Don’t Leave Your Future To Chance—Planning Your Business Exit

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Kerry Boulton is Australia's most respected Exit Strategy advisor and CEO of the Exit Strategy Group. Welcome to this week's segment.

KERRY BOULTON: There was some great research just published by the University of Western Australia through their business school, and they interviewed 200 small businesses, mainly reflecting on what they were doing in terms of actively planning for their retirement. And I think what was crucial about it was that while 62% of the male business owners surveyed said that they were actively planning for their retirement, only 52% of female small business owners said that they've made arrangements to retire.

And you know, the scary thing that I saw in that particular article that was talking about the research was that small businesses are not required, of course, to put aside funding for retirement, and people would usually say that they're going to sell their businesses. I've said it so many times before, you have to have something to sell. And not only that, there has to be a market.

So we're facing a decade now where we have a whole lot of baby boomers who are looking ahead to retirement, and unfortunately, 70 to 80% of their net worth is actually tied up in their businesses, and they think that that's going to be the nest egg for the future. Well, it may not be so, and unless you really actively plan your business to get it ready for sale, then you're not going to be able to stand out from the crowd. There really is a tsunami of business sales coming. So whether there's a market or not will depend on how good your business is and how well you've actually prepared your business for sale.

So let's have a think about that in terms of where you sit right now, one of the things I've come across lately, and I really like the expression, which is, what is your enough is enough number? How much money do you think you are going to need to retire with and where is it going to come from?

And I'm not a financial planner or an accountant, but I think a really good rule of thumb to use is that if you think that you're going to need $100,000 a year, for instance, to live on. Then how can you earn that money from a capital sum and in today's interest rate environment, if, in fact, $100,000 is what you're looking at, and that actually you can only earn two to 3% in what and I use this term in quotes, might be considered a safe investing environment, then you're going to need a couple of million dollars minimum to be able to put aside as capital to be able to earn that sort of money.

Now, where's that capital going to come from? And we've got a whole range of other discussions that we can go on to about that. But if, in fact, that capital is tied up in your business now, the most important thing that you can do right now for yourself and for the future is, in fact, to get your business ready so that it's managed for sale and transition for you for yourself.

I was reading some other information, in fact, that came out of the US, and they were saying that only 20 to 25% of small businesses are ever sold. Now that is a really, really scary statistic, especially if you are thinking that your business, in fact, is going to be a nest egg. I also saw some information from the Commonwealth Bank that said that 60% of small business owners actually weren't even thinking about their exit strategy, that they felt that their business, they were going to stay in their business almost for as long as it took to be able to go out with their boots on. In other words, leave the problem to someone else, basically, when the time comes.

Now, I don't think that that's a really good outcome. I really think that the best thing that you can do is to really take the time do what it takes to be able to make your business stand out from the crowd and become attractive to a buyer. I've had lots of conversations with people over the last few months who've fortunately actually becoming aware that they really do need to do something about planning for their exit.

And the interesting thing is that most people don't realize the length of time that will actually take. If you can give yourself two to five years, that is absolutely ideal. And one of the things I always say when I'm doing my workshops is that using a phrase that Kerry Packer expressed when he sold Channel Nine, and that is to always have your business ready for sale. You might not get more than one chance, and not everybody gets an Alan bond in their life.

Now, unfortunately, neither of those two gentlemen are still with us, but that's what happened of course. The business, Channel Nine was ready for sale when Alan Bond came along and offered a crazy sum of money. So what I'm really encouraging you to do is to think about your own business and what you can do to be able to improve the business, to be able to make it ready for the next person who comes along who might want to be, who might be there and be able to offer you an incredible sum of money.

Now, often you find that there's a whole lot of hurdles that you actually have to leap, and they can range from having how to structure the deal, having third parties involved, where you need to get consent, finding that there's some undisclosed liabilities hanging out there, obviously you've got to have cooperation from your employees, and this is a really delicate issue that you need to consider from time to time.

And of course, there's also everyone else out there who's going to have their own opinion as well as to what they think you should or shouldn't do. Then, of course, you've got, maybe you've got the battle between the lawyers or the accountants and the mergers and acquisitions people that might come along all with different perspectives. And last but not least, every once in a while, you know, someone gets cold feet, and when the day actually comes, they don't really want to sell the business, after all, because this is your life. You know, this is something that you've had, that you've been involved in for many, many years, and just thinking about what comes next is really, really important.

So I'm really asking you to consider all of those things before you take the leap. But most importantly, what we need to do to be able to get your business ready for sale, so that you are attractive. And I know I might sound like I'm repeating myself, but to make yourself attractive to the buyer, so that they don't have a decision to make, because your business is the best one that's there that actually stands out from the crowd.

One of the things that I touch on in my new book that's coming up in the next few months is, in fact, some of these hurdles that you're going to need to leap over, and some of them that I've come across, what may seem really basic to you, but there's a few that I just want to cover right now. And at the very base of it all is, in fact, the owners' failure to plan for the sale, and that really is the number one reason that businesses don't sell.

You know, there's some really scary statistics that come out of the US, and there's no reason for us to really think that it is any different for Australia. Even though the actual numbers might be different, the percentages are pretty much the same, and it's only 20 to 25% are small businesses that are ever sold.

So planning is the most important thing that you can do. And as I've said before, if you don't spend enough time and enough resources planning for your sale, you're not likely to be successful. That's not what I'm on about. I want you to be the successful ones that actually do stand above the crowd. So that's the number one reason that businesses don't sell. It's because you fail to plan.

One of the other reasons that come along is really low or inconsistent gross margins. So in some of the business owners that I've chatted to, I'm finding that they don't really even have a handle on some of the margins and the numbers that are actually running in the business. So when I do a health check with you, this is an area that we really go into quite deeply to work out what the numbers are and where the consistencies are throughout the last couple of years, two to three years.

Again, this is one of the reasons that you need to give yourself enough time, because when you have to make changes to make your business far more attractive, then you need time to implement and put those systems and processes in place. So if you haven't got consistent gross margins, you're not making it easy for the next person who comes along to be able to say, yes, I want this business, and yes, I know how to grow this business.

One of the other major hurdles is the fact that you've got unrealistic price expectations. You know, this is a bit like selling a house in many respects. It's quite often an analogy that people can really relate to. The vendor or the person who's selling the house often has an inflated idea of what the value really is.

Well, you know what businesses? Business owners are quite often the same. You really have to work hard to make sure that your business is worth every cent that you're asking for it. When you sell it, it should be really joyous and be an occasion that require that has celebration. So knowing and understanding the realistic value before you decide to sell is one of the most important planning steps that you can actually take.

Again, you know, one of the unfortunate reasons that people have to sell is that they're forced to sell, and this is often about not having considered all of the contingencies that might come up from time to time. In my book, I talk about them as the dastardly days, you know, and sadly, I've experienced many of those in, you know, throughout my business career, but this is something that can be addressed when you think about a little more clearly, put in place the agreements that you need to have, double check to make sure all your what your insurances cover.

But when you're in a position where you're forced to sell. That's when you're not actually going to get the most for your business. It's going to be almost like a fire sale. So best thing you can do is to sit down, get a realistic valuation of the business, understand the tax implications as well of any sort of sale, and make sure that your own personal financial situation is taken care of.

If you happen to find yourself in the position where you actually have to make a move fairly quickly, one of the other areas that's often crucial that you find that is can often can be a barrier is, in fact, not having adequate second level management. So, buyers want to make sure that they can rely on the business to run successfully without you being around. I think I've mentioned it before in some of my other blogs, that the reliance on the key manager, of course, is something that actually detracts and takes away value from the business.

So it's really important to make sure that you can set the business up to be able to run successfully without you, but also to make sure that you do have employees who can help deal with any difficult issues that may arise, and who are well qualified to be able to make sure that a business can run without you being around. So I hope you find those have found those helpful to be able to think about over the next little while.

You know, leaving a business successfully is like building a great new home. One of the things you have to do is start with a really strong foundation, and that involves personal transition planning. After that you're going to add the floors and the walls and the roof, which means looking after your financial plans, your succession plans, your business contingency plans, and then you're going to fill up your home.

In other words, have a life full of choices and full of possibilities, which means figuring out what the right activities are, what the right occupation is for once you've finished in the business, and what the right location is, where you're going to be. And lastly, you're going to start your new life, which is, you know, having a healthy, balanced, purposeful and significant life, because so much of you has been tied up in your business.

Now I want to go back to the beginning of that little summary, and which is starting with a strong foundation and having a personal transition plan. What does that mean? I mean, that's great words, but what does it actually mean? Before you really even start to exit your business, what you really have to do is consider the plans that you need to make for both you as an individual, as the business owner, also the business also your family. And you know who else is going to be affected which, of course, is your employees.

So business systems and family systems are quite different. I often joke about this with my husband, and say there's no way in the world he's ever going to retire, because you know what, darling, I love you. I married you for better or worse, but not for lunch. So you know. And that usually invokes the chuckle. I hope it did for you, but in all seriousness, it really is one of the most crucial things for you to consider, because when you leave a business, your life changes.

And as I said before, the systems that operate in the family are different to the systems that actually operate in the business. So working through those is one of the delicate issues to be talked about when I first retired. Actually, I have retired once, and I found I needed to get back to work because I was so bored. But before I made the decision to actually retire, I sat down with the kids and my husband and said, 'You know what, I think I better spend some time with you too, especially with the children. What do you think about that?'

And you know, if they'd have said to me, 'Well, no, Mum, we're quite used to having you out of the place and not being around. No, we've got our own lives to lead. We don't really want you here.' Well, that would have been a completely different thought process for me to go through, and I would not have retired in the event. In my case, I was thrilled. They said, 'Yes, please, Mum. We'd love to have you around a little bit.' So I made the decision to exit my business back then. That was actually the third business, and to spend a few years with them whilst they finished their school and off through university.

So, you know, from high flying business woman to mum's taxi service. So the difference then that I had to confront was, how was I actually dealing with that personally because I'd been used to being up every day, getting to work, getting the office, dealing with wonderful clients, and making things happen in that respect, and then to transition to the other side of the fence. And I, you know, I think the same feelings will occur for whether you're a male or a female, you have to find something else to do. What's the new purpose in your life now that you've made those changes?

So that was a really, sort of an example of being able to think about and talk about what the system in the family then and how that was affected by my being around. And as I jokingly said before about my husband being around. You know, every family is different, of course, and every business situation is different. So I'd urge you to give that some really serious thought and consideration at the same time as we work towards making your business the best that it can be, to make it as attractive as it can be for a future potential buyer.

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