EXIT YOUR BUSINESS — *STAGE RIGHT*

Whether you've thought of selling the business or retiring now or in 50 years, part one of this two-part series has some thought-provoking ideas for crafting a strategy.

By Sid Raisch

A good rule for life is to begin with the end in mind. Too bad most of us don't get this message when we're younger.

I've heard it said that only approximately 30 percent of small business owners have an exit plan in place, which means that the strategy for nearly 70 percent is their default plan, which is to die on the job.

That may not be a bad way to go, for them, but it's quite a lot of devastation for those they leave behind.

Everyone over 40 that I've worked with in recent years has wanted to talk about what they're going to do with their business so they can retire someday.

At this stage of the game it is a little more than late for some of them. But there are still strategies to be implemented.

Owners are trying to find options.

Nobody has brought this up to tell me what or how great their plan is.

The future isn't what it once was. Most don't have retirement savings, or they have exhausted them to prop up business losses.

Ten years ago the assumption was they could cash out on the real estate, but today you really have to be in the right place at the right time to do that.

The Owners' Kids

Many of the businesses that do have kids who want to take over the business have children who are not ready to, or cannot take over the business.

Parents are often prematurely disappointed that their kids are not interested in continuing the family business.

There are countless situations where sons and daughters pursue professional careers in other cities then become dismayed with the corporate and suburban life and begin longing to return to their heritage and hometown.

This is somewhat predictable although never guaranteed. It would be foolish to be surprised if and when it happens.

Flexibility to keep this option open might be the best you can do, but do that. And when it is truly time to move on ask them if they'd like to take over, or have someone else do the asking, before you count your kids out.

When children are not able to take over the business, it is not necessarily to be blamed on the kids.

One of my favorite quotes is "When the ship fails to reach the harbor, it is rarely the fault of the harbor."

The ship (kids) has to be prepared well in advance to be capable of maneuvering difficult seas and navigating seaways to arrive safely to dock. The sooner this preparation begins, the better.

Two major reasons parents fail to transition the family business to their offspring are:

1. The kids don't achieve the financial capability to buy the business outright, or to finance it.

2. The parents don't have confidence their kids can make the payments, which they will rely on to live through their retirement.

Underlying Issue

An underlying issue with the latter failure is that the parents didn't run the business profitably enough to provide earned equity and didn't accumulate assets outside of the business which could either be sold, or spent to fund their retirement.

Unintended Consequence

An unintended consequence of the lack of parents' retirement savings is too often that they fail to develop their children to lead and manage the business.

There is a strong tendency to play it safe, hunker down, and a failure to invest to keep the business current and relevant to its consumers.

The "Well-Qualified" Buyer

Having multiple exit options is really the overall best strategy, trumping any single other strategy. And the best of those options is to have a qualified and capable buyer in place.

This buyer must be well qualified or the situation is sadly deteriorated from where it could and should have been.

The operative word here is "well" (qualified) because an element of capability is the financial ability in addition to the acumen and fortitude to manage the business.

Well-qualified buyers have better options than others and will be able to choose better businesses that are more profitable and better run.

The Boomerang Buyer

Unfortunately, many buyers (including employees) are less than well qualified, meaning they don't have the ability to pay cash or to get bank financing and turn to the desperate-to-sell current owner.

The Arrogant Buyer

From my experience most business buyers come in with a degree of arrogance.

This is particularly true of professionals from industries such as banking, finance, medical and believe it or not — accounting.

These folks have been trained very well in their expertise and are usually capable of fixing such complicated things as sick and diseased bodies and bookkeeping errors.

They have a tendency to feel they can fix and improve a business better than the sellers could.

This overconfidence can do them in.

As we are all well aware, horticulture businesses have unfriendly and invisible partners called the "seasonality" and "unseasonal weather" to contend with, and those professionals have typically not dealt with such deceitful foes.

FOR A LARGE PERCENTAGE OF SMALL BUSINESS OWNERS THEIR DEFAULT EXIT PLAN IS QUITE SIMPLY – THEIR DEATH.

Seller financing is a bitter pill to go with the sale of a business because it is one with high boomerang potential.

When a business comes back to the former owner, it comes violently crashing back, causing damage to the reputation of the business after a mess has been created.

The former owners are very reluctantly forced to come out of their retirement to take over and once again are trapped in a business they desperately want to escape.

Liquidation

The process of liquidating a business asset is typically not the best because it is dependent on too many uncontrolled outside factors, especially related to the timeliness, or un-timeliness, of the sale.

I'm not going to go into this option further at this time because it is most often, though not always, the exit choice of last resort, and likely to lead to the retirement resort of last choice.

Watch for the second part of this article to appear next month, in the July issue of Lawn & Garden Retailer.

The focus will be on building equity in your business today, for better transition options tomorrow. LGR

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