

GETTING READY FOR LIFE'S SECOND ACT

WITH A PLAN AND THE RIGHT TEAM OF ADVISERS,
YOU CAN WALK AWAY FROM YOUR BUSINESS

BY LISA MICALI

STARTING THIS YEAR, NEARLY EIGHT MILLION SMALL BUSINESS OWNERS BORN BETWEEN 1946 AND 1964 WILL BEGIN TO REACH RETIREMENT AGE, AND MOST OF THEM WILL BE FACED WITH WHAT WILL BE PERHAPS THE SINGLE BIGGEST FINANCIAL DECISION IN THEIR LIFETIME: EXITING THEIR BUSINESSES. BABY BOOM ENTREPRENEURS HAVE MORE CAPITAL THAN EVER BEFORE, INVESTING WITH EQUAL ABANDON IN THEIR EGOS AND THEIR COMPANIES, BUT THAT DOESN'T ALWAYS TRANSLATE INTO A BIGGER NEST EGG WHEN RETIREMENT APPROACHES. AS MUCH AS THESE ENTREPRENEURS ARE DRAWN TO THE CHALLENGE OF SUCCEEDING IN THEIR BUSINESS, MANY FIND THEMSELVES IN A QUANDARY WHEN IT COMES TO THE CLOSING CHAPTER.

Many don't have a formal strategy or a transition plan in place, due in part, to a strong reluctance to face sticky issues surrounding their own mortality as well as personal identity issues attached to the business. Often their names (and egos) are intricately intertwined with their firm, compounding decisions associated with leaving their careers and their businesses behind. When nudged, most will admit to (some) fears and worries about the entire process or perhaps what life will be like after the business, so they do nothing. Some feel they're just too busy running the day-to-day operations to create a formal plan or think they don't have enough money or equity to move into the next stage of their life, say the members of RiversideWest LLC (RSW), a Westport, CT based unique professional collaborative with backgrounds in law, finance and business consulting. But, often that is not the case.



RiverSide West LLC members -from left, Joseph L.A. Tesoriere, Robert A. Schrage and Patrick W. Begos

"The biggest challenge is getting baby-boomers to face up to their own mortality," says Joseph Tesoriere, 59, a business consultant who advises small businesses as a member of RiversideWest. "Maybe they think their children are going to take over the business, but in many cases the kids have their own lives and are not interested. Owners would like to retire, travel, move somewhere warm, but when the time comes to make an exit, they end up putting it off for years and years and then sell short."

Most of the current research shows that baby boomers who own businesses or one-person consultancies aren't worried enough about retirement strategies even though the majority of their net worth is tied up in the business – up to 75% in some cases. But converting decades of hard work into a sound retirement entails more than just a few quiet conversations with your broker, accountant and lawyer say the RSW members. It requires insight, planning and trust.

"Owners don't understand the options available or how to go about obtaining the most value for their business, whether they want to sell it or transfer ownership to a partner or family member," explains Tesoriere. "But whichever strategy you choose, you should have a lead business adviser experienced in each discipline – tax, accounting, insurance, retirement and so forth."

The numbers tell the story. More than a half million baby boomer

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businesses are projected to be sold, acquired or closed in the next year (on average about 250,000 private businesses in the U.S. change hands in any given year.) As a result, the increase in the number of boomer businesses expected to be on the market, together with the relatively fixed number of qualified buyers, will cause downward pressure on overall business values, thus limiting an owner's exit options. It's these options, Tesoriere says, that should be part of a formal plan that answers the tough questions when you want (or need to) get out. In addition, the plan should include contingencies for illness, burn-out, divorce, and even death.

For those who review all their cards before showing their hand, there can be unexpected rewards. As was the case for one of Tesoriere's clients who recently decided to retire at 50. "His cash flow was stable, and the business [a reinsurer] was doing well," explains Tesoriere. "When he saw the numbers, he decided it would be better to get out of the boss's chair and find someone to replace him by offering him a lucrative \$1 million salary package. That way, he could continue to reap the profits of a growing business and eventually retire in five years with a better nest egg. This type of solution allowed him to accomplish both his personal and financial goals while leaving on his own terms."

8 Steps To Increasing Business Value

- Cultivate a stable, motivated management team
- Maintain operating systems that improve the sustainability of cash flow
- Improve margins (should be at least the industry average)
- Develop a solid and diversified customer base
- Focus on facility appearance
- Plan realistic growth strategy
- Establish effective financial controls
- Perpetuate a good and improving cash flow

So, what can you do today to get the most out of your business later? "You need to be proactive rather than reactive," advises Tesoriere, "or you'll miss strategic opportunities, leave cash on the table or pay too much in taxes when you do sell your company. Focus on optimizing your company's market value today can help you reach your goals sooner."

Creating a good exit plan is similar to assembling a complicated jigsaw puzzle — each part must fit with all of the others for the final goal to take shape. While many exit plans are usually formulated with the help of lawyers and accountants, these professionals are often hard pressed to align the current (and future) business value to your specific retirement goals, and are not always suited to address the multitude of personal and business issues surrounding the disposition of a company's business and name — in many cases, the owner's brand and passion.

"A business whose owner is acutely identified with the name and ego of the firm can lead to many hidden perils," says Robert Schrage, a strategic business lawyer with RiversideWest. "The techniques for recognizing the difference between ego, personal issues and business concerns probably sound very new age-ish, but if you don't separate them, you, as the

owner, can suppress future value or lose out on an opportunity all together. Especially if you are not in charge of the process from the start."

Schrage, 60, is currently working with a client who built a very successful garment business. "The owner," says Schrage, "wants to sell the business so she can spend more time with her children. The problem," he explains, "isn't the business itself. It's quite successful, doing \$20-30 million in sales. It has a highly qualified staff but does not have a traditional management structure in place. The business is still really run by the owner and that makes it difficult to sell."

"In the process of working with investment bankers, the owner realized the business would command a higher price when interested buyers could more easily see that the business would be able to run successfully without the full time input of the owner," Schrage continues. "That means that the company has to engage the services of a management team that can stay in place when the owner sells. Selling the business as it now exists means taking less money than the business would be worth. Adding a stable management team would command a higher price."

Patrick Begos, another lawyer in RiversideWest, suggests that business owners address exit issues sooner rather than later. Begos, 43, a business litigation expert with Begos & Horgan, adds, "leaving under-funded retirement plans to the last minute can undermine a life-long accomplishment. Small business owners need to acquire an in-depth understanding of their business and assess each alternative with the help of a qualified and neutral business consultant in addition to talking over concerns with their partner, family, accountant and/or attorney. An investment banking firm or business brokerage isn't right for everyone. Maybe the business doesn't have a secondary market and wouldn't be desirable. Maybe the client base is the true asset. These are things only an adviser can determine."

Knowing what your business — and brand — is worth will also add to your personal bottom line, and give you a better idea of your own net worth, so you can formulate a good strategy. Like many entrepreneurs, if your name is tightly attached to the business (think Microsoft and Bill Gates), or, literally (such as Charles Schwab), that probably means you are (overly) emotionally involved. But the hard truth is that no matter how well-entrenched your firm's name or how much prestige and cachet it has, the name doesn't breed success — only the people behind it do.

"A successful company is only as good as its people," adds Begos. "Many firms typically change their name when they change hands. However, if you're leaving your name behind on the marquee, you probably want to sort out your feelings first. And that goes back to separating what you do from who you are." **CC**

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