THE VELD GROUP VELD MERGERS & ACQUISITIONS

Examine Your Personal Motives First to Determine Your Readiness

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The personal decision to sell your business is usually based upon some combination of the following:

- A desire to “take the chips off the table.” Your tolerance for risk just isn’t what it used to be.
- The joy of going to work each day is fading. Not only has the fire in your belly gone out, but it’s been replaced by the desire to do “something else,” known or unknown.
- The “Successor Designate” can’t or won’t succeed. Neither child nor employee is able or willing to fill your shoes.
- You realize that now is the time to sell because you can attain financial security.
- There are a lot of activities other than running a company that you still want to experience.

Today, let’s look at the personal motives that can influence your timeline of cashing out of your business today and moving on to the next stage of your life.

Taking Chips Off the Table

As we age, our tolerance for risk diminishes and our desire for safety and security increases. If you doubt this observation, compare the typical driver in any Florida retirement community to a driver in your local high school parking lot as the school day ends.

Owning and operating a business places the majority of your assets at risk. Every day these risks might include:

- **Competitive** — from consolidators and others with more money than you
- **Financial** — the need to constantly keep more money in the business to sustain growth
- **Personal Health** — owners are not immune from health issues that can (and do) pop up without warning
- **Liability** — there are hundreds of thousands of practicing liability lawyers in this country
- **Business Conditions** — key employees leave or your industry changes
- **The Economy** — when it cycles down will it take your business with it?

For most owners, there is a point at which these risks become overly burdensome, especially when the business itself has become valuable. You no longer want to expose your most valuable asset to constant risk. When all of your eggs are in one basket and the basket is now worth a lot of money, it makes sense to lower the risk of losing that basket. The only way to eliminate the risks inherent to owning a closely held business interest is to sell it — for cash. Doing so not only takes chips off the table by converting an illiquid asset to cash, but it also allows you to eliminate personal guarantees, reduce liability exposure and remove personal collateral (used for business purposes) that was at risk.

No Fire in the Belly

Few owners reading this newsletter are as energetic and enthusiastic about their businesses as they were when they started (or even during the middle years of the business). Owners tend to continue in business beyond an optimum departure date because they don't know what else to do with their time. They continue on and spend months or years in their businesses long after the passion has died.

First, once lost, owners typically don’t regain their enthusiasm for, excitement about, or enjoyment of their businesses. The reason is pretty straightforward — entrepreneurs like to create. Once a business has a life of its own, it is left to wreak havoc or to succeed. Making money and all of the other by-products of a successful business are nice, but it is the act of creating, of successfully meeting the challenges, that brings satisfaction to the entrepreneur. The fire in the belly is the passion that gives birth to and nurtures your business. Once the business is on its own, once it no longer needs you, it may be time to move on to the next challenge, the next call for your passion and creativity. It is at this point that many owners begin searching for the exit door in order to find the next passion.

Second, one of the few solutions to the loss of fire is to sell the business and get *out*. Your business will move to the next level under new ownership for whom moving to the next level provides ample stimulation and challenge.

The Successor Designate Won't or Can't Succeed

A “Successor Designate” is anointed from within the business (a key employee or usually two) or from within the family (a child or two). If no one has:

1. stepped forward;
2. the talent to take the business to the next level;
3. demonstrated sufficient commitment to the business (at least equal to what yours had been); or
4. the money now or through future cash flows from the business adequate to buy the business;

then the business has become too valuable or too complex to transfer to anyone other than an outsider. Let's look at how one fictional business owner tried (and failed) to lure his desired successor into ownership.

It was the most unexpected outcome imaginable. Dick Langenberg owned a water drilling service (highly demanded in the eastern plains of Colorado) that had prospered for the last 20 years. As a careful,

conservative businessman of the "old school," Dick had amassed a significant fortune outside of the business — a business that earned $1 million or more each year. One of Dick's Exit Objectives then, was to reward the key employees who had helped build and sustain his successful company. After much soul searching, Dick decided to give the business to his key employees. They would pay him nothing out of their own pockets.

The mechanism Dick used to give the business away was to have the business contribute money to a separate fund for three years. At the end of that time period, Dick would receive the money in the fund as a down payment for the purchase of the company. The down payment would equal 50 percent of the purchase price. The remaining 50 percent would be paid to Dick over the subsequent six years from the available cash flow of the company. If cash flow was insufficient, Dick was willing to accept a longer pay out period, although if cash flow continued as expected, it would be more than adequate to pay Dick the remaining balance.

In short, Dick would pre-fund his own buyout with three years of revenues (money he would otherwise be entitled to) and would obligate key employees and the company to provide the remaining 50 percent of the payment — solely from the future cash flows of the company. In essence, Dick was giving the company to his employees.

At the end of six years, without one penny coming from their own pockets, Dick's employees would own a company producing at least $1 million of cash flow per year. Imagine Dick's surprise when their unanimous response was, "Thank you very much, but we don't want to own the company. There's too much risk in this business." Dick's Exit Planning Advisor was not nearly as surprised as Dick because through experience the Advisor had come to realize that many key employees — wonderful, valuable and contributing employees that they are — simply have little tolerance for the risk that is part and parcel of business ownership. In Dick's case, the employees weren't even willing to be given the company.

There's More to Life than Building and Running a Company

Many business owners reach a point where they realize that there are a lot of things "out there" that they want to do while they are young enough to enjoy them. Active vacations, spending time with family and friends, service work, personal growth and development are all items that appear on owners' lists of things to do. These items remain on the list because owners are simply too busy running their companies to pay them more than passing attention.

Many Boomer owners, in particular, are deciding to pursue a second life or second career full of possibility, activity and involvement. This crowd gravitates toward race car seats, rather than toward rocking chairs. To be strapped into the driver seat, owners need financial, emotional and time freedoms.

If you find yourself falling into one of these categories, then the time may be now to call our office to begin creating a plan for preparing your business for your eventual exit. We can help guide you through the process of reviewing all of the factors associated with exiting your business and creating a comprehensive Exit Plan that addresses all of your personal and business objectives.