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Is your business ready for your retirement?

Are you ready to leave your business?

If you answered yes to these questions, you may want to take another look.

The Kiplinger Business Resource Center warned business owners in their November 4, 2007 newsletter to “Expect a glut of firms to go up for sale as thousands of baby boomers retire,” and that “Owners without an exit strategy will likely sell at a discount.” They emphasized their prediction by stating that “Gigantic amounts of wealth are not going to be realized because of a lack of planning.”

The Wall Street Journal had similar warnings for business owners when it reported on January 8, 2008, that “A lot of entrepreneurs think they have the perfect retirement plan: They’ll sell the business for a bundle and live off the proceeds. But many of them will be in for an unpleasant surprise when they’re ready to bail. They haven’t done the work they need to do to get the company ready for a buyer.” The WSJ went on further to advise, “Finally, when entrepreneurs are ready to sell, they should get professional help to figure out how much the business is worth and how to handle the sale. Owners often think the company is worth more than it will really fetch in the market, leaving them ill-prepared to sell.”

Experts predict that 80% of closely-held businesses will change hands in the next five years, and the majority of those sellers will leave money on the closing table because they did not plan ahead. Entrepreneurs tend to be too busy working **IN** their business to work **ON** the business. They also don’t know when to start planning for exit and who to call for help. The time to start is **NOW** because you never know when you will leave the business.

Tomorrow the ideal buyer could come knocking on your door and you may not be ready to get maximum value for all your years of hard work.

Here are ten of the most serious consequences suffered by owners who neglect to prepare their businesses for eventual sale or transfer.

1. The sole owner dies or becomes permanently disabled, but has insufficient (or no) life disability insurance, no business succession plan, and no estate plan.
2. The business experiences a sudden, catastrophic loss and all of the owner's financial eggs are in the business.
3. There is no comprehensive buy-sell agreement between partners and one of two owners dies, or the partners have an irreconcilable falling out, both of which situations commonly result in litigation.
4. The business is hit with a massive and legitimate legal claim and there is no asset protection in place.
5. The company's key employee quits, taking the best customers and employees with him, and the company has no non-compete agreement to prevent his actions.
6. The owner wants to retire and sell the business to a family member but there is not enough time to make the transfer and pay minimal taxes.
7. The owner has selected a capable non-family heir apparent but doesn't have a succession plan in place and can't realistically fund the transfer.
8. The dream buyer comes along unexpectedly, and makes an offer that can't be beat, but the owner can't make the sale because of the prohibitive tax cost and a complete absence of independent retirement income.
9. An agreement to sell is made with the dream buyer because the owner has the tax and retirement income issues covered, but the buyer reduces the offer after finding aged accounts receivables

and owner loans on the books., In short, the company's books are not in order.

10. The business is struck by an unforeseeable set-back; it lacks the financial planning, exit strategy, and first-line management to weather the storm.

The following is an actual illustration of number 1, above.

Recently the owners of a company came to us for help in selling their business. Tom and Pete (not their real names) started their business 20 years ago and became very successful. Working **IN** the business, they accumulated wealth and provided a fine lifestyle for themselves and their families. They agreed it was time to sell the business but the business wasn't ready for a buyer. Buyers were attracted to the business, but, because Tom and Pete were its key components, the buyers wanted them to stay on for at least 5 years. Not only did Tom and Pete not want to stay on, they were no longer physically able to do so. Had they developed a plan for succession of management well in advance of their decision to retire, Tom and Pete would have sold the company on their terms and for a substantial amount. Instead they liquidated the company and retired with several million dollars less than the lowest offer should have been. Unfortunately, this story is not an isolated incident.

The deep disappointment and financial loss experienced by these partners could have been avoided had there been a succession plan in place. Continuity of management means continuity of revenues, giving the buyer confidence in knowing the company's business flow will continue uninterrupted despite ownership changes.

Other matters that require special attention when preparing the business for eventual exit are maintaining a clean balance sheet; keeping receivables on a 90-day or less schedule; contracting any leases to allow for the owner's assignment; and, in the case of multiple owners, executing buy/sell agreements that are enforceable and clearly spell out each party's rights and responsibilities.

Business owners need guidance from competent professionals experienced in exit planning immediately upon starting or taking control of their

businesses. Advance preparedness for exiting the business is essential, because an owner never knows when the best opportunity will come knocking on the door.

Plan ahead for success when you exit your business, or plan for less.