



Successful Transitions

Five Traps to Avoid When Planning Your Business Transition

When it comes time to plan and execute a business transition, there are several common "traps" that business owners fall into that end up either killing a potential transaction or otherwise harming the process. Like most things in life, the sooner that you can recognize these issues, the easier it will be to avoid them. This newsletter is written for owners who are thinking about planning for a future transition from their company and would prefer not to make the obvious mistakes that other owners have made, time and again, in the past.

1. Believing That Your Transition Will be Easy

Getting out of business can be as difficult, if not more difficult, than getting into business. Difficult questions need to be answered, such as: Who will own the business after you? What is it worth? How will you get paid? Will your employees, vendors, customers, and family be OK? When should this transaction take place?

On this final point you need to consider that if you leave the business too early, then you have not brought the company to its maximum earning power and efficiency under your watch. This could mean that you get less money or don't complete your building process. However, if you hang on too long (which is the most common problem with owners) then you'll be trying

to move your asset to someone else who may no longer want to own it.

Timing is only one of the difficult considerations to consider. The toughest issue, however, may be letting go – i.e. are you really ready to get out of the game? And do you know what you will do next to fill your time in a productive manner?

Building your business was not easy - it required a plan, and the ability to adapt and compete in your marketplace. Successfully exiting your business could prove even more challenging.

2. Believing That You Can Do It Alone and Without a Plan

All too often owners believe that their success in business qualifies them to design and execute their own business transition. Just because you have proven successful in one field does not make you an expert in all fields. Most successful owners recognize that when they built their businesses, they had quality individuals and advisors who provided assistance. When it comes time to plan and execute a business transition, the right team and a well-thought-out, written plan can have the same, or likely a greater impact, to your goals as the team and planning process that helped you with your success and you can avoid this trap.

3. Believing That Selling the Business is the Only Way to Transition

Selling your company to a competitor may seem like the most logical way that most owners would want to transition. However, a sale transaction is only one of the several transfer options for a future business transition. While not simple to understand, it may be possible to bring an investor into your company, experience a successful management buyout, create an Employee Stock Ownership Program (ESOP), and / or gift shares of your company to others. Once all transfer options have been explored, an informed decision can be made and you can avoid the trap of thinking in only a linear manner about only a sale transaction.

4. Procrastination

With so much information to process, it is easy for owners to put off creating a transition plan. The truth is, however, that a transition strategy should ideally be created along with a business plan, and assessed and adapted as necessary over the life of the business. Creating a transition plan will provide an "end goal" to strive toward through meeting smaller "mini" goals, and allow for progress towards those goals. If you put off beginning your transition planning now, it may, unfortunately, quickly become too late.

5. Leading with the Business, not the Personal Concerns

As stated in issue #1, business owners often fail to adequately consider their emotional attachment to the business or to the stature, and time consumption that owning a business entails. Many owners will resist accepting a seemingly strong offer for their business if they do not have their next stage of life charted out. Remember that there is little getting past the fact that a business transition is a highly personal and emotional event and if you begin the planning process from a personal perspective, you are likely to get a better result.

Concluding Thoughts

No matter where you are in your business life-cycle, creating and routinely adapting a written plan for your business exit / future transition is a critical part of the planning process. Through examining these key five (5) traps to avoid you will be able to recognize and hopefully navigate these issues when it comes time for your own transition. Remember that your business is an investment, and as with any investment, you must study and plan in order to create the most financially, and emotionally, profitable outcome.

About BST's Succession Planning Services

BST's succession planning services coordinates business valuation, business profitability planning and business transition planning with personal retirement planning. Our process provides education, timely information, document reviews, advisory team assessments, business transfer options analysis, and a series of recommendations that identify weaknesses and blind-spots that need to be addressed to maximize intrinsic value and successfully operate and transition your privately-held business and protect your personal wealth.

Visit bstco.com or contact Steve Ferraro, Partner, at (800) 724-6700 for more information.