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Optionality and Your Plans for Your Business Future

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When many business owners first think about their business futures, their first question is, “Whom am I going to sell this business to once it’s my time to leave it?” It makes sense for owners to ask this question first, since the answer to that question can guide how their futures look. But this is a backward way of shaping a plan. Consider the short story of Bob Roberts.

Bob Roberts had had 40 years of success running his hometown disposal company. He was ready to sell to a third-party buyer who had approached him a year earlier. The buyer told Bob that they were willing to pay him $6 million for his business, which Bob thought was more than enough to last him through his retirement. Bob always wanted to sell to a big player and retire in style.

Not long before Bob was set to close the deal, he received startling news. The buyer planned to absorb Bob’s fleet of trucks and book of business, and lay off 47 of his 50 employees. Bob cared far too much about his employees to let that happen. He demanded that the buyer keep his employees as a condition of the sale. The buyer refused, and Bob took the business off the market.

When Bob tried taking his business to market a few years later, he couldn’t find anyone who wanted to give him even half of the original offer. He had tainted the marketplace by taking his business off the market early, and he still felt the negative consequences. He found himself wishing that he’d taken the original offer and that he didn’t care so much about his employees.

In this example, Bob didn’t realize how important one of his values-based goals was because he never examined it. He dove headlong into pursuing what he thought was an ideal path. In reality, his ideal path was fraught with problems he could have avoided.

Optionality in Planning

Optionality is “the value of additional optional investment opportunities available only after having made an initial investment.” In terms of planning for your business’ future, optionality means your ability to choose an

ideal Exit Path while still having the option to pursue other paths as backups. The “initial investment” is setting your goals and determining your resources. The “additional optional investment opportunities” are the Exit Paths you give yourself options to choose from. This optionality is extremely important because your conditions, situations, and wants can change as you plan for a successful future.

To most business owners, choosing their ideal Exit Path is *the result* of planning. Because business owners are typically results-driven, it’s where they want to start. However, before pursuing a path, you should determine whether your chosen path can achieve your goals and whether you have the resources to pursue a given path. Doing so creates optionality.

Optionality is valuable in planning because it gives you the freedom to pursue your future business goals on your terms. Optionality cannot exist unless you know your goals and resources. Choosing an ideal path isn’t the end of planning: It’s the means to the end.

Generally, there are four paths you can take to continue the business after you leave it.

1. Third-Party Sale

2. Transfer to Employees or Management

3. Transfer to Children

4. Sale to an ESOP

Regardless of which path you choose, one thing is almost always true: It’s unwise to pursue a path unless you know what your ideals and resources are. For example, an owner who wants to exit their business in six months but sell to an insider will probably be unable to choose an ideal path at the outset. Only after weighing *why* they want what they want against *how* to get what they want can owners begin to seriously consider any path.

You may have ideas about what your ideal planning path might be. You may want to start the conversation there. But we encourage you to examine your goals and resources before committing fully to any given path. If you’d like to discuss how your ideal path lines up with your goals and resources, please contact us today.