



## **The Top Ten Reasons that Business Owners do not Plan for Their Exits**

Dear [member\_name\_first],

This newsletter is written for, and to, business owners who may be thinking about planning for their own exit from their privately-held businesses in the next few years. Exit Planning is a complex task that is usually executed with an experienced, objective and collaborative set of advisors. This newsletter has five (5) categories that include ten (10) reasons why owners ordinarily do not plan for their exits. Hopefully, you see yourself within the content of this newsletter and it inspires you to take action towards your individual, personal, and company's future planning.

### **Planning is an Inconvenient Exercise**

#### **1. Looking ahead to address a problem that does not exist today is not immediate in an owner's DNA**

Formal planning, consistently seeking professional advice, and writing checks to go through a formal process are simply not activities that owners undertake on a regular basis. It is likely that these owners at some point in their career wrote checks to advisors who they thought could help them, only to look back on those decisions and realize that they would have been better off following their own instincts because, at the end of the day, no one knows the business better than the owner. It is unfortunate, however, when the owner paints their 'exit advisors' with the same brush because this is specialized knowledge that is strongly needed for that owner's personal and business security.

#### **2. Disrupting the owner's lifestyle is not worth the perceived aggravation**

In this case, owners simply fall into a pattern whereby they live day to day, enjoying the benefits of being owners of a successful business. Why disrupt this lifestyle with thoughts of leaving it? It is human nature not to stop doing something that we enjoy doing (except, for example, quitting smoking). Therefore, owners by and large do not have the incentive to be pro-active with this type of planning – leaving them to only do this planning when they are faced with a calamity. Adding insult to injury, most owners think, 'why should I pay someone to help me stop doing what I enjoy?'

### **Exit Planning is Disruptive to an Owner and Their Business**

### 3. Changes to the business will occur and this goes against our human nature

Once an owner starts down the 'exit path', it sets in motion a series of thoughts and actions that are going to challenge the owner and their business. Most owners prefer to be challenged with the daily running of their businesses, which is a sizeable task. However, when an owner honestly considers the changes that a future owner is likely to make with their business, they realize that they need to make some tough decisions with how the business is run. Simply put, change goes against our collective human nature, so we resist it.

### 4. Dealing with Management, Leadership and Growth issues disrupts the convenience of running a 'smooth' business

Closely aligned with the concept of changes that are necessary to make for the business is the related idea that your management team is likely not ready for true leadership and ownership of the business. In most cases this is because the managers do not have the same sense of urgency that an owner has towards business growth. And, after all, if the managers cannot grow the business the way that you can, why would you consider them as buyers, and what is the incentive for a future owner to take over with this existing team. Since it is very hard to get managers to do what you want them to do, most owners resign themselves to the idea that the business runs 'smoothly enough' for their lifestyle and stop their process there, simply 'leaving well enough alone'.

### **Exit Planning is a Complex Decision / Process and a Complex Transaction**

### 5. Complexity is a given in this type of planning

Anytime that you mix business and personal planning while simultaneously addressing an owner's standing in their community and disrupting most of their cherished relationships, there are going to be challenges. Owners who are candidates for the exit planning process generally are asking themselves how they can get their equity out of their businesses without too much disruption, while satisfying the largest number of people possible (including the managers who helped to build the business). The complexity can seem too great to tackle so most owners do not try.

### 6. An Exit is a Complex Transaction

Owners who are open to heading down the path of exit are next confronted with the issue of the transaction's complexity. Owners need to navigate valuation issues, identifying the best next owner of the business, forecasting the future of the business, running a process to communicate this 'future value' to the next owner, negotiating a transaction, figuring out not only how much they will get paid but when they will get paid, assessing the tax implications of the deal, and finally trying to figure out if, when the deal is done, they will have enough to maintain their lifestyle. All said and done, this is a substantial challenge for any owner to tackle on their own.

### **Owners Consistently Receive Poor and Incomplete Advice from their 'Trusted' Advisors**

‘Trusted Advisors’ come in two (2) different forms. First are the advisors that an owner pays and next are the ‘friends and family’ that the owner turns to for advice. Owners receive poor and incomplete advice from their ‘trusted’ advisors – both internal and external advisors.

7. Owners receive consistently poor and incomplete advice from their professional advisors who do not always know and are not always aligned with the owner’s objectives

Professional advisors are most often paid for the expert advice that they provide. However, the exit planning process is as much about an owner determining what they want to achieve with their exits as it is about receiving expert advice. This is a critically important distinction. Your advisors do not, and will not know what you really want to achieve with your exit unless and until they ask you. Without knowing your goals for an exit, they cannot provide you with comprehensive advice. Therefore, in today’s marketplace we see many well-intentioned advisors providing ‘technical’ solutions where they do not necessarily belong. Exit planning is a process. The process includes an owner determining what they first want to achieve with their exit and then gathering information and surveying options that will help them achieve those goals. When advisors begin with the solutions before following a process, they provide poor and incomplete advice.

8. Owners receive poor and incomplete advice from friends who they ask about potentially developing the next phase of their lives

The rule of thumb that an owner should follow is to simply take advice from those with experience in exits and/or have gone through a transaction themselves. As well intentioned as the other ‘advisors’ are to the owner, they simply do not have the requisite experience to provide informed advice that adds value to an owner’s decision-making process.

**Exit Planning is Largely An Emotional Process**

9. Owners identify with their businesses

Owners take pride in what they built with their business and, when confronted with separating from that business, they are forced to ask themselves tough questions, such as ‘what will I do with my time?’ and ‘who will I be when I am no longer the owner of this business?’ Resolving these personal issues is critically important. Without a process to answer these questions we see that many owners are reluctant to even begin the exit planning process.

10. The thought of an exit is subconsciously aligned with death

Many owners ‘quietly’ view the exit planning process the same way that they see their own estate planning – as something that is great, coming to an end. Well, using that analogy, the reason that one conducts estate planning is because of the potentially catastrophic results that befall an owner’s family when this level of planning is not completed. Exit planning is no different. However too many owners do not start the process, because they do not want to address this highly personal issue. That being said, these same owners leave their largest financial asset – which impacts many lives – at risk without an exit plan.

## Concluding Thoughts

We hope that this newsletter helps you to see why most owners do not plan for their business exits. In doing so, it is our hope that you see yourself in these examples and that, in doing so, you are empowered with the idea that planning your business exit is critically important and not as difficult a task as it may initially appear to be. Of course, taking the first step is always the most difficult but my / our office is available to assist with helping you to do just that.

Regards,

Joe Bazzano