



The Exit Strategies Newsletter

CLOSING THE EXIT VALUE GAP: WILL ANY REASONABLE PRICE FOR THE SALE OF YOUR BUSINESS BE ENOUGH?

This newsletter examines the important topic of whether or not you will be able to separate yourself, financially, from your privately-held business. The real question here is whether any reasonable price that is paid for the sale of your business be enough for you to maintain your personal lifestyle after your exit. This is a difficult topic to discuss because many owners who live out of their businesses realize that the amount they will need to fund their retirement far exceeds what any reasonable buyer would actually pay for their business. Hence the importance of planning for your exit.

What is a Reasonable Amount to Ask for Your Business?

It is reasonable to ask a price for your business that takes into account the actual market value of the business as well as an amount that allows the future owner to benefit from the ownership? After years of hard work, it can be difficult for a business owner to take a step back and be realistic about what is considered a reasonable amount.

Trying to Get ‘The Last Dollar’

Many owners are accustomed to negotiating to get ‘the last dollar’. In fact, many owners define their success by their ability to negotiate well. However, in the world of business transitions, what you are saying to

your future owner (be it a management team or an outside buyer) when you are fighting for that last dollar is that you are less concerned about their future success in running your business than you are about your own financial security. That may seem logical to you because of all that you sacrificed to grow your business and for that work you should be entitled to a financially secure retirement. Although this is logical, it does not foot with reality if your business does not have the value that you are asking for.

See The Purchase From Your Future Owner’s Perspective

Business transfer pricing is impacted by many factors, not the least of which is timing. During prosperous times, future owners are more optimistic and can risk a bit more and, hence, pay a bit more for your business. During recessionary times, optimism is much harder to find. This is important to remember because you must see the sale and transfer of your business from the perspective of the future owner. And, if you do not know the range of reasonable values for your business, you’ll have very little to go on when negotiating other than what you need for your retirement. If you are using what you need for retirement to establish a valuation for your business, you may be a long way off from what any reasonable future owner would be willing to pay.

Measuring the Value Gap

To get started with reconciling these two figures, what your business is worth and what you'll need to retire, you should really begin with understanding your personal and business goals as well as who you would like to have own the business in the future. Without this direction, you are left to the vices and vagaries of the marketplace. You may also be losing an opportunity to groom your management team and establish strategies for the transfer of ownership to insiders.

Your personal and business goals will actually drive this process. The key question that you then want to answer is *'Can I afford to transfer my business to the person who I would most like to have own it in the future?'* Your 'financial readiness' is measured by the amount of assets that you have outside of your business which will support your lifestyle.

You also want to understand how much longer you want to keep working – this is your 'mental readiness' for an exit. Once you understand your goals and your readiness for your exit, you will be a lot closer to understanding how realistic your chances are for a successful, financial exit from your business.

A Range of Values and How to Move Ahead

Every business has a range of values. The key to discovering this is for you to know who you want to own the business in the future and then finding a business appraiser who can assist you in determining the likely value that this future owner can, or should, be willing to pay you.

Once you know these numbers and follow this process, you will have a good answer to the question that this newsletter asks, namely, *'will any reasonable price for the sale of your business be enough for you to maintain your personal lifestyle after your exit?'*

Closing Thoughts

Don't wait too long to get the answer to this question. It is also important that, in most cases, you don't try to go it alone. An experienced exit consultant can help you determine what you'll need to maintain your lifestyle so that you can more confidently advance towards your successful exit. Most importantly, remember that all of this will help you run and grow a more profitable business. Once you know the ultimate direction for your business, you'll have more focus and alignment to your efforts.

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