BUSINESS LEGACY CONSULTING, INC.

ENSURING A LEGACY FOR BUSINESS OWNERS

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Every business owner will eventually leave their business. The question is, will they leave on their own terms or someone else's? It is estimated that 70% of baby boomer-owned businesses are expected to change hands over the next 10 years.[i]

The majority of a business owner's wealth is usually tied up in their illiquid business. For example, if you owned Apple stock, you could call your investment advisor and turn that stock into cash within 24 hours. With your privately held business, you can't do that. You have to plan to make it happen. Did you know that the average business owner spends 80 hours developing a business plan – at a time when their business is worth very little – and spends 6 hours planning for their exit out of the business – when their business is presumably at its greatest value?[ii]

The lack of an exit strategy can result in a significant loss of this wealth. It is not a guarantee that a business owner will be able to leave their business when they want at the price they need. They need to plan for it to make it happen in order to meet their goals.

So why aren't business owners stepping up to the plate and planning for their eventual transitions?

We call it the "Ostrich Syndrome." According to an ROCG Survey done in 2007, business owners claim planning for their exit is a daunting process. They say, "it's too early," or "it's too complex, wouldn't know where to begin," or "it's too time consuming." The result? They become an ostrich, stick their head in the ground and do nothing.

There are many risks associated with not planning in advance of your leaving the business. These include: not meeting your business, family and personal goals; selling your business for less than it's worth; family in-fighting and discord; transitioning at the wrong time; and not having a successor developed.[iii] Developing an exit strategy and exit plan can mitigate these risks significantly.

An exit strategy sets the context for the exit plan. A key element of the exit strategy is setting goals. Answering questions such as, what do you want this transition out of your business to do for your life? and what are your personal/family obligations? are essential to the exit plan.

The exit planning process includes setting goals, determining financial readiness and mental readiness to leave the business and enter the next phase of life, identifying any gaps, determining business readiness, identifying exit options, determining the best exit option, and executing the option.

As you can see, the focus of the exit plan is on the *business owner* rather than on the business. This is a departure from traditional business planning.

CASE STUDY

We worked with a client who owned a business in the trades on developing an exit strategy beginning in 2007 who, at age 60, was 5 years away from exiting his business. We worked with the owner to develop and document his goals and those of his spouse. We determined that he was neither financially nor mentally ready to leave his business at that time. This was fine, as we knew going in that he was looking at a five-year horizon. We looked at several exit options including gifting, family buyout, a synergistic sale and private equity recapitalization. His business value in 2007 was $750,000. Based on our analysis of his financial readiness and business readiness, we determined that the business needed to increase in value significantly by the time he was ready to sell if his goals were to be met. Over the next several years, we worked with him in the business to improve business processes, create an inventory system, increase sales and reduce expenses. We worked with him and his wife to address their mental readiness by creating a plan for the next phase of their lives that held meaning and purpose for them. He selected a family buyout option (his children) and sold the business in 2011 for $1,011,000.

SUMMARY

Don't be an ostrich. Exit planning is key to maintaining the wealth in your business. The next chapter in your life can also be as fulfilling as your business was. However, it takes work to make this happen. You need a well thought out, detailed plan. This is not the time in your life to leave things to chance!

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[i] Robert Avery, Cornell University, February, 2006
[ii] John Leonetti, Exiting Your Business, Protecting Your Wealth, 2008
[iii] ROCG Survey 2007