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YOUR CFO FOR RENT®
For a few weeks, a few months, or a few years

Business Exit: The Statistics Are Frightening

A few hours of research on the Internet surfaces some scary statistics for US-based privately owned businesses:

- Over 80% of private businesses are owned by baby boomers, all of whom are approaching retirement age.
- Forty percent of business owners expect to simply close their doors when they retire – no generational transfer, no sale, no takers.
- Only 1 in 4 expect to pass their business on to the next generation *(and even that's a big over-estimate, in my experience).*
- Over 80% of business owners don't have a business exit plan in place.

Researchers have used phrases like "exit bubble" and "baby boomer exit tsunami" to describe what they think will happen in the next 5-10 years. There were no contrary opinions in the research we found. **The environment for those trying to sell a business over the next decade is expected to be one of supply massively overwhelming demand.** Such a situation creates, as we all know, a commodity market where prices, i.e. valuations, drop dramatically because there are more goods for sale than there are buyers for those goods.

In today's marketplace solid businesses are often bringing in handsome multiples because there are well funded buyers looking to put their money to work. That is, there are more willing buyers than there are good businesses for sale. Reverse that, and multiply it a thousand times, and the expected result will be interested buyers demanding huge discounts from sellers who have unrealistic expectations based on the past or their own dreams – the two areas where deals fall apart, or are non-starters, even in good times.

How then, does the business owner find a way to stand out from the crowd, to broadcast their differentiation? What is their Unique Selling Proposition that will attract strong enough interest to get an above market price in a commodity marketplace? You would think every baby boomer would be busily working on the answers to those questions and putting changes in place. They would be crafting a plan to increase shareholder value, to ensure a solid earnings pattern, and to have in place a reliable data trail that they can point to when the time comes. But by and large they're not. How come?

> *"In the business world, the rearview mirror is always clearer than the windshield."*
> —WARREN BUFFETT

There seem to be several obstacles, none of which feels like a bad thing to the business owner who is running a generally successful business, but can put them at a serious disadvantage at exit time:

- They are reluctant to think about retirement – it sounds, well, retired, and they have no idea what they'd do without the busy routine that consumes their days today.
- They are even more reluctant to start planning for it when they're still enjoying the work they do and the income it provides them and their families, which they worry could be much lower in retirement.

Interestingly, we find younger entrepreneurs have an easier time getting past this than the baby boomers who built their businesses inch by inch, year by year, and who are truly invested in running the business they have built. If you've spent 5 or 10 years building a business and you're 30-something, you know there's more ahead, whatever that might be. But if you've spent 20 or 30 or 40 years building your business and you're 60-something, not so easy.

So, what do we recommend?

First, think about it rationally, not emotionally. Easier said than done, but it enables them to recognize the need to plan ahead for a major event like that; and planning ahead is exactly what they will need to avoid being a commodity in a crowded market. Then, hopefully having overcome the emotional blocks around their creation, start planning for that exit up to 5 years before they actually expect it to happen. I tell clients they should plan 2 to 3 years ahead if their business is in top shape, and 4-5 years if it isn't, because it takes time to turn the ship, and the wider the turn the more time is needed. And even if it turns out that it doesn't happen for 6-8 years that planning process, if properly implemented, will make the business more valuable and perhaps more profitable in the near term, and that will create a more marketable product when they're really ready to step aside.

And how can we help? *(This is the call to action part.)*

Ultimately it's the best negotiator who gets the best deal, and we can be an effective foil

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against a sharp sell-side negotiator because we know the numbers and can help the CEO speak effectively to the story they tell. But even more importantly, **we help owners look at the business through the eyes of a potential buyer, not as the seller,** because that's the person whose perceptions will most drive the size of the offer.

> **"Coming: baby boomer *exit tsunami*"**

The buyer will want to know what are the weaknesses that exist today that will create pitfalls to their hoped for returns. They'll want to know the key strengths that can be leveraged in the future to bring them a good return on their investment. They'll want to know the financial numbers are good and can be relied upon to accurately describe the past and reasonably project the future.

The owner/seller has to be able to demonstrate, and defend, the inherent value of the business when they're no longer there running it.

We help the owner look at each of these areas and proactively implement improvements to make each area more appealing to a potential buyer. That can take the form of a dry run due diligence review, a profit improvement program, a meaningful strategic planning process, or any of a variety of initiatives and combinations of initiatives to increase shareholder value and enterprise valuation. We can make the business more appealing to those who can afford to pay top dollar for a strong investment – your company.

And that, as they say, is the bottom line.

ABOUT THE AUTHOR:
Gene Siciliano is an author, speaker, financial consultant and management coach. He is the founder and president of Western Management Associates, a financial management advisory firm based in Los Angeles. Known internationally as Your CFO For Rent® Gene and his team help CEOs and owners of middle market companies build financial strength and shareholder value. Gene also specializes in helping non-financial CEOs and senior executives understand and successfully apply key financial concepts to their companies and their careers.

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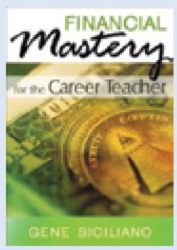

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