



MONDAY MOTIVATOR

CREATED BY PERFORMANCE STRATEGIES, INC.
MANAGEMENT CONSULTING GROUP

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Transition or Exit?

Most business owners eventually reach a point in time when they are ready to slow down, take a break, or simply retire to a new chapter in their lives. While it's fun to talk about all the possibilities, there are also lots of details that cannot easily be brushed aside. In this edition of the Monday Motivator we're going to look at the realities of a business transition to new leadership or possibly new owners. The 12,000,000 businesses likely to change hands over the next 10-15 years might involve many boomer-to-boomer sales. We'll start with a few statistics and go from there.

THE BABY BOOMERS (ABOUT 70,000,000 OF THEM) ARE POISED TO MAKE A GREAT IMPACT ON THE AMERICAN ECONOMY.

- Retiring Boomer business owners will sell or bequeath \$10 trillion worth of assets over the next two decades.
- These assets are held in more than 12 million privately owned businesses.
- More than 70 percent of these companies are expected to change hands.
- The sale of almost 12 million businesses over the next 10 to 15 years represents a significant increase in the annual number of businesses that will be sold.
- These owners of businesses should have a valuation performed by a business broker, to map out a strategy for selling and structuring the sale of the business.
- Planning ahead will enable business owners to achieve the best transaction possible during this Boomer-induced wave of business sales.
- Baby Boomers ages 45 to 64 form businesses at a higher rate than other age groups.
- 55 to 64 year olds form businesses at the highest rate of any age group.
- Many of the Baby Boomers are too young to retire; they typically have ample capital through savings, investments or other assets; they have job-related skills accumulated through a

lifetime of work; and many have lost faith (and money) as a result of large company layoffs and restructurings; and many will buy their own business in coming years.

- Many Boomers find themselves unhinged from their traditional employment safety nets. This dislocation has fueled an intense desire and need to have control of their destinies.
- Ironically, now small business ownership is seen as much more safe and secure than working for a large company.
- So, in the coming decades, not only are we likely to see millions of Baby Boomers selling businesses they now own, we will also see additional millions of Boomers (who've spent their lives working for someone else), buying businesses.
- The next two decades will see a significant increase in the number of small and mid-sized businesses being bought and sold by Baby Boomers, in addition to the other generations of Americans that business brokers regularly deal with.



According to statistics about business size from the U.S. Census Bureau, there are about six million businesses with payrolls (meaning these businesses employ people) in the United States. A little more than three and a half million U.S. businesses have sales of less than \$500 thousand. Without any disrespect, these businesses are often referred to as “mom and pop” operations because their basic function is to provide jobs for the owner(s) and sometimes a few other people. About two million businesses have annual sales between \$500 thousand and \$10 million. This segment of the business community is generally given credit for the majority of job growth. Only about 200 thousand businesses have annual sales exceeding \$10 million.

At the top of the business pyramid are public companies. Of these, as of 2012, only about four thousand have active public markets for their shares with regular stock pricing and volume information available. Because of their size and visibility, this relatively small group of public companies gets the lion's share of coverage in the business press. When it comes to a transition or exit of your business consider talking to your trusted coaches and business advisors. Performance Strategies, Inc. has a team of specialists here to support your decisions with accurate data and up to date processes.

MOST COMPANIES ARE PRIVATELY OWNED

But most of the businesses in corporate America are closely held, or private corporations. This means that most of the business owners in corporate America are not in public companies, but in generally smaller entities owned by a single, or a small number of shareholders. Therefore, it's important for these business owners and their advisors to have an understanding of the nature of value in these businesses before a transition or exit strategy.

PRIVATE BUSINESSES CHANGE HANDS FREQUENTLY

Most business owners, and, quite often, their advisors, have inaccurate conceptions of the value of their businesses. This is not surprising, because there is no such thing as “the value” of any business. Value changes, often rapidly, over time. Yet it is important for business owners to have current and reasonable estimates of the values of their businesses for numerous reasons, including ownership transfer.

There are many reasons for ownership transfer, including:

- **The death of the primary owner.** At this point, it is clear that control of a business will pass to someone else.
- **The departure of a key employee.** This departure may trigger the necessity to sell a business if he or she takes away the key contacts or critical energy that keep things going and growing.
- **The owner gets “tired” and decides to sell.** This is an unbelievably frequent reason why business ownership transfers. Unfortunately, if a business owner waits until he or she is tired, they are already on the down side of the value curve. Tired owners almost unavoidably transmit their “tiredness” to employees and customers in many subtle and not so subtle ways. In the process, their businesses lose a vital life force critical for ongoing growth and success.
- **An unexpected offer.** Occasionally, a business owner will receive an unexpected offer to purchase the business and will, quite suddenly, sell out to take advantage of the situation.
- **Business reversals occur.** Perhaps a company fails to adapt to a changing market, competition arises from unexpected quarters, or an accident or bad luck generates substantial losses. Sometimes the affected businesses never recover, and at other times, a forced sale results.
- **A divorce.** Divorces involving family-owned or closely held businesses occur. Wild card divorce settlements or emotional changes resulting from a divorce can also create the necessity or desire to sell.
- **Life-changing experiences.** Business owners sometimes encounter life-changing experiences, such as heart attacks, cancer, close calls in accidents, the death of a parent,



spouse or friend, or other. The shock of such experiences sometimes fosters a strong desire to “do things differently with the rest of my life.” Business transfers can be the eventual result of these life-changing experiences.

- **Gift and estate tax planning.** Gift and estate tax planning by business owners is a normal means of business transfer. The absence of proper gift/estate tax planning can also precipitate the forced sale of a business if a business owner’s estate lacks the liquidity to handle estate taxes, or if a failure to plan for orderly and qualified management succession cripples the business when the owner is no longer there.
- **The second generation is not up to the task.** There is ample proof that most businesses never survive to the second generation. Unfortunately, family businesses which do make it past the founder’s death sometimes never survive the ascendancy of the second generation of management and have to be sold.
- **Normal lifetime planning.** Finally, businesses sell as the result of normal lifetime planning by their owners who plan for and execute the sale of their businesses (or transfer them through gifts) on their own timetables and terms.



What is the best way to navigate the transition or exit from YOUR business? Start with your trusted business or executive coach. By taking this free 15-minute, 22 multiple choice questions, online assessment, you will get a 12 page report showing you how prepared you are for such a move. You’ll learn about your preparedness in the areas of financial, planning, revenue, profit, and operations. When you get your report give us a call and we’ll go over it with you at no cost to you. Sometimes

it’s a confirmation that you have all your ducks in a row and sometimes it’s reminder that a few details need your attention. In any case, it’s a great snapshot of your personal business transition or exit readiness. Hold down CONTROL then [Click HERE to take the FREE online assessment.](#)

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