BUSINESS TRANSITION/SUCCESSION

OCTOBER 2008

The Increased Risk Of Incurring Catastrophic Losses
And What You Can Do To Avoid Them

ROCG

the business transition specialists

ABOUT ROCG

ROCG is an international professional services and consulting firm with offices throughout North America, Europe and the Asia Pacific region. We are the only international firm specializing in business transition services for privately/family owned small and medium-sized enterprises.

We are experts with a proprietary method of planning for transition and in preparing an organization for the transfer of ownership, responsibilities and knowledge. Our services meet both organizational and personal needs associated with succession because we align our solution to the organization's strategic goals and its unique human element.

We deliver by adopting and fully embracing a collaborative approach to our client's operating issues to achieve impact through genuine insight. Collectively our principals have hundreds of years of consulting experience with clients across a wide range of industries and we use our experience to help our clients solve complex business problems.

ABOUT OUR SURVEY

ROCG Americas collected 502 surveys from privately owned business owners predominately in the United States and Canada from March 20, 2007 through December 18, 2007. Data was collected both on-line and in writing. There were 91 Canadian respondents, 386 United States respondents and 25 Other/Non–disclosed locations. The annual revenues of the respondents ranged from under $1M to $100M.

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EXECUTIVE SUMMARY

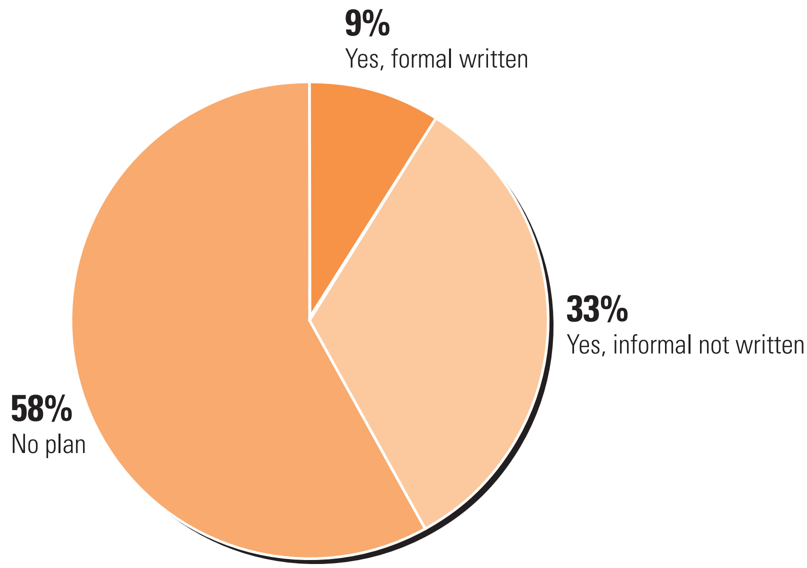
This paper will explain how a continued lack of succession planning is bringing business owners closer and closer to an impending crisis timeline and what action is required to avoid it. Owners face potential catastrophic losses as they look to cash out of their business or transfer their business ownership. Unless this critical strategic shortcoming is corrected, owners may be unable to avoid the dire consequences it may have on their business, on their other shareholders and on their families.

The stakes are high and the results to date speak volumes on what's potentially to come. Lifestyle dreams, family legacies and philanthropic desires are all at stake. Consider that in one survey, only 1 in 10 owners received a price for their business anywhere close to what they wanted or expected. Additionally, **less than 40% said they successfully transitioned their business. The primary reason given? Improper or no planning!**

If you are like most people, transitioning from your business is a once-in-a-lifetime event. You need to get it right! Yet, if owners continue to ignore giving their transition adequate time to strategically think it through, it appears from our 2007 survey of business owners, that we will have all the ingredients for the 'perfect storm.' With such an occurrence, it could potentially cause widespread financial ruin and distress.

First, there is the lack of planning. Our survey found that only 9% of business owners have a formal written plan!

Have you prepared a Transition/Succession plan?



Secondly, there is the importance of the sale proceeds. In our survey, 84% of business owners stated that the proceeds from the sale of their business were important to their retirement plans. This is true for both family and non-family transfers.

Finally, toss into the mix the enormity of the baby-boomer business owner's "Stampede to the Exit"™ over the next 15 years. With current estimates that more than 40% of business owners plan to exit within the next five years and 80% within 10 years, there will be many more sellers than buyers in the market place.[1] It is indeed, a disaster waiting to happen.

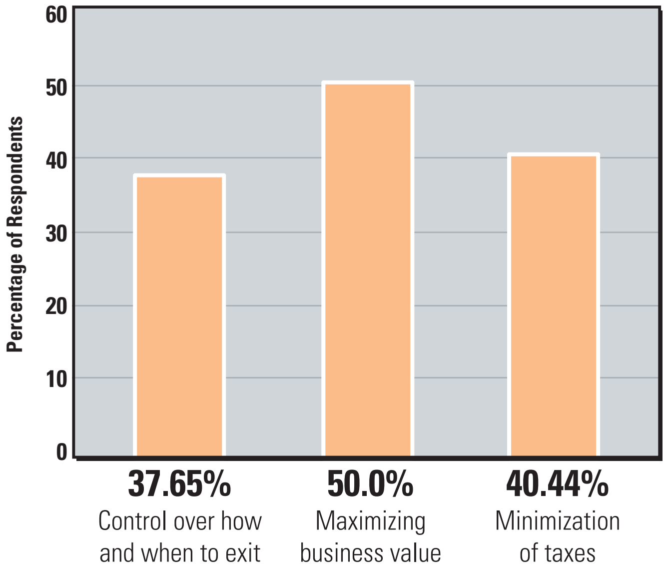
Will widespread catastrophic losses be the result? Without proper advance planning, it very well could be, as business owners:

- may not be in position to maximize their personal finances on sale;
- may be forced to sell at a discount;
- may risk a business closure;
- may have a business that ultimately fails and/or potentially destroys family harmony in transfers to family members.

Timely transition planning will avoid facing these types of disappointments and despair, by helping to ensure that the transition is successful by meeting the owner's lifestyle and legacy objectives. A proper plan addresses critical success factors such as those identified by the owners in our survey as being **the three most important components in their individual transition:**

- **Maximizing Business Value**
- **Minimizing Taxes**
- **Controlling How and When They Exit**

Most important components of a Transition/Succession



Your stakes are high! Can you afford not to get this right? There is much to lose, so our purpose in writing this paper is to first call attention to the urgent need for business owners to get started with this critically important planning process. It is also to show how, with proper planning, you can maximize your business' value, minimize the tax effects, maintain control over the process, help maintain family harmony and unity, and help sustain the long-term viability of your company.

You will benefit from reading the white paper by:

- Having a better understanding of the business transition process through our analysis and insights on cumulative survey data
- Avoiding the problematic issues and pitfalls identified
- Following the proven success solutions highlighted
- Using the successful business transition process we describe as a reference and guide in your own transition

CURRENT BUSINESS TRANSITION LANDSCAPE

SME STUDIES BACKGROUND

Over the last 15 years, family owned and closely held small to medium-sized businesses, both in the US and in Canada, have received more and more national attention from industry thought leaders, in the form of evaluative surveys. The purpose was to get an understanding of the companies that play such an important role in driving the economies of both countries.

Unlike with public companies, there is not a lot of public information available. As a result, the privately conducted surveys were used to capture this market segment's business perspective, performance metrics, organizational structure, and unique operational considerations not experienced in public entities.

The results have proven invaluable, as important and changing trends have been tracked to better prepare business owners in their day-to-day and long-term management. And in addition to providing critical benchmarking data, they have also provided special insight into areas such as strategic planning, leadership profiles, family/closely held management and employment issues, and recently as a result of the baby boomer phenomena, business succession and transition issues.

DEMOGRAPHICS

The various studies that have been on-going since 1993 have captured the broad diverse industry mix that drives the American and Canadian economies. The studies comprise businesses of all sizes, with the majority having revenues ranging from $1M to $100M.

At first glance, one might think that with the size differential, there would be quite a disparity in some of the responses. However, we didn't find that to be the case. We believe that has a lot to do with two key elements that are integral components of business transition; human behavior and emotion. People share the same feelings or emotional responses in any given situation, no matter the size of their personal net worth.

In the ROCG survey, many of the responses were quite similar no matter the revenue size. In four different revenue range groupings, each group identified the same three items they considered were the most important in a business transition. In addition, they also choose the same three major barriers to successfully plan and execute their transition.

WHY THE LACK OF URGENCY?

As pointed out in the Executive Summary, only 9% of the respondents overall had a formal written business transition plan in our survey. With 80% of business owners ready to transition from their business within the next 10 years, the puzzling question is; why is there such a lack of urgency?

It appears the primary reason comes down to the apparent universal belief that, **'we can always do it tomorrow.'** Our guess is that this comes from our general feeling of invulnerability.

In both our survey and the one conducted by the Canadian Federation of Independent Business (CFIB) in 2005, the number one reason given for not having a written plan was that it was too early to plan.[2] This reply was head and shoulders above every other reason given. But the facts tell us something differently; time is not necessarily in the owner's favor.

GOING OUT WITH THEIR BOOTS ON

By waiting or putting planning off, "what all too often happens is that the successors leave the matter to fate. They simply wait for time to take its inevitable toll."[3]

With so much riding on the outcome, it's hard to imagine bright successful business owners caught frozen in such inaction. With what's at stake for their spouse, their children, their grandchildren, family members, partners, employees, customers, suppliers, etc., are business owners really leaving this to chance?

In Mass Mutual's 2007 American Family Business Survey, their findings seemed to confirm the lethargy. "Almost a third have no plans to retire, ever; and nearly another third report that retirement is more than 11 years away. Since the medium age of the current leaders is 51, **this means that many people plan to die in office**…"[4]

PricewaterhouseCoopers' August 2007 report on Canadian businesses succession plans also found a similar lack of planning by owners that were 50 and over and reported that, "many owners seem unwilling to seriously look into options to transition ownership before they are forced, by age or illness, to give up the business."[5]

Certainly if this 'feet first' planning was presented to you in an advisory situation, you would surely comment on its absurdity. Yet based on the various studies, that is exactly how many business owners are planning (via not planning) their lives and the lives of those closest to them and their business.

QUEST OF THE HOLY 'ACTION' GRAIL

Clearly there is a business disconnect going on here. The consequences of inaction are clear, as are the benefits. Yet the message has heretofore not been effectively communicated.

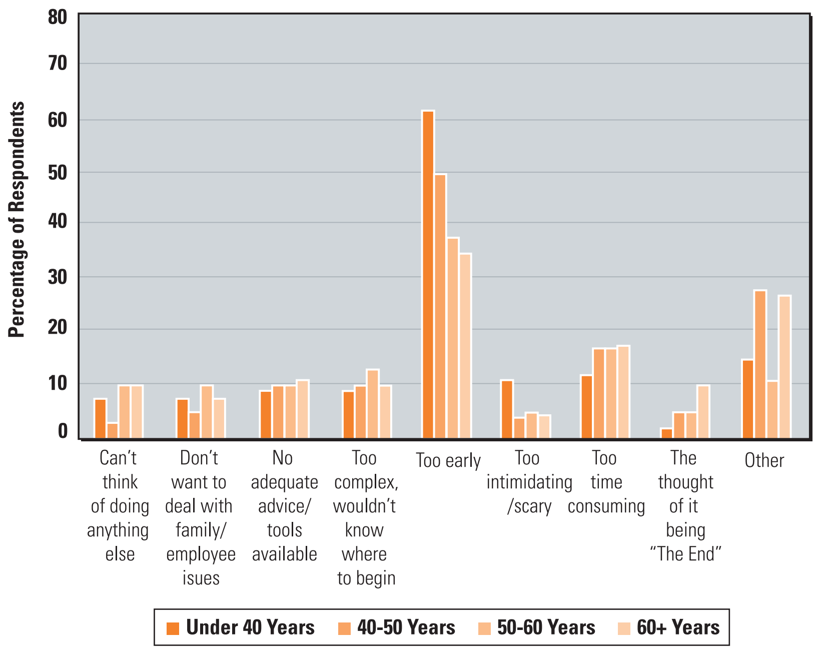
As business advisors, we are always looking for critical tipping point issues that somehow connect with a business owner; finding some compelling message that induces a positive action.

With that in mind, we dug into our survey results a little deeper to determine if there were more answers than originally met the eye. Could we find some hot button that would help us connect to owners about the seriousness of their plight and get them into a mode of action?

So we took a look into whether it was just the younger business owner's answers that were the cause in driving the 'too early' response. But even when we looked at the question from the vantage point of different age groupings, sadly, it really does appear that many business owners just don't ever plan on leaving or believe that there will always be a tomorrow; 34% of those who were over 60 still believed it was too early for them to plan.

Why haven't you prepared a formal Transition/Succession plan?

SUMMARY BY AGE



The only exception we found to the ‘plenty of time’ consensus was when we looked at the responses in comparison to the length of time expected before owners planned on leaving the business. For those planning to exit their business within two years, the ‘too early’ response dropped down the list.

In its place as number one was the second overall top reason given on both surveys; ‘it’s too time consuming.’ Could this be the cognitive connection point that will help drive owners into action?

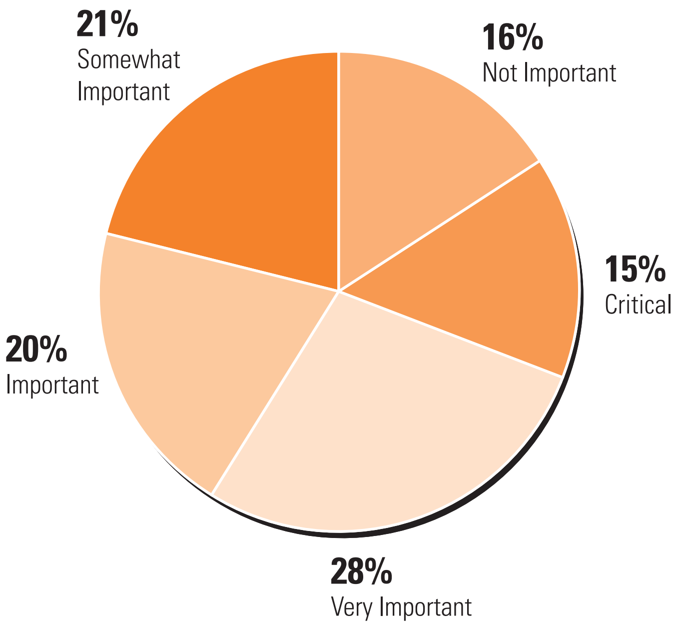
If business owners cannot connect to the urgency of planning because of issues surrounding their own immortality, then maybe there is a better chance for them to relate to the planning aspect from this viewpoint. After all, as an owner, you have been making important long-term strategic and day-to-day decisions throughout your ownership life. This is just one more item that needs to be properly scheduled into your calendar.

As in your on-going operations, succession is about business strategy. It is about creating a structure that will help you organize your processes, which in turn will help you increase its value and provide you a mechanism to smoothly transition your business to new owners.

AN OXYMORON

Eighty-four percent (84%) of the owners in our survey acknowledge that the proceeds from their transition are important for their future, yet they still remain motionless and do nothing about it. Doesn't that defy business logic?

How important will transaction proceeds be to financing your retirement?



How can you spend a substantial part of your life building and developing a business and then when it is time to capitalize on all the hard work, treat it so cavalierly? I know that owners of SME often times are wearing many different hats that causes them to run from one thing to another and that time is in short supply, but isn't this more important?

The exit planning stage is all about you taking away the big prize. It is about you receiving your final financial and emotional reward for all your hard work. A reward that should: maximize your cashout payday, bring peace of mind as a result of the orderly transfer of the business to your family, and/or provide personal satisfaction for ensuring the future on-going viability of your company for its successors.

How is it, then, that the majority of business owners spend a lifetime working in their business, acknowledge the importance of the proceeds to their lifestyle and legacy plans, yet don't think it warrants their blocking off sufficient time to successfully complete this final chapter in their business' life?

HAS THE HORSE BEEN BEATEN ENOUGH?

Has the time issue been beaten enough yet? It is the key takeaway. It is the most critical point that we need to get across: **to successfully transition your business, it comes down to time.**

Time needs to be allocated in your daily schedule as you would for anything of strategic importance. You need time to work out a plan that meets your personal objectives. You need time to explore all of your options. You need time to plan for the unexpected, in case your time is suddenly seized from you without warning. And finally, you need a sufficient amount of time to implement your plan.

THE UNSPOKEN OTHER

As you saw in one of the preceding charts, our survey's actual second biggest response to the 'why haven't you planned' question, didn't identify anything specifically, it was 'Other.' The 'Other' category came in with a 23% response rate and although the survey provided a write-in space, most respondents opted out of disclosing anything specific.

It is interesting to note that 'Other' was the top reason given for owners who were exiting within two years (35%) and also for those exiting between two and five years (28%). Obviously the majority of owners in these two groups realized that their window for planning was quickly closing, so their lack of planning had nothing to do with their having plenty of time.

There were plenty of reasons owners had to choose from, so why the 'Other?' We believe it has to deal with the 'soft' or emotional issues of business transition. And as you know, for a lot of people, emotional issues are not easily talked about. Based on our experience, a lot of the emotional issues business owners struggle with, have to do with the fear factor.

- **The fear of letting go.** This has been their baby. For most owners, they have identified their lives through the business. How do they say goodbye to all of that?
- **The fear of loss of wealth.** It took a long time to build the business to what it is today. Once it is gone, owners fear they could lose everything and they need to protect their wealth.
- **The fear of loss of control.** This is my business. I built it and no one else can run it as well as I have.
- **The fear of conflict.** Both of my kids want to be CEO. I don't want to make a choice and then have to deal with family fights. My partner doesn't want to retire yet but needs me to stay in. My partner wants his kids to stay involved but they have no financial strength to buy me completely out.

This is a tough obstacle to crack. And could very well be the actual top reason many business owners do not have a written plan. It is human nature to draw away from pain. And boy, are these subjects uncomfortable and potentially painful.

But just as you and your advisors have to work through the tangible obstacles that may prevent a formal plan going forward, it is just as important for you to understand, discuss and plan for these intangible elements. If not, in addition to possibly preventing a written plan from ever going forward, not getting a handle on the 'soft' issues that can cause stress and anguish, could easily derail your plan once it does get started.

In situations where this is prevalent, it is up to the lead advisor, and hopefully one that has had experience in dealing with such emotional issues, to help you navigate through these potential land mines. Ignoring them because it is uncomfortable should be done at your own peril.

TIME AND THE WRITTEN PLAN

TIME CRITICAL - IT'S NOT JUST THE TRANSACTION

Contrary to a lot of business owners' initial thoughts regarding their exit, planning and executing a successful transition is much more than just the one time event of the transaction that is preceded and followed by some legal paperwork.

There is much more to it than that. And time is needed to sort through all of the factors so nothing is missed. As a result, your approach to the transition planning process should be similar to your retirement and personal investment planning, whereby the longer the timeline you plan and implement, the better your results.

By planning early and having an 'end-in-mind' vision as early in the process as possible, it allows you the ability to increase your business' value and maximize whatever you and your family want to get out of it.

Having adequate time is critical to a successful business transition. However, there is no optimum magic timeline, as each business is different, as are one's individual goals and aspirations. However, at a minimum we believe that you should allow yourself at least two to five years to attend to all of the critical factors that define success.

So take warning, trying to force things to happen by not allowing adequate time to plan and execute is the cause of many failed successions. And you may find that the initial time frame you thought about exiting may have to be extended to accomplish everything you wish. But better to know that up front than be surprised later with transition shortcomings.

WHY A FORMAL PLAN IN WRITING?

Documenting plans and objectives in writing brings greater success and performance; period! There should really be no question on whether a written plan is necessary or preferred over the option of informally having an idea in one's mind. The correlation between having written goals and achieving greater success has been well documented since Napoleon Hill's treatise *Think and Grow Rich*.[6]

Recently, in a white paper published in 2007 by Palladium Group, Inc. titled, *Strategy Execution – A Competency that Creates Competitive Advantage*, it was reported that out of 143 professional performance managers, 70% of those organizations that had a formal strategy execution process reported superior performance over their peers. And for those that did not have a formal process, only 27% reported superior performance results.[7]

As a buyer – if you were looking at two identical businesses, one with a plan and the other without, which one would have more value to you?

PROVEN BENEFITS OF A WRITTEN PLAN

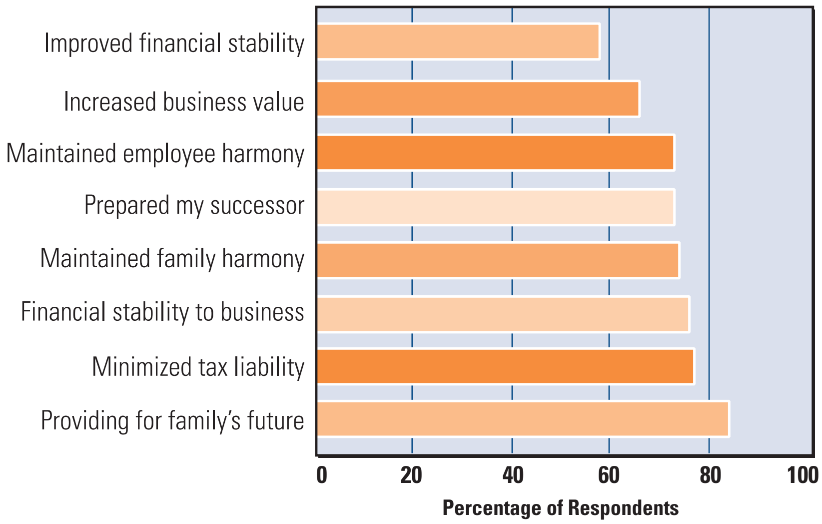
A common problem many business owners face in executing any plan is effective communication. We believe we said one thing, but the recipient heard something completely different depending on their point of reference.

We can't tell you the number of times we have experienced a business owner believing he/she has unequivocally told their managers and/or family members their succession plans and believes they are on board. Yet, when we bring them up for discussion, we get the 'deer in the headlights' look. It is as if they are hearing it for the first time.

Putting your plan in writing allows everyone to be on the same page and helps prevent any misinterpretation or misperception that could potentially lead to future business, leadership or family conflicts that may derail or slow down your plan. It also serves as a quick reference for any questions that come up during the process.

The CFIB 2005 study asked owners what benefits they received from having a written plan.[2] Their positive responses, seen in the graph below, demonstrate the multiple benefits that can be obtained by taking the time to formalize a plan in writing.

Benefits of a written business transition plan



Remember, only 9% of our respondents had a formal written plan. Put your plan in writing! It is one of the critical success factors in successfully executing a transition.

THE BUSINESS TRANSITION PLANNING PROCESS

THE BASICS

First and foremost, you and your family's personal goals and objectives should be the driving force behind your business succession plan. And as each business transition is unique, each plan should be as well. It should be custom designed to meet your individual needs. There is no 'one answer' or 'out of the box' guide or solution.

Second, your plan should be a collaborative effort of all of your pertinent advisors - accountant, attorney, financial advisor, banker, mergers and acquisition/intermediary advisor - as no one person has all the required knowledge, experience and skill set. And between them, they share a ton of business and personal history that should not be set aside.

Third, to pull everything together, your team of advisors should be led by someone experienced in the business transition field; a quarterback to oversee and direct all of the players in harmoniously performing their skills. Choose a leader not constricted by an unrelenting left brain analytical focus. You need someone who is capable of balancing the emotional with the analytical; someone that has the ability to switch back and forth between left brain and right brain thinking.

THE COLLABORATIVE APPROACH

By bringing a lead advisor on board, you will now have only one point of contact to deal with. We've found that by doing that, a great amount of expense is saved in both time and money as it saves an owner from having to run around separately to each professional to get their advice and input. It also spares you from the potential problem of receiving contradictory advice, direction and duplicated expenses when dealing with each advisor in isolation.

The role of the quarterback is to streamline your transition process and save you from both wasted time and expense. The small dollars invested here is nothing in comparison to what a bad or poorly executed plan can end up costing you in the long run. And the benefit received, if done correctly, should provide you with a multiple return on this investment.

A successful collaboration also provides a smooth outcome of the end transaction and directly affects the selling price of your business and a minimization of after sale complications.

Lastly, by taking a collaborative approach, your plan's end product will be a collaborative driven, best minds solution that is custom designed and tailored to meet your individual needs and objectives.

LEAVING EGOS AT THE DOOR

In our survey, as with the other SME surveys, the two primary advisors that business owners name as being an integral part of their business are the accountant and the attorney. By being in these key advisor roles, they usually have a great amount of business and family history knowledge between them.

Therefore, in preparing your plan, it is critical that this information be captured and not left alone in isolation as a result of a non-collaborative approach taken by a dominant 'do-it-all' or 'needs to be in control' advisor. The success of your transition is at stake and egos have to be left at the door.

We have been witness to many horror stories as a result of advisors trying to go it alone, which have caused owners to suffer significant losses as transactions fell apart once all the advisors finally got together and facts were laid out on the table. The result: lost opportunity, duplicated and wasted professional advisor expenses, and owners' time and efforts squandered!

So please take heed. Don't let yourself be bullied by any advisor who wants to work alone, no matter their credentials. Also do not allow yourself to fall into the insecurity trap of a long-time advisor's play on your relationship as a result of him not having the main role. Keep control! It is your and your family's outcome that is at stake. It is not about your catering to egos or placating to someone else's insecurities.

PLANNING

THE FIVE STEPS

The success of your business transition depends on the quality of your plan. And the quality of the plan is dependent on your understanding and thoroughness in exploring all of the pertinent factors that could effect your plan's implementation.

We believe that following these proven processes in strategizing your plan will help you in achieving a successful transition:

STEP ONE

- **Transitional Objectives**
  What do you (your spouse/significant other, and other stakeholders) want to achieve from your succession and exit?

STEP TWO

- **Personal Review**
  What is your personal situation and what are the necessary planning initiatives?

STEP THREE

- **Business Review**
  What is your current business situation and how does it reach its potential?

STEP FOUR

- **Consider The Best Way To Exit**
  What is the best method to transition the business that meets your objectives?

STEP FIVE

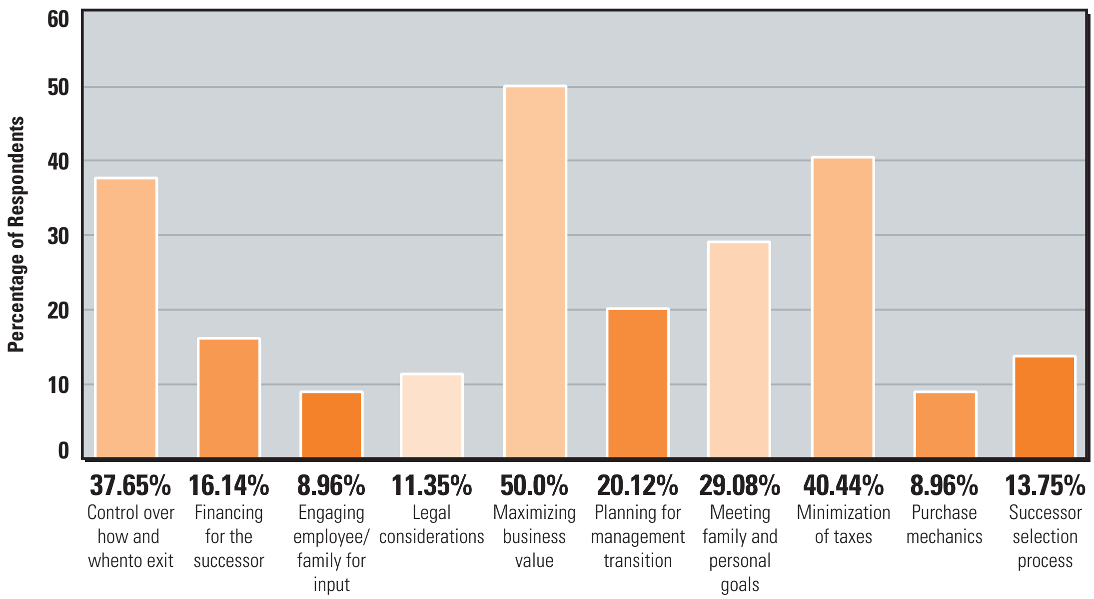
- **The Business Transition Planning Report**
  What specific action needs to happen, by whom and by what time frame to ensure the plan is implemented and meets your personal and business objectives?

WHAT BUSINESS OWNERS ARE LOOKING FOR

No matter the size of the company the same top three components were identified in our survey as being the most important components of a transition. And except for one case, the order of importance was exactly the same.

1. **Maximize Business Value**
2. **Minimize Taxes**
3. **Control Over How and When To Exit**

Most important components of a Transition/Succession



Surprisingly, 'Meeting Family and Personal Goals' came in at number four. This was true for all revenue groupings, except for businesses with revenues of $10M and over, where it came in at number two (Minimization of Taxes and Control Over Exit tied for third).

It is at this starting point that we believe business owners need counsel and guidance, so they focus on the right things in their initial planning stage. Although all three items are obviously very important, they should be structured in conjunction with and subservient to meeting one's personal and family objectives.

Your personal objectives should be the driving force behind the plan. For what is accomplished by maximizing business value at the expense of family harmony and accord or personal happiness? What is the good of having lots of money, if you are personally unfulfilled and unhappy?

STEP ONE ■ YOUR BUSINESS TRANSITION OBJECTIVES

What do you want to get out of the transition of your business? This is the most important question you need to ask yourself. Do not be too quick to jump to an answer. For many owners we have worked with, this is the first time they have really taken the time to think hard and long about the question.

We recently saw someone explaining it as a shifting from an 'achievement mindset' to one of 'quality of life' values and concerns. Whatever your and your family's objectives are, remember that they should drive all the decisions you make throughout your transition planning process.

Some of the questions you should address as you set out your objectives are: What things do you want to do? What do you want to be? What do you want to have as you move on to the post transaction?

When we ask this question to our clients, we give them a 'magic wand' to try to free up their minds from constraining thoughts. Bruce Wright, in *The Wright Exit Strategy*, describes a similar process where he asks his clients to describe their perfect calendar if they could have any lifestyle they wanted. What would they like to be doing? What is the best use of their time and talents?[8]

The purpose of these questions is to get the business owner focused on 'end in mind' planning. Having this direction, allows you to get your business to become a vehicle to take you where you want to go. You are no longer working for the business. The business is working for you. You are now in control of and driving the business verses the business and its many demands controlling you.

Make no mistake about it, this is hard work. These aren't the typical business questions that most owners are expecting. These aren't the type of questions they think about everyday. Heck, as we previously mentioned, for most people they have never thought about them.

Remember as you go through this exercise, that **it is not all about the money!** That's usually the easy part because it is quantifiable and left brain oriented thinking. **There is a life purpose** that also needs to be addressed and served.

Some of the other questions you should work through are:

- What are your overall lifestyle and wealth objectives?
- What exactly does business transition mean to you? To work less or not at all? Should you sell or maintain ownership and just transfer the management functions?
- How much longer do you wish to work?
- What after-tax income will you need annually to live on at retirement and where is it going to come from?
- Who would you like to transfer your business to: family; employees; partners; third party; take it public?

STEP TWO ■ THE PERSONAL REVIEW

Before you embark on the transition journey, one of the first things you need to do is really make sure you are ready to let go of the business. On the surface you might think you are ready, but we have seen and heard of quite a few deals that have been aborted by the seller in mid-stream, so we really encourage you to challenge your supposition.

Going forward prematurely is in no one's best interest and you may find yourself wasting time, money and other valuable resources. Before we agree to go forward with a business transition engagement, we test for an owner's succession readiness. If it appears that he/she is not truly ready, we advise that they wait until a later time.

In the March 2007 article in Mirus Capital Advisors' (a middle-market investment bank) *Viewpoint* publication, Peter Alternative wrote an article titled, *Sellers Beware: Five Problems That Can Sink Your Deal*. In it he quotes Attorney Shannon Zollo, a partner with Morse, Barnes-Brown Pendleton, PC, **"…the number one deal killer we see among family owned or closely held businesses is having a seller who is not psychologically prepared to sell the company. Often times in these situations the company is more than just a business to the owner; it's like a child and they just don't want to give it up. But they sometimes don't realize this until they're already well into the sale process."**[9]

Wasted time! Wasted expense! Potential lawsuits! Take the time to think it through. Challenge yourself. Make sure you are ready.

Some of the topics on our checklist to look into during this personal review are:

- Lifestyle and legacy desires
- Family and key employee business involvement and any areas of conflict or special needs they bring
- Estate planning and current estate objectives review to ensure document alignment and to include transition tax minimization strategies
- What needs to be done to ready the individual psyche for exit
- Personal wellbeing planning

These last two items are always good for a couple of smirks when we bring them up to owners. They are a few more examples of the 'soft' issues that are not always fully appreciated and are sometimes hard for many business owners to deal with initially. But with diligence, they are able to work through them.

THE PHONE STOPPED RINGING

As hard as you may find it to wrap your arms around the need to plan how you and your spouse will spend your post transaction time, you really do need to put adequate time into thinking it through. If you don't plan out what the personal aspects of your new life will bring, it may quickly lead to boredom and depression. After all, you will be losing something that you most probably have been identified with for a long time. You will be losing a place to go and, unless you have planned of something in advance, you may also be losing having anything significant to do.

Without a well thought out approach, you could also find yourself in confrontation with your spouse or find yourself with feelings of resentment. The post transaction issue is much more far reaching than just the effect it will have on you. Your spouse may have not been working and he's or she's lived independently while you've been at work. The last thing he or she wants is for you to be hanging around the house and disrupt his/her day. And if your spouse remains in the workforce, your travel 'anytime' and go 'anywhere' plans may not fit in with his/her plans or schedule.

An article, titled *Training To Be Old* by Claudia Deutsch, in the April 10, 2007 New York Times addresses the magnitude of this issue. "So with the first wave of baby boomers already in their 60s, gerontologists are bracing for a tsunami of disgruntled post retirees who have left the psychic and physical aspects of aging to chance. 'We're going to have a whole generation of people who are healthy, wealthy and bored.'" As a result, "depression already is a close second to dementia as a major problem for aging adults."

“People lose much more than a paycheck when they retire. They lose a community of like-minded souls, a sense of power and accomplishment and an important line of demarcation between workdays and weekends. They also lose a feeling of personal identity that is difficult to replace late in life.”

“What’s crucial is to sample opportunities before retirement D-Day… giving retirement a dry run, trying activities (hobbies, volunteer activities, theme communities, etc.) that seem appealing so that if they turn out not to be, there is time for rethinking.”[10]

We recently worked with a client who sold his business and didn’t take the post transaction planning seriously. He had not fully prepared his psyche for exit. He quickly went into a mild depression. As he latter described it to me, ‘all of a sudden the phone stopped ringing.’ He felt disconnected and at a deep loss.

The personal wellbeing plan will get you ready for a meaningful life post transaction from day one. Take it seriously!

STEP THREE ■ THE BUSINESS REVIEW

The starting point in the business review should begin where you leave off in determining your lifestyle and legacy needs in the personal review process. During that planning stage, a calculation should have been made to determine what total assets you will need at the time of exit to fund your lifestyle objectives.

In particular, you would have identified what value you need to extract from your business when you exit. By comparing the value you need upon exit with the current value, you would have identified any 'wealth gap.' This gives you a starting point as to some of the work that is in front of you.

At the end of this exercise, you may be fortunate enough to find yourself in the enviable position of having your business' value be enough to meet your post transaction requirements. That also is important to know, as it also gives you a starting point, albeit different, on what work you need to concentrate on.

In this particular case, you wouldn't need to look into business development initiatives. Rather, you could concentrate on processes and systems and other management transition initiatives.

But, no matter where you find yourself in the business life-cycle or value spectrum, with a thorough business review, you will learn what courses of action are necessary and what direction you should allocate your resources to, to minimize the associated costs and maximize the business' ultimate value.

As you look to your company's future exit value, you should look at it from the buyer's perspective. You need to identify what value potential buyers would look to get from your business. Ask yourself these two questions:

- Why would you want to buy this business? and
- What reasons would you have for hesitating to buy a similar business?

The answers to these questions will help you identify baseline strategies for your business development and profit improvement initiatives along with the necessary documentation and transfer of knowledge planning.

If you are looking to an outside buyer, the review comes down to identifying what needs to be changed to make your business more attractive and financially valuable to them. Your ultimate goal is to do what is necessary to make the business more saleable.

FAMILY TRANSFERS

If your plans are to transfer the business internally to family, then your end goals will be a little different from those businesses that are selling to an outside third party. Although many of the operational and knowledge transfer initiatives will be the same as those described for an outside sale, there will also need to be planning dedicated to issues inherent in family transitions.

With just over 30% of all family owned businesses surviving into the second generation, identifying and working through the inherent family components will be critical to ensuring the continued viability of your company.

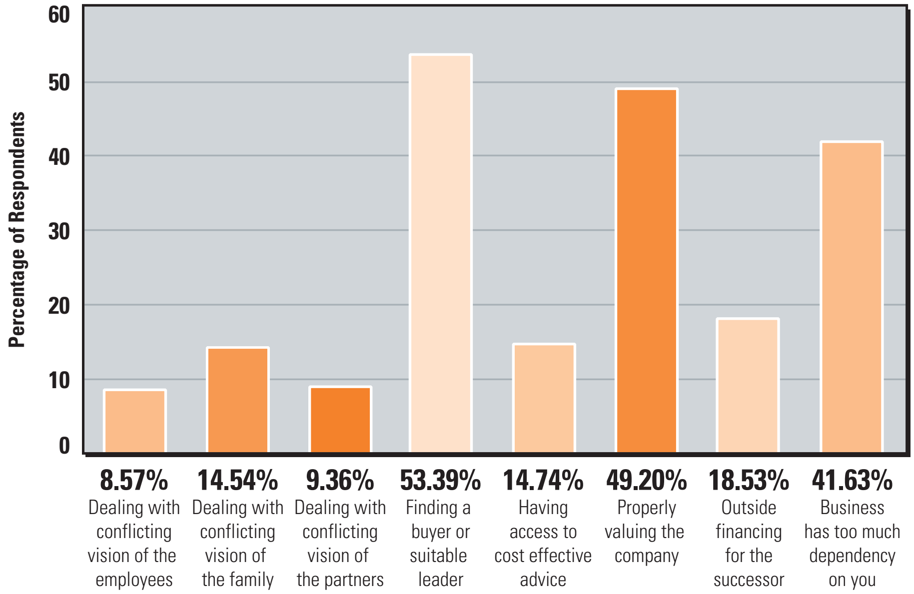
IDENTIFYING OBSTACLES

As you lay out your business plans and strategize how to achieve them, it is important that you also identify potential obstacles that may slow down or derail your plans.

In our survey, the same top three barriers to successfully plan and execute a transition were identified, no matter the revenue size grouping.

1. **Finding a buyer/suitable leader**
2. **Properly valuing the company**
3. **Business having too much dependency on the owner**

Major barriers to successfully planning and executing a Transition/Succession



For the first two barriers identified by survey participants, the underlying philosophy of our transition planning process dictates the need to identify potential suitable buyers that help meet one's objectives and for the need to get an outside third party valuation of the company as integral components of a plan.

With this as the underlying assumption, neither of the two would actually present themselves as barriers. But by identifying and eliminating them early in the process, there is less of a chance of an owner being discouraged to move forward because of his/her perception of many dangling issues that they believe are blocking their way.

As to a business having too much dependency on the owner, it is one of many potential barriers that need to be addressed in the planning review and later eliminated in the management implementation stage of the business transition process. In particular, specific plans need to be made in conjunction with a definitive time table to ease the owner out of the day-to-day operations by transferring them to someone else in the organization.

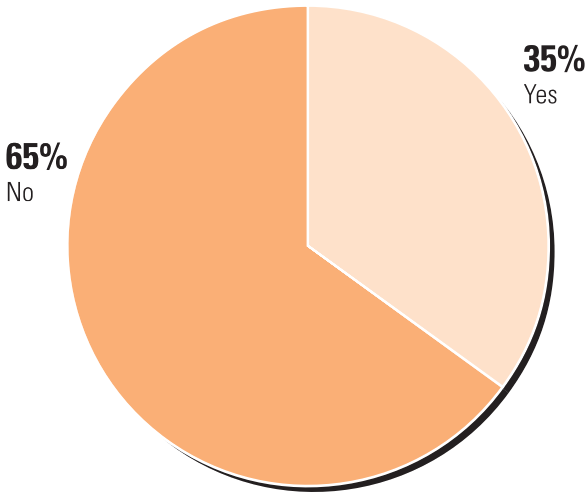
Any dependency, be it the owner, one person, customer, or supplier creates obstacles in maximizing value as each helps drive a business' value down.

By identifying these real or imagined obstacles early in the process, it allows you the chance to either dispel them so they do not remain a hindrance or deterrent to action or to make appropriate plans to remove, minimize or avoid them.

FINANCING

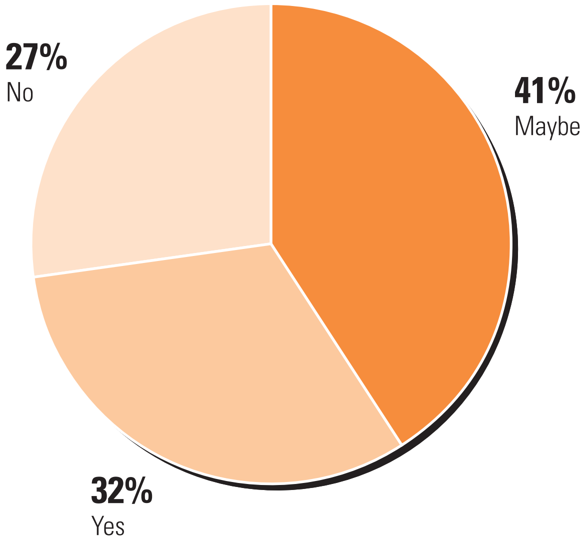
The fourth overall barrier to a successful transition identified was the availability of outside financing for the successor. This could end up being a major issue for many business owners, as 65% of our survey respondents said they did not plan on offering any financing.

Do you intend on offering extended financing to the buyer?



When then asked if they would offer financing if it increased the overall value they received, surprisingly only 32% gave a definitive 'yes.'

If you don't intend to finance, would you finance if it increased the value you get?



In our experience in the small and medium-sized business environment, owner financing is more common than not, so owners may be in for a rude awakening. In order to eliminate or at least minimize the amount of financing you will be required to offer, your transition planning will need to position your company in such a way that it can secure the largest amount of financing possible. Getting your banker's perspective on this, gives you a great planning opportunity to work with your banker in the transition planning process.

By working with a bank in pre-sale planning, you may also be able to secure pre-arranged financing, subject only to the bank's due diligence on the buyer. This would certainly give you a competitor's edge if you were just one of several businesses a buyer was looking to purchase.

OTHER

The business review should also include a SWOT analysis, whereby internal strengths and weaknesses are identified along with external opportunities and threats. This analysis is crucial to help get your business “ready for sale” and help close any wealth gaps.

Additional components that should be an integral part of your business review include:

- Drivers of value identification
- Dependencies identification
- Mentoring and coaching needs identification
- Management reporting weaknesses identification
- Legal review of buy-sell agreements, non-competes, stay agreements, employee contracts etc.
- Business valuation

CONTINGENCY PLANNING

To complete the business review, there is one last piece that is critical to your planning. In fact you may want to consider putting this initiative first before everything else. It is your contingency or backup plan, in case of disability or premature death.

Who or what is in place to take over for you in a moments notice? To protect your family and other stakeholders you need to have a plan in place that answers those questions.

Your planning in this area, among other things, should consider stay bonuses for key management personnel, life insurance coverage for working capital and buy-out funding and written agreements that would provide for the orderly transfer of your business ownership and designate who will take over the day-to-day management.

STEP FOUR ■ CONSIDERING THE BEST WAY TO EXIT

In this step, you should be reviewing the various options that are available to you to determine what best meets your objectives in transitioning your business. Keep in mind that the answer to this question can change from time to time and will depend not only on your particular business and industry, but on what is happening with the economy and your industry in particular during the actual time of your exit.

Depending on whom you choose to transfer the business to, i.e., employees, charitable trusts, family, co-owners, or outside third parties, different methods of transfer are available to you to choose from.

If you are looking to sell to third parties, your planning should include the review of what type of buyer would be most interested in your business:

- a strategic buyer that is interested in synergies
- a financial buyer that is looking for a return on investment, or
- an individual buyer that is more than likely just looking for a job

After your research of buyer options is complete and summarized along with the particular transfer methods available, you can then weigh each one and choose what best meets your overall objectives.

STEP FIVE ■ FINALIZING YOUR PLAN

This is where all of the planning and strategizing that took place in steps one through four gets documented in writing. More importantly, this is the document that details what needs to happen to optimize your business' value and meet your other objectives. It is the document that will help drive the execution of your plan. It should detail the moving on steps, complete with who is to do what and when. It should set up accountability standards and spell out who will be in charge to quarterback the process.

By following the described process, your exit strategy plan will now be based on:

- Your transition objectives
- Your personal financial plan information
- Input from appropriate stakeholders
- An evaluative look at where your business is today
- A calculation of value of your business (if not a formal valuation)
- Knowledge of the benefits and consequences of each option, and
- Input from your trusted advisors

CONCLUSION

From day-to-day operational demands, to avoiding emotional issues, to the feeling 'there is always tomorrow,' there are many reasons owners have not addressed this critical business transition planning need. But with a lifetime of work at stake, or at the very least a critical financial component of retirement lifestyle funding, why do owners not see their way past this easy rationalization approach and do something proactive to protect themselves and their family? Hopefully this white paper will be the spur that gets you and them going.

If it's not and you continue to do nothing, then here's what you have at risk:

1. Risk not realizing your family/personal and business goals
2. Risk selling for less than it's worth
3. Risk family in-fighting and discord
4. Risk transitioning at the wrong time
5. Risk paying too much in taxes
6. Risk not having a successor developed
7. Risk not having rules, responsibilities and rights clarified

If we have been successful in encouraging you get your planning going, remember these three **Critical Success Factors** in your planning:

1. **It's TIME CRITICAL**
   You need time to work out your plan, time to explore all options, and then sufficient time to implement your plan to ensure your objectives are met.

2. **A FORMAL WRITTEN PLAN**
   You need a roadmap for everyone to follow. Written plans deliver greater success and performance.

3. **CONTINGENCY PROTECTION**
   Sometimes you don't always have tomorrow. You need a backup plan in place to protect your family and other stakeholders, in case of disability or premature death before you get everything in place.

And avoid these three **Land Mines**:

1. A **NON-COLLABORATIVE APPROACH**
   Don't let an advisor try to go it alone. You want a collaborative driven, best-minds solution that is custom designed to meet your individual needs and objectives.

2. **Not considering ALL STAKEHOLDERS**
   All stakeholders need to be taken into consideration in your planning. Areas of potential conflict need to be identified, planned for and mitigated to avoid your plan becoming derailed.

3. **LOSING CONTROL**
   Your personal objectives should drive the plan. Don't let someone else's best intentions of what they would do in your situation direct or cloud your vision. They are not you! It is your family's outcome that is at stake.

We hope that you have found valuable insights into the trends and challenges we have identified and that you are able to use our analysis as an ongoing reference as you prepare for your own transition. Most of all, we hope we are successful in sounding the alarm to get you to take that very most important step of getting started!

FOOTNOTES

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