if our business partner dies and we're left with his teen-age son as a co-owner.

But situations like this are exactly why we need to have an eye looking deep out into the future to protect our investment. I like to ask the following up-front questions to investors: Is this an immediate income source? What is the desired return on investment? What are your expectations? These answers will help gain some insight on their goals and how they gel with exit strategies.

For instance, if an investor tells me that his goals are to generate maximum return on investment in the shortest time, we might then discuss realistic exit strategies. I'll tell him we want to sell the store when it hits its "sweet spot." That means he'll have to be patient during rampup, understanding that realistically his first opportunity won't come until roughly 24 months into operation. It will take that long to generate not only solid earnings but the data to back up his selling price.

Having an eye on this two-year target from the start keeps everyone on the same page, and heads off any disappointment when the investor decides 12 months in that he'd like to collect his big payday.

Partnerships can get particularly messy. Forty to 50 percent of the new investors in this business come to the table with a business partner. In this situation, we are faced with not only getting agreement on an exit strategy, but also building in contingency plans for early exits or unfortunate exits, such as divorce or death.

Investors need to think about noncompete clauses should one partner buy out the other. They also should build in a right of first refusal on whom a partner sells his share to.

THE LAUNDROMAT GUYS
GROWING PROFITABLE LAUNDRY BUSINESSES

WHAT WOULD YOU DO?

A good "gut check" in thinking this through is to imagine you were in this situation. How would you like to proceed? Would you sell the business and divide the proceeds? Would you stay in business and write a check to your partner's family?

If you were to do all the operations, then you, as the operating partner, should be paid a management fee to run the business. It's only fair. This fee needs to be preregulated so you aren't working for free while your partner/family is enjoying some type of six-month vacation or extended cruise.

Your accountant should prepare quarterly financial statements, so there aren't surprises come tax time. To sum up, the outline should be something as follows (along with the needed professional assistance):

1) Who will be my partner should circumstances change in the future? (And circumstances will. You just don't know how yet.)

2) (Lawyer) Who is charged with operating the business? (You can't have management by committee. It never works.) Therefore, an operating agreement should be prepared before the store is built or purchased, with contingencies should circumstances change for the principals. If nothing can be agreed upon for succession, an orderly plan for a sale should be agreed upon in advance.

3) (Accountant) An accountant should be agreed upon to present fair, balanced financials quarterly, both during the operation and eventual succession of the partners. This will also help value your business quickly in the event of a sale.

4) (Bookkeeper) "Losses" on paper and depreciation are huge helpers to offset tax burdens. This is an item of value as well. All utility bills, labor, insurance, rent, etc., will be readily needed to value the business.

5) (Priest, minister or rabbi) This may seem somewhat unusual, but you need to speak with your spiritual person of choice. Tell them about your plans for succession. If you can look them in the eye and believe that the succession or exit strategy is fair for all parties, you are now ready for the last step. Imagine you or your family was offered this arrangement. If you still think this arrangement is fair, you probably have a good place to start to put your exit strategy into action.

I don't know how to plan for everything that can happen, but I do know it is easier and cheaper to go out with your head up vs. the cow who's not really sure where he is, how he got there, or how he's getting home.

Mail: PO Box 10, Park Ridge, NJ 07656 **Tel:** (201) 326-1060 **Fax:** (201) 326-1070
www.thelaundromatguys.com