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Key Questions Business Owners Should Ask Before Stepping Down

Larry Gard, Ph.D.

More than a decade ago, I had the distinct privilege of sitting down with the late Peter Christman, a respected pioneer in the field of Exit Planning. We discussed his years of experience advising business owners, and the three key pillars of exit planning:

1. Maximizing the value of the business
2. Tax, estate, and financial planning at the personal level
3. Determining what you'll do next

Peter acknowledged how challenging it is for business owners to engage in this type of comprehensive planning, in part because they're busy running their businesses and because it's hard to find objective, trusted advisors who can help them with all three pillars.

Peter noted that the third pillar, figuring out what to do after you exit, is the most widely neglected of the three. It stands to reason; we spend years thinking about and pursuing our professional ambitions. Few of us stop to consider anything beyond their attainment. And yet the failure to address this third pillar can delay and complicate the exit planning process, causing people to fall short of their goals and objectives.

Consider the case of a 54-year-old business owner named Bill*. His commercial roofing company was doing well. He had minimal debt, reliable employees, loyal customers, and solid profits. His business would easily attract buyers, and it would command a good price. He had taken steps to minimize his tax liabilities, maximize his retirement savings, and provide for his three children.

* Names and certain identifying facts have been modified throughout this paper to ensure client confidentiality.

Unfortunately, Bill had given no thought to what he would do once he sold his business. It wasn't even on his radar. In fact, when his accountant suggested that

they bring in a valuation specialist to get a sense of what the business might be worth, Bill balked at the idea.

Nine months later, Bill received an unsolicited offer to buy his firm. He was excited and he scrambled to produce the information requested by the buyers. However, as the due diligence process unfolded Bill realized how unprepared he was to sell and how ambivalent he was about doing so. Although the buyer's offer was excellent and the terms were appealing, Bill retreated and stopped the negotiations. It took him weeks to get his head back in the game, and he resolved not to even consider any unsolicited offers in the future. Sadly, his business suffered in a subsequent recession and his debt skyrocketed.

If you're a business owner, in the future you won't be. It's just that simple. There is no escaping the reality that eventually you will exit from your business. Perhaps you will sell it and retire, or maybe you'll become discouraged by a market shift and throw in the towel. The list of positive and negative possibilities is vast. And yet very few business owners engage in proactive exit planning. Most fail to establish arrangements for a thoughtful transfer of ownership that protects their interests, and the interests of other stakeholders including employees, vendors, and valued clients. Few take the time to plan for their intellectual and emotional well-being once they leave the business.

Here are five key questions business owners should consider as part of the exit planning process:

- How will you structure your time?
- How will other people react to you?
- What are your assumptions and beliefs?
- What will your role be?
- How will your departure affect your firm and your employees?

[How will you structure your time?](#)

One of the functions of work is that it provides structure and routine to our lives. Even if your work itself is quite varied, chances are you still follow a schedule of some sort. Now, imagine not having any schedule - not heading to work, not having regular appointments. That might sound wonderful at first, but the thought of it is unsettling to those who prefer a routine. They worry that without the structure of work, life will feel directionless.

How will you spend your days? Will you need to have a new routine in place immediately, or will you be comfortable allowing one to emerge gradually? Either way, you should identify - ahead of time - a few practical and rewarding activities that can be introduced into your daily or weekly routine.

If you're truly at a loss about what you will do to occupy your time, try to identify the most critical, essential ways in which work is a source of satisfaction for you. Once you've discerned the ways in which work is particularly satisfying, you'll be in a better position to select reasonably satisfying alternative activities. For example, if work provides you with a sense of routine and structure, then you probably won't be happy volunteering somewhere on an as-needed basis.

How will other people react to you?

Most people report that work contributes to their sense of identity. Not only does it influence how you feel about yourself, it also shapes how others view you. How do you imagine people will think about you and treat you once they find out you've exited your business? How will you manage the beliefs that others may have about you? For example, some people might make unwarranted assumptions about your financial status once you've sold your business. A client of mine now handles such matters by saying, "thanks for telling me about the important work being done by (name of charity). I've still got some existing commitments that prevent me from taking on anything new right now."

How will you respond if someone asks, "what do you do for a living?" If you reply, "I'm retired" or "I sold my business", it's a sure bet the person will then inquire, "what did you do before?" Does this question imply that whatever you do after exiting work is of little interest or value? More importantly, will you infer that it does?

Consider the case of Jack, the co-owner of a construction equipment dealership. Other than enjoying a round of golf now and then, his work was his life. It was all he ever thought about or talked about. For many years Jack resisted his business partner Cal's efforts to make their company more attractive to a buyer. To Jack, the notion of not working was almost incomprehensible. In those rare moments when he was able to think about it, it evoked images of aimlessness and boredom.

His partner Cal noticed that Jack's friendship network was limited to others of a similar bent - guys who were totally consumed with work. Cal shared this observation

with Jack, who slowly began to socialize a bit more with peers who had interesting lives outside of work. When a motivated buyer subsequently approached them, it still wasn't easy for Jack to sell the business - but he no longer considered it a death sentence.

I tell clients if they're concerned that people might be dismissive of them if they say they're retired, then they've got to give people information that piques their interest. If you're asked, "what kind of work do you do?" don't just say, "I sold my business two years ago." Instead, say something along the lines of "I sold my business and I'm on to the next chapter of my life." Which response do you think will trigger a more interesting conversation?

What are your assumptions and beliefs?

Certain assumptions can impede exit planning - even if those assumptions aren't warranted. Remember, it's human nature to pay attention to and believe information that supports our views, while ignoring or discounting information to the contrary. A common assumption held by many business owners is that they don't need to learn about exit planning. They believe that running a profitable company is the only thing that matters. The reality is that just because your business is a success doesn't automatically mean that you will exit from it successfully. Some owners are also firmly wedded to assumptions about what will happen once they leave their business.

For example, some just assume the right buyer will come along and the sale will generate so much revenue that they don't need to be concerned about anything else. Others are gloomier, assuming their business has no commercial appeal so there's no need to think about its continuation into the future. It's not unusual for a founding owner to avoid planning their exit because of the prospect that a buyer will make big changes to the business they started from scratch.

Our assumptions are often based on prior family experiences. Consider Sam, the founder of a wholesale seafood distributorship. He hoped to work well into his 60's but after a health scare at age 55 he decided to sell his business to an eager buyer - who quickly ran it into the ground. Sam was disappointed and disheartened.

Years later, Sam's son Jerry, himself a business owner, told me he "would have to be carried out of his office on a stretcher" rather than turn his company over to anyone. Jerry was worried that if he sold his firm, he would suffer the same fate as his father, and he was adamant that he would do whatever he could to prevent it. Think about

your own family history; what assumptions do you automatically make that could potentially delay or complicate your exit planning process?

What will your role be once you exit your business?

As a business owner you wear many hats, occupy many roles, and are viewed by others accordingly. How will it feel to relinquish some if not all those roles, and what new roles might you take on? How might your role change within your family? Will you be spending more time at home? Will you take on more responsibility for managing household affairs? How do you imagine other family members might react to your new status?

Consider the case of Marilyn, co-owner of a small human resources consulting firm. Her husband Greg had already sold his business, and he was enjoying a second career writing mystery novels part time. He was eager to have Marilyn stop working so that they would have more time together, but Marilyn still dreamed of returning to graduate school to finish the advanced degree she had put on hold decades earlier.

Role shifts within a *family-owned business* can feel particularly powerful. What will it feel like if you have less decision-making authority? Will you be viewed as a wise and trusted mentor or as an intrusive meddler? Should you retain a limited advisory role in certain areas (e.g. customer retention) or remove yourself completely? Talking this through with family members is essential, and the discussions should take place well before a transfer of responsibility occurs.

How might your role change within your company? Once you announce that you are exiting, you may be less involved in business decisions. How will you handle not being “in the loop”? After you leave, you still be honored as a founder and/or past leader? Will new employees even learn of your history with the firm? Nobody wants to be forgotten, but keep in mind that your departure will create an opportunity for others at your company to step up, make their own contributions, and achieve their own goals.

How will your departure affect your firm and your employees?

I spoke with a business owner, Roger, who was very concerned about what might happen to his employees after he stepped down. He worried about their job security, their financial well-being, and their professional development. Not knowing when he would exit nor under what circumstances, he adopted a multi-pronged

approach. He began offering additional training to senior personnel so they could run the business themselves if they ended up buying it. He also arranged with his attorney to stipulate that if the business was sold to an outside entity, key employees would be retained for at least twelve months.

Final points to consider

Many people put off exit planning because they think of it as something far in the future. They convince themselves that when the “time is right” they will focus their attention on it. If you wait until the exit planning feels right, you might be waiting a long time. Don’t expect that this process will be without some misgivings, uncertainty, etc. Use those feelings to further your planning process, but don’t allow yourself to be paralyzed by them. For example, if the prospect of planning leaves you feeling anxious about the net worth of your company, use that anxiety as a signal that it’s time to arrange for a business valuation.

To manage this life transition successfully you must be honest with yourself, not just about what is important to you but also about what concerns you. For example, some people remain in their business - long after they should - because they have no idea what they want to do next. They continue to work, by default and sometimes against their own interests, because they’re unwilling or unable to grapple with what the alternatives might be.

Procrastination is the biggest threat to effective exit planning. It is imperative that you take time now to begin thinking about your future, because now is when you have the opportunity to set a trajectory for the type of exit you desire. Don’t wait until circumstances change and you’re pushed to exit on someone else’s terms.