

PLANNING EXIT STRATEGIES

*Looking at the Worst-Case Scenario in Advance
Lowers the Risks Involved in Expansions and Relocations*



While most business planning is conducted to ensure success, exit strategies from unsuccessful ventures, mapped out in advance, can have a tremendous bearing on whether or not a business can afford the risks associated with an expansion or relocation.

Identifying exit costs from expansions, such as claw-back provisions in incentive packages, may allow businesses to eliminate these expenses through informed negotiation prior to inking any deal, and may mean the difference between an expansion with an acceptable risk or a roll of the dice.

Calculating the exact costs associated with a failed expansion or relocation will allow financial planners to determine whether or not a failed project can be absorbed by the company, or whether or not a shut down of an expansion translates into bankruptcy for the overall company.

THE BEST LAID-PLANS

Through no fault of its own, a company might have to shut down a new location for reasons which might include a major account going out of business, facing a labor stoppage or moving its business to a new supplier. A public relations problem that temporarily scares consumers away from a certain product or service can lead to decreased sales and revenues. A natural disaster that temporarily stops a product from being manufactured or delivered can't be foreseen in advance.

In the event of a failure of new location, the shut down and continuing trailing costs may be more than a company can absorb.

SHUT-DOWN COSTS

The immediate costs to shut down a location include such items as labor

severance, relocation of office equipment, manufacturing equipment and inventory and the expenses associated with any employee transfers back to the home office.

Employee severance costs should be calculated to include not only final paychecks, but any outplacement assistance that may be required, either by company policy, a labor contract or which were tied to a local or state government's incentive package.

The time of the people who will handle the shut down must also be accounted for, as their time spent on the shut down is time that was being spent on other work valuable to the company. Who will now do these tasks, or will the company simply go without this work, and what will this mean to the bottom line of the company in terms of lost productivity?

In addition to the expenses associated with a failed location, those revenues the company will receive from the sale of assets such as land, buildings, equipment and inventory should also be applied back to the bottom line.

REIMBURSEMENTS

If a company that is shutting down a new location has received discounted utility rates, worker training reimbursements, tax credits, low-interest or free loans or other incentives tied to that location's ongoing operations, these costs may have to be reimbursed, and reimbursement expenses should be calculated prior to the expansion.

Performance-based incentives, which are earned at the time of performance, may not be as desirable as incentives that offer a company cash up front, but will eliminate



large reimbursements required by claw-back provisions covering an exit, and the impact of both types of incentives should be considered prior to final negotiations.

Just as incentives received can determine a go or no-go for an expansion, exit provisions that free a company from reimbursements in the event of a shut-down can also be the difference between a go and no-go for a project, and should be negotiated in advance.

TRAILING COSTS

Once the shut down of a facility is complete, a company may still be responsible for a number of ongoing expenses associated with that property. These can include rent, mortgage payments, debt service on equipment and other loans, insurance, security and landscaping.

When conducting your initial site search, remember that low real estate costs or inexpensive or free buildings available in an area may forewarn of difficulty in the divestment of these same properties later.

The monthly trailing costs of a shut down should be calculated and applied to a company's bottom line to determine for how long the business can operate while absorbing these costs. Knowing how long this building was empty before you bought or leased it, and researching how long similar facilities are taking to move in your area will help in your exit strategy planning. Keep in mind, however, that if you upgraded your building to make it more technologically up to date, this may make the building easier to move or lease.

PRE-PLANNING

Many companies prefer to build a facility to meet their exact needs rather than retrofit an existing

building. While this may be the best option for your project, it's important to take into consideration whether or not this will make the building difficult to sell or lease to another tenant. If a

building can be built to meet your specific needs, yet remain generic enough to house a number of other types of businesses, this should be considered by the architect and design engineers. If the building

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will need a retrofit in the event of an exit, these costs should be calculated and be available, if possible, during the initial planning stages.

DUELING EMPLOYEES

For many expansions, a new set of management must be created to run the second site. This may include a combination of managers from the original plant and new

hires for the second. Managers transferred to the new plant may be sent there temporarily, or may be permanent relocations, who must be replaced at the original plant.

In the event of a failure of the second plant, will one, entire management team be let go, or will an attempt be made to keep on some of the new hires while bringing back the long-term managers who were transferred to the second location?

PRODUCTIVITY DECREASE

A caveat to those modeling the financial impact of even a successful expansion — many budgets are developed based on a model that assumes the original location will continue to perform at its current level or continue any growth rate it had been experiencing prior to the expansion. Because at least some key staff and resources will be allocated to the expansion, productivity levels will most likely decline, even if only for a short time, at the original location. Budgets that rely on the performance of the original plant to stay the same or increase may not be realistic and should be adjusted to accommodate any decrease in revenues from a decline in productivity, revenues and profits.

EYES WIDE OPEN

While every expansion plan calculates whether or not the company can afford to go ahead with a new location, very few calculate whether or not the company can survive the project's failure. Those who fail to plan, often plan to fail. **X**

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