Exiting Your Businesses in Style

7 keys to a happy, prosperous succession plan

By Josh Patrick

Key Takeaways

- Don't even think about selling your business before you've carefully considered what's next in your life.
- Many owners overestimate their businesses' worth and underestimate the amount of time (and stress) it takes to sell.
- You're going to have to focus on increasing the value of your business years before it's time to sell.
- Too many owners think their businesses alone will be enough to get them to retirement.

From car dealerships and contracting, to retail to restaurants to software, you have worked extremely hard and defied the odds to build successful enterprise. That's why leaving it to someone else—whether an insider or an outsider—is one of the most challenging and stressful events you're ever going to face. Too often business owners start the succession planning process thinking they will be able to do everything that is necessary in less than a year. The reality is a successful exit from one's business is likely to take at least three years and could be as many as five to ten years.

Here's what I want you to know: leaving one's business in style is not only possible, but something you can count on if you follow the seven steps below.

1. What do you need? The first question you have to ask yourself is, "How much money do I need before I start the sales process?" Too often I see hardworking entrepreneurs neglect to take the appropriate amount of time (and steps) to make sure that they can afford to leave their businesses successfully.

If you or someone close to you is considering selling a business, you need to find a financial advisor who really understands how to do financial plans for business owners. You might think this is an easy thing to do. The sad truth is most financial planners miss the point when they work with the business owner clients.

You need to have your financial planner understand the *real value* of your business. And here's a secret you're not going to like--the true value of your business **is not even close to what you think it's worth**. Business owners almost universally overvalue their businesses and this is something I don't want you to do.

So here are the things you need to do when looking for a financial planner who can help you accurately look at what you need:

- They need to be able to value your business accurately taking into account the taxes and fees you'll pay as you leave your business.
- They need to be able to help you understand how much of your lifestyle is paid for by your business.
- Your financial planner needs to be able to explain to you clearly the difference between the cash flow lifestyle that you live today and the investment lifestyle you will live tomorrow (post-sale).

These three things, if done correctly, will help you make an accurate assessment of what you need before you even start going down the road of planning an exit or succession from your business.

2. What's it worth? Remember I said you are unlikely to assess the real value of your business correctly? The reason for that is that your business actually has several values at the same time.

You see, the value of your business depends on who your ultimate buyer will be. If your buyer is someone who's purchasing your business for financial reasons, then your price will be one thing. If your buyer is a key employee or managers or your children, they often have no cash and what they can afford to pay will be something else altogether.

In case you're curious, here are the four ways you can leave your business:

a) **You can sell your business to an outside party**. When you sell to an outside party there are three types of buyers: a financial buyer, a strategic buyer or an intellectual capital buyer. All three will value your business in very different ways.

b) **You can sell your business to your children**. When doing an internal family transition, you face not only business challenges but intergenerational challenges as well. You need to know whether your children can run the business and if they'll be responsible enough to pay you what they owe you for the value of the business. If you're not sure about either of these questions then DON'T SELL THE BUSINESS to them.

c) **You can sell your business to your managers**. This is not a transaction you wake up tomorrow and start doing. First, you need to know if your managers are competent enough to run your business. Second, you need to put together a financing method for them to buy your business. You see your managers will have no money and you're going to have to come up with a strategy that protects you and ensures you'll be paid.

d) **You can leave your business through liquidation**. I assure you this is not an attractive option.

There are many subsets that come with each of these exit strategies. It will do you well to find somebody who really understands the succession and transition process for people like you. This really is a very complicated area and in most cases, you're only going to get one bite of this apple during your lifetime. Make sure you do it right the first time or you could have disastrous results.

3. Increase the value drivers of your business. You're most likely going to have to increase the value of your business long before you get around to selling it. This means you're going to have to take a hard look at your business and really see where the warts are so you can start working to correct them early in the sales process.

You've likely found that when you did your financial plan, there was a shortfall between what you had and what you're going to need. Too many business owners think their businesses alone will be enough to get them to retirement. Increasing the value your business can help, but is not going to get you all the way there.

For example, there's a good chance you're too involved in the day-to-day operations of your business. You need to stop this. If you don't, a third party won't be interested in you sticking around and your managers will eventually want you to leave.

Does too much of your business depend on too few large customers or clients? If so, there's another real roadblock you've just put up to selling your business. Learn what your business really does well and learn what it doesn't do well. Fixing the things that can be fixed or having a good explanation for what can't be fixed will help you increase the value of your business.

4. Know who's going to buy it. You're not going to have the bandwidth to plan for every succession possibility. You really need to think and plan for who the probable buyer will be. Next, put a plan together just for them and have a plan B if your first plan doesn't work out. It's just too easy to put all of your eggs in one basket. Thinking through who your ultimate buyer will be and why they want to buy your business is a really important part of the succession process.

5. Managing your key people. Here's another sad fact: ***the new owner of your business probably won't want you around but they probably want your key people*****.** If you don't do something to tie your key people to the business at least through the transition, there's a good chance the buyer will either discount what they're willing to pay or walk away. Get up to speed on stock appreciation rights and nonqualified deferred compensation so you can put a "stay bonus" in place for key employees. This will help increase the value of your business because you tied your key people to your company.

6. Know what's next in your life. I know that you've heard the term "seller's remorse" which unfortunately occurs far more often than it should. In my experience, it happens because you haven't planned what's next in your life.

Before you even start the process of leaving your business spend a lot of time-- **and I do mean a lot of time!**--thinking about what's next for you and start preparing for that transition. If you don't there is a very good chance you'll have seller's remorse after the transaction and this is something you really don't want to experience.

7. Investing proceeds. One of the challenges of selling a business is learning to be an investor, rather than an owner/operator and learning to live off capital versus the cash flow from your business. Learning to be a good investor is a process, one that is likely to take you several years to learn. You need to decide whether you want to work with an investment advisor or manage investments by yourself or do a combination of the two. Whatever you decide, managing your investments will be a big deal. I know that after you sell your business you're not going to want to go to work for somebody else.

Conclusion

Selling your business is going to be one of the most challenging events you have in your life. You're going to be under a tremendous amount of stress. This stress could cause you to make some really bad decisions. You want to find somebody who truly understands the process it can help you navigate it. It's going to take a long time to sell your business. The choice is yours--you can do it right or you can risk personal financial disaster.

About the author

***Josh Patrick**, former education director for the National Vending Association, is a founding principle at Stage 2 Planning Partners and the head curmudgeon at AskJoshPatrick. You can find e-books, special reports in case studies in the resource center at Stage 2 Planning. You can also get his free audio CD on how to create a sustainable business which is a crucial step in helping you leave your business in style.*