

Introduction To Transition Growth And Exit Planning

It was supposed to be a simple plan. However, as Jim, Jr. explained it, he described a scenario that was all too familiar to me. His father Jim, Sr., had founded a very successful business-to-business service company thirty years earlier that had been extremely successful during his father's lifetime. Jim Sr. was an extremely effective innovator as well as a strong manager and motivator. He was the driving force behind his company. Jim Sr. had always expected his son Jim would step in upon his death. However, Jim Sr. had unexpectedly died a few months earlier. Jim Jr. was now finding the company was slipping away from him. He admitted he lacked his father's talents and drive and that he had really never felt comfortable taking over the company (but he couldn't tell his father that). Since his father hadn't developed a strong management team, Jim was concerned the company wasn't going to be worth even the estate taxes still due on it, much less provide the income he needed.

Over the course of 25 years, Josh had built a great niche manufacturing business, and he was now ready to take his chips off the table. He was willing to stay active in the company for a couple years but he was running out of steam, and his family wanted to see him more. His business was producing consistently strong cash flow at a level that is normally very attractive to most private equity group buyers. Yet he and his M & A intermediary found that none would touch him. When he came to see me about this, it became clear he had made six of the common mistakes business owners and their advisors commonly overlook. And he was running out of time for a course correction.

Do The Things Necessary To Make It Happen

Eventually, every business owner will exit his or her business – whether voluntarily or otherwise. At that time, every owner wants to accomplish certain personal, financial, business and estate planning goals. Most fail to do so.

We have all heard the statistics on how few family businesses make it to the second or third generation and how many implode in the

first generation. Thirty-four percent of businesses fail in their first two years. Less than 50% are still operating after six years. Of those, that make it, only 30% to 35% survive to the second generation. Only 12% to 15% make it to the third generation, while 3% make it to the fourth generation. These statistics have been widely reported, e.g. by USA Today (2001) and the Small Business Administration (2003). The Small Business Administration reports that the “primary cause for failure . . . is lack of planning.”

Efforts by business owners to exit their businesses have been, on average, less than satisfying. Some studies show that over 75% of former business owners regretted the decision to sell their company because the sale did not accomplish their personal or business objectives. What was the reason the business owners gave? They did not understand all of their options, so they didn't make informed decisions.

Create Opportunities Now So You Have Options Later

Over the years, we have worked with hundreds of business owners to help them overcome these odds and achieve a successful outcome for the time and capital they have invested in their businesses. This book is intended to help you to learn about the transition growth and exit planning process which will help you to create and understand your options and will provide the active steps which you need to take today so you can successfully exit tomorrow.

What Will Be Your Future Exit Outcome?

What do you hope will be the future outcome of the time and financial investment you've made in your business? Based on over 27 years of working with owners of small, medium-sized and large family businesses, we've found the answers to this question tend to be very similar. Most owners of family businesses have some or all of the following hopes or wishes:

- That your income from the business will continue to grow and provide an increasing standard of living for you and your family.
 - That your business will help you accumulate sufficient financial resources for a comfortable retirement.
 - That your business will not suffer or be lost through the negative influence of either internal or external adversities or claims.
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- That both your business and your family can financially survive your unexpected, premature disability or death.
- That you can retire upon your own terms, while leaving your business in the good hands of successor management which you have selected and groomed.
- That ultimately you can either pass on a successful and valuable business to your family, or sell your business to your fellow owners, management or an outside buyer of your choice at a full and fair price, while minimizing potential federal and state taxes.
- That you can accomplish all of this with minimal shareholder, management and family squabbles.
- That your advisors will help you understand your options to help you make informed decisions.

These tend to be common family business owner wishes, whether you own all or part of your business, whether your business is small or large, whether you are in the business of selling products or services, and whether you started the business yourself or inherited or bought it from someone else.

The Present Atmosphere

This is no small issue for business owners and their families in our country. Fortune Magazine recently reported (June 26, 2006) that the largest intergenerational transfer of wealth in history is now underway, totaling \$45 trillion, which it says will be transferred over a 55-year period through 2052. It says about one third of this will pass to baby boomers, while the rest will go mainly to baby boomer children. Cornell University economist and demographic expert Robert Avery has predicted that baby boomers themselves will transfer \$10 trillion to later generations. The Exit Planning Institute reports that the vast majority of this wealth is stock in more than 12 million closely held companies and that during the next ten to fifteen years more than 70% of these businesses are expected to be transferred. A recent study by Boston College has projected that over the next 50 years \$41 trillion of American wealth will transfer from the current generation to the next generation.

A recent 2006 survey of thousands of business owners by Capital Solutions found that 43% planned to exit their business within the next 5 years, 70% within the next 10 years and 90% within the next 15 years. They found that many owners were uncertain of their exit route and were considering multiple options. The top 3 responses were: put up for sale (45%), move ownership to children (35%) and sell to management/key employees (30%). The top five concerns listed by business owners regarding their transition were: developing a smooth transition plan, determining company value, addressing tax impact, having a capable successor and post-exit employee security.

How Do You Achieve The Future Outcome You Want?

Almost all of the business owners that we have worked with over the years are very good at what they do. They also all realize that a business is not successful or profitable simply because they might wish it to be so. It's a basic and well understood principle of business – to be profitable and successful, you need to actively take the steps needed to efficiently provide, at a competitive price, products or services that a significant segment of the consumer or business public needs or wants.

You know you can not simply wish or hope this will happen on its own. The successful family business requires years of hard work, planning, dedication, and good business decisions. Likewise, you can't simply wish for your transition and exit to be successful and then expect it to be. You need to actively cause your transition and exit to be successful.

Over the years, I've had the opportunity to work with my own family in a number of their business operations, which have included restaurants, supermarkets, ranching, farming, retail merchandising, construction and real estate. They have provided good examples of the "entrepreneur's work ethic," not just by working hard in their businesses, but also by working hard on their businesses.

I've also had the opportunity to get to know many business owners. Most business owners whom we've worked with tend to realize, some sooner than others, that the future outcome they want for their business (and family) will be realized only if they apply the same skills to work ON their business as they have applied to working IN their business.

How is this done? It's done by realizing that your business should not rule your life. It's done by realizing that you need to take the steps necessary to rule one of the most important but too frequently overlooked aspects of being a business owner – the proactive, successful transition and exit process. It's done by asking two fundamental questions and then taking decisive action based on the answers.

Question 1: What Will Be The Probable, Almost Certain, Future Exit Outcome Of Your Present Course, If Left Unchanged?

You should take some time to answer this. What will be the outcome of your present course? The probable almost certain future outcome of a business owner's investment of time and capital depends on how well you understand this.

What we attempt to do through Transition Growth and Exit Planning is to help you to work ON your business through various business Transition Growth and Exit Planning tools and techniques which have a proven track record of producing a better outcome for those who utilize them.

Learn From The Past And Create Your Future

So, where do we begin? The first step is to understand the “probable, almost certain, future outcome of your present course, if left unchanged.” Will you be able to sell your business? Will your business be in a position to be sold at top dollar and minimized taxes when you are ready to depart. Will you have a capable successor, whether amongst your family or key employees or recruitable from outside the company? Are you prepared for the unexpected? Since you have read this far, you obviously intend to find out – and to do something about it before your exit arrives and the future is over.

Understand What Is Right. Deal With What Is Wrong

We begin this review by making certain, as advisors, that we both have a solid understanding of your business and personal situation. A good physician will not make a diagnosis or recommendation without first doing a thorough “Patient History and Physical” (known in the medical field as an “H and P”). Likewise, a good business Transition Growth and Exit Planning advisor first needs to do a brief “History and Physical.” Like a medical History and Physical, this typically reveals the areas of most concern which need to be addressed.

What we have found over the years is that to the extent this reveals that certain tools are missing, the probable almost certain future outcome for your business investment will be less than that hoped for. This “History and Physical” leads to the next question.

Question 2: What’s Missing, The Presence Of Which Would Make A Substantial Difference In Producing A Better Exit Outcome?

There are over 100 different Transition Growth and Exit Planning tools and techniques utilized as part of approximately 40 exit strategies which business owners are very successfully using to provide the missing components, the presence of which equips you and your business for achieving a substantially better future exit from your business. These tools and techniques can help assure that you can successfully enhance and protect your current and future business profits and value, as well as successfully pass on or sell your business upon your retirement, disability or death.

Stop, Look Both Ways, Proceed With Care

My purpose, as a Transition Growth and Exit Planning advisor, is to help you determine which of these tools and strategies can best assist you. Based on your particular needs as a business owner, this process requires a certain amount of detailed discussions and planning over a period of time with one or more other professionals working together.

I’ll Wait Until...

“I’ll wait until... the economy bounces back... or until we reach our next revenue milestone... or until my family pushes a bit harder about my plans...” or until this, that or the next thing. This is what we call the “Wait and See” Exit Plan. It is a recipe for failure.

Don’t Overdo It or Underdo It

Don’t overdo it by spending so much time planning for your transition and exit that you neglect the continuing needs of running your Company. Likewise, don’t underdo it by neglecting to determine and take the actions needed to be successful in protecting, transitioning and exiting from your Company. What good is it to reach third base with no one on deck to bring you home.

Triage

A medical professional will, after an assessment of the situation, prioritize the most immediate and secondary needs of the patient and then address the most critical needs first. Likewise, we find that in the Transition Growth and Exit Planning process, a similar triage is often necessary or appropriate. While we advocate the need to address all 12 building blocks described in this book, this does not mean they need to be addressed in the same order described in this book.

The Key To Success

Our firm has helped plan ahead for, design, negotiate and implement the purchase, sale or transfer of hundreds of businesses with selling prices ranging from a few hundred thousand dollars to several hundred million dollars. Each transaction presents unique objectives, hurdles and opportunities. And each business owner's success was dependent on the focus on transition and exit planning which occurred well in advance of the sale or transfer of the business.

The key to success is to get started well in advance. As a business owner, you need to become engaged in the Transition Growth and Exit Planning process. Don't wait like Jim and Josh until your options disappear.
