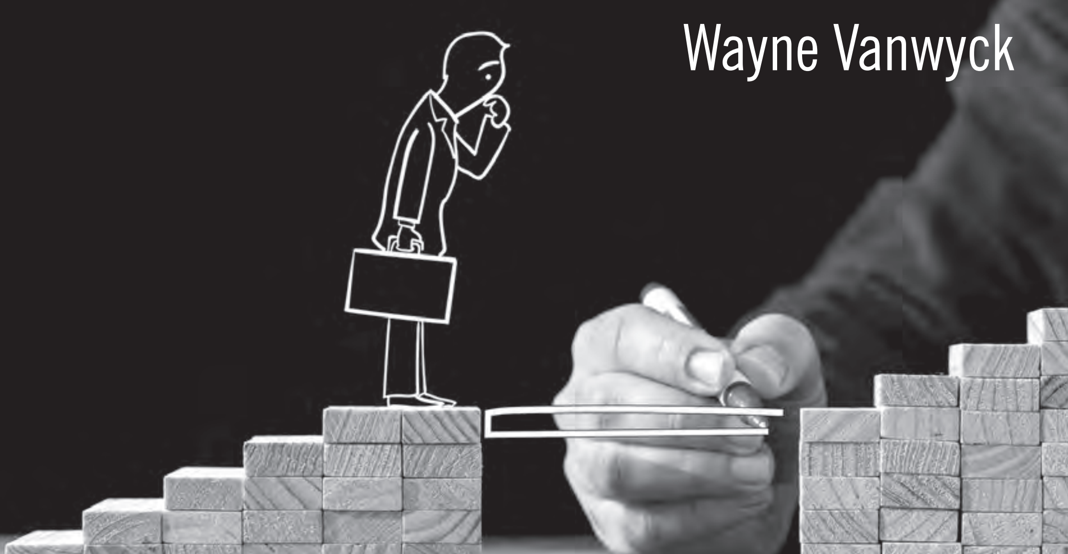
# THE BUSINESS TRANSITION COACH

## Your guide to succession planning, exit strategies, and preparing for the big handoff

Wayne Vanwyck



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# NOTICE TO READERS

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Names throughout the book have been changed to protect privacy.

# PREFACE

If you are a business owner, chances are seven in ten that you are thinking about selling your business but have little or no idea how to do it.

Several years ago, a friend's brother whom I'll call Franklin decided to sell his business. He had grown a very successful industrial supply distribution company. He was doing about $10 million in profitable sales, was a pillar of the business community, and was liked by his employees. To all appearances, he was a very successful business owner.

With some fanfare, Franklin announced to his family that he and his wife were going to sell the business and retire in five years. Many who knew his workaholic ways raised their eyebrows in disbelief. He didn't have any outside hobbies and thought about the business 24/7. He despised vacations and when his wife insisted, he would grudgingly go along (looking for business opportunities along the way). No one could see him walking away from his business without a struggle. Sure enough, although his wife retired right on time, the date for Franklin's planned departure came and went.

Unfortunately, his plan wasn't really a plan. It was barely a good intention. Perhaps it was just a ruse to placate his spouse.

As his deadline approached, he threw a monkey wrench into the business, creating a huge challenge that only he could solve. He changed his major supplier after selling the same product line for more than 20 years. To this day, no one knows for sure why he did it, but the consequences were catastrophic. Clients left. Salespeople quit. His business went into a tailspin. Of course, Franklin nobly renounced his intention to retire. Now he could swoop in like Superman to save the day.

Unfortunately, the crisis he created was bigger than he anticipated and things continued to deteriorate. He was under far more stress than ever in his business career. Within a couple of years, he was in danger of losing everything.

His sister, a business consultant, offered to relocate several hundred miles to help him. She ended up running the company because he was so emotionally and physically stressed that he was institutionalized and put on medication to prevent him from committing suicide. He was literally banging his head against the wall.

In the end, he did sell his business for cents on the dollar but the experience was devastating. Franklin's opportunity to retire with wealth and a stellar reputation turned into a nightmare that reduced him to a shadow of his former self. He lost the respect of his employees, his customers, and his family. He lost millions of dollars. He no longer speaks to his sister, with whom he had previously been very close.

If only someone had said to him when he announced his intention to retire in five years, "Let's get started! Here's a step-by-step process that will ensure that you're ready in that time," he could have saved himself incalculable grief. But as I looked around, it became obvious to me that no such program or process existed. Sure, there were books that told you how to value your business or how to negotiate the best price. But there was nothing on how to get mentally, emotionally, and practically prepared for the day when you sell or step away from your business.

Maybe this is an extreme example, but in speaking with hundreds of business owners about this, one thing has become clear. It's a very difficult step to sell a business. It's an amazingly complex and foreign process. It's a lot of work. Business owners don't have a lot of time to do it. And their businesses are their babies … things they have created, nurtured, grown, defended, and loved for many years. Giving them up threatens to leave enormous holes in their lives.

That's the reason for this book. My humble goal is to alert you to the coming sell-off of businesses as aging entrepreneurs sell and retire in record numbers. If you start planning your transition before it becomes urgent or you have no choice, you can profit greatly. You will be better able to sell your business or put it into family or employee hands in a way that maximizes value for all concerned.

You don't have to be like Franklin, undoing a lifetime of solid, creative work by not being ready for the next stage in your life and the life of your business.

I've struggled myself with this issue. As a serial entrepreneur, I've found it fun and exciting to start businesses but difficult to give them up. I've written this book for all of us who are struggling with the questions of what to do next, how to let go, and how to get the most value from our years of blood, sweat, and tears.

# INTRODUCTION

This is urgent. I don't know about you, but I am bothered by some statistics. I'll be sharing numbers throughout this book, for example, as of this writing 70 percent of entrepreneurs intend to retire in the next few years but very few of those entrepreneurs have a written plan for succession (PWC, www.pwc.com/ca/en/private-company/once-in-a-lifetime.html, accessed March, 2020).

That's a tsunami of change, a wave of literally millions of businesses owned by wannabe retirees who don't have a transition plan. This doesn't even include those who may die or become disabled in the same time frame. This is a massive liability for the economy and for business owners who don't know where to turn.

This is a source of deep insecurity for employees who may have a lifetime of service invested in these companies. Conversely, it's a huge opportunity for those with the ability to purchase businesses.

Following in Table 1 is another interesting set of statistics, from the book *Successfully Sell Your Business* (Rogerson Business Services, 2011).

This means that the majority of businesses have less than a 20 percent chance of selling when put on the market. These facts raise some disturbing questions in my mind:

Table 1
## US Businesses for Sale and How Many Actually Sell

| Number of Employees | Percentage of All Businesses | Number that Sell |
|---|---|---|
| < 10 | 80% | 1 in 5.5 |
| 10–20 | 9% | 1 in 4 |
| 21–100 | 8% | 1 in 3.5 |
| > 100 | 3% | 1 in 3 |

- What happens to a business, its employees, and its suppliers when the owner decides to sell but hasn't planned for it?
- What happens to the owners when they are unable to sell their businesses for what they think they're worth, or when they are unable to sell them at all?
- What resources are out there to help owners maximize business value and prepare to sell in order to get the dollars they want in return for their years of toil and risk?
- What will happen to the economy when millions of businesses come up for sale? Who's going to buy all those businesses?
- If only a small percentage of businesses that go up for sale are actually sold, what happens to all the others? What happens to the owners, the clients, the employees, the suppliers?
- If there are millions of businesses for sale, how does an individual owner make his or her business stand out and be attractive to prospective buyers so it is more likely to be one that is chosen?
- Is there a step-by-step formula for success in selling a business that could help an entrepreneur avoid many of the pitfalls and losses while leveraging his or her company to increase its value?
- Why do so few business owners have a plan and how can we help them to prepare so they sell their businesses on purpose instead of by default?

- What options do business owners have if they don't want to sell their businesses but do want to slow down?

This book is for entrepreneurs (and their families) who have built their own companies and are considering transition. That transition can take many forms, from simply slowing down or developing an Employee Share Ownership Plan (ESOP) to engaging a partner or selling the business outright.

Let me define some terms. Succession planning is often used to describe the process of creating and executing a strategy for a business so no one individual can make it vulnerable if the owner were to quit, die, or become disabled. Proper succession planning ensures that there are people in the wings ready to take over should such a tragedy occur. This should apply to the owner of the company as well as to key players whose absences would jeopardize the smooth running of the organization. We'll use the term succession planning for the process of putting the right people in the right roles and developing a system of training, mentoring, and preparing others to take over at some time in the future.

While succession planning will be part of our discussion, our primary focus is transition planning. I'm going to use this term to describe the process of changing your role as the owner-manager of the business to something else. The end result of transition planning could be:

- You sell or give your business to family members.
- You sell to an employee, a group of employees, or a competitor.
- You sell to an investment group or a public corporation.
- You merge with another company.
- You continue to run your business for many more years. Then you choose to evolve your role so that you have less responsibility, less stress, and fewer hours. Or you choose to work just as hard, but in a more strategic rather than hands-on role. Either way, you can make sure your business is in prime shape to sell if you ever have to do so.
- You choose to wind down your business and close it.

Both transition planning and succession planning are crucial and urgent activities for the world's aging population of business owners. The situation will be a crisis for many businesses unless it is dealt with effectively in the very near future. That said, most of this book is valuable reading for any entrepreneur. All businesses will benefit from implementing the ideas and strategies shared here.

This book will alert you to the issues that stand between you and a successful transition. You will visualize your ideal lifestyle, strategize, and set goals for the successful execution of your plan, and learn how to avoid many of the mistakes suffered by others. Most importantly: You will take action on the plan starting immediately.

The purpose of this book is to get you to —

- make time to think ahead;
- recognize and deal with the inevitable;
- plan for your personal transition;
- prepare for the transition of your company; and
- begin to execute that plan now, even if you think you are years from making the change.

Let me introduce the peers whom I interviewed for this book; some reappear in the pages to follow, and all of them have contributed to my thinking (names have been changed to ensure the privacy of those who have shared their stories):

- Mark sold his construction business and made enough money so his children and grandchildren will never have to work. Recently, he and a few friends got together and decided to start a bank. However, the sale of his business made him emotionally, mentally, and physically ill for more than a year.
- Lori was a sole proprietor. She was approached by a complementary business and completed the sale of her business in five months. She continues to work for the new owner and is happier being an employee.
- Don sold his service business but continued to work for the firm that bought him out. It was hell. He couldn't wait for his contract to end so he could retire and spend time with his wife traveling North America in a new RV.
- Greig sold his medical devices business and is now working overseas for Habitat for Humanity. He has never been happier.

- Rob sold part of his business to a partner and continues to invest in it because he sees tremendous growth potential and a social mission that he can advance. But, he now spends most of his time traveling.
- Bill sold his business, then continued to work as a consultant for the new owner to evaluate and buy other businesses that would complement the product line.
- Scott sold his business but arranged to maintain control until all the money was paid. The first buyer didn't pay in full, so Scott took it back and sold it again for considerably more money. Sadly, in the process he lost his wife and his kids.
- Tom thought his son might take over the business and waited until he was 70 to learn that his son wasn't really interested. Tom wound it down, gave the furniture away, and turned out the lights.
- Arun always said he would retire at 60. Five years before he hit that milestone, he confirmed the decision with his team. Working with his advisors and his senior management, he developed a systematic, time-bound action plan for building the capabilities of his team and maximizing the competitiveness of his business. Arun sold his business at a price that was a pleasant surprise even to his own team. Now he leads a quiet but active life with his wife on their horse farm.

I conducted interviews with these and many other individuals from Texas to Newfoundland. Some of the stories are sad. Some of the people I spoke to did not prepare properly. They didn't get the right advice. They didn't take the time necessary to think it through. As a result, they left money on the table, got sucked back into the business, or committed to a painful process that could have been avoided.

Many others did prepare properly. Some owners got a lot of money in return for their long years of sweat equity and willingness to risk what they had for the future. They travel. They volunteer. They spend time with their families. They mentor others. They start up new enterprises.

You may be thinking that it's easier to start a business than to sell one. You're probably right. But when you started out, you had a vision of what you wanted, where you were going, and how you were going to get there. We now have to chart some new waters, but making a successful transition will involve going through many of these same processes. Throughout this book we will outline a map of the territory that lies ahead for you. You will —

- develop a vision of where you want to be personally;
- develop a vision of where you want the business to be and how your personal and business visions align or conflict;
- take stock of where you are now;
- set personal goals;
- set strategic goals for the business;
- assess the financial reality and what you require to achieve your goals;
- get buy-in from those who will contribute to or participate in the end results;
- gather advisors who can guide you through uncharted territory and give you critical information that will maximize your business value, minimize your taxes, and help you develop plans to get you where you want to go;
- build a list of tasks and activities that need to be undertaken; and
- follow through on and execute those tasks.

As you can imagine, this is not something you can do in a two-day workshop or on a whim — not if you want to leverage and receive the greatest value for the years of blood, sweat, and tears you have invested in your business. It's a shame to see people work hard all their lives and then give up hundreds of thousands — maybe even millions — of dollars, simply because they didn't invest the time and energy in this end stage of their businesses.

That's not to say that what you need to learn is rocket science or even new to you. But it will take on a different focus. While you already know about goal setting, leadership, and delegation, you'll be guided in examining these topics from the perspective of preparing your business for transition or sale. This means that you're going to think about them differently. You're going to ask yourself and others different questions. You're going to develop new insights regarding topics that you may not have considered before. You're going to set a date, which will increase your sense of urgency.

As the owner of this book, you will have access to a number of tools:

1. **Online forms and checklists:** This book contains forms and checklists for you to reflect upon, act upon, and complete. You can do so with pen and paper or on your computer. It's up to you. The forms are available online at the URL printed at the back of the book.
2. **Goal setting:** Goal setting is a key component of this process. Don't worry; this book makes it fun. The whole point is for you to know what you want and to go after it in a progressive, disciplined way. This book supports you as you develop some long-, mid-, and short-term goals. You may need to step outside your comfort zone. As a business owner, you've been doing that all your life. For some, preparing to transition away from a business is the toughest challenge yet. For others, it's a wonderful adventure. This process ensures that it's more likely to be the latter for you than the former.
3. **References and resources:** You will find a number of internet addresses, book recommendations, and additional resources that you can delve into in order to expand your knowledge and understanding. Now, let's get started on your unique and life-changing journey.

# 1
# PLAN FOR TRANSITION

Here's a story about letting go.

"Good afternoon, folks. I'm Ralph Thornton speaking to you from sunny Atlanta and I'm here with sportscaster and former Olympic track athlete Bill Nichols reporting on the 1,000-meter relay. The four teams are already running and right now John King from ACME Group is in the lead. He has run an amazing first leg of the race and is at least two strides ahead of the next runner from XYZ Corp.

"King is closing the gap on his team member Les Prince, who you can see is champing at the bit to go. Closer, closer, and there's the handoff! Prince has it now, but wait, wait, King is still hanging on! Sweat is dripping from him and his hands must be slippery. He's now holding on with both hands! I've never seen anything like it before! Prince is looking confused and uncertain but he's trying to pull the baton away. They're arguing and wait, you can see the other three runners are pulling ahead, looking back with big grins on their faces.

"Oh no! What is this? Bill, have you ever seen anything like this before? King has now taken back the baton and he's beating Prince with it! Whacking him about the head! Prince is down with blood pouring from his wounds and King is running again! He's at least a half a lap behind the others, he's obviously exhausted, yet he's trying to catch up!"

> "Yes Ralph, I have seen this before, and tragically, it's not as rare as you might think. We see a lot of this in the minors. King is displaying an insidious disease called "incompacete-hangerongus," the inability to let go. Unfortunately, he's failed the team and himself. He's just cost ACME the race and at the same time he's lost his reputation, his pride, and millions in future sponsorships. It's a terrible shame. He worked so hard to get to this point. If only he'd spoken up earlier, his coaches could have cured him before this race."

Some entrepreneurs find it painful to plan for transition and follow through on that plan. They founded the business and regardless of how much it has expanded or changed, it is still their baby. They imagined it, created it, nurtured it through tough times, and proudly watched it grow. They are intimately connected with its daily ebb and flow. They can't imagine what they would do if they couldn't continue to lead the organization.

Why should you plan for your transition? Because it is your responsibility to do so and you are the only one who can.

Transition will occur regardless of whether it is planned or not.

> If you don't deal with succession and transition for your business, who the heck do you think will?

Some owners take the coward's way out. Perhaps at a subconscious level they hope they'll die before they have to deal with their transition. It's such a foreign, threatening process that they don't know where to start.

I've interviewed and worked with many former business owners. When I asked how they felt just before selling, I heard, "I was terrified," "I sweated bullets, " and "I was scared to death" from individuals who had courageously built very successful enterprises. Oddly enough, when I asked how they felt afterward, I heard, "I felt relieved, " "I felt a tremendous weight drop off my shoulders, " and "I felt at peace."

In other words, the anxiety and fear was much worse than the real thing and ultimately the payoff was worth the effort. One owner confided that when he couldn't get around the store to meet his customers and staff without being pushed in a wheelchair, he knew it was time to make the move. Once he had done so, he admitted he should have sold his business years earlier. He learned that he liked being retired.

Planning for transition is definitely one of the most important things you can do for your business. Why?

- It puts a strategic plan in place for the next stage of the business.
- It enables talented employees to step forward, grow, and take on more responsibility.
- It increases the value of the business by replacing you, the founding entrepreneur, with a team that can manage, instead of leaving the business vulnerable by having all of its eggs in your basket.
- It can be invigorating for you, leading to a new and exciting chapter in your life.
- Loyal family members or existing leaders may be rewarded with more responsibility. This prevents them from leaving because it is taking too long or they have no definite timeline. (Think how long Prince Charles has been on the sidelines.)
- It creates greater stability and retention of key employees in the business when employees know what to expect and how things will evolve.
- It prepares and positions the business to be sold at the right time for the right price for the least amount of taxes and minimal business disruption.
- It enables you to set up a secure income outside the business that is not vulnerable to downturns or your diminished capacity.
- It makes suppliers and clients feel more secure, which means they're less likely to transfer to competitors.

In addition to all of these benefits, the stakeholders in the business as a whole benefit when you take the responsibility to guide the transition process to its optimal conclusion. To not do so is foolish, thoughtless, and destructive — not the kind of legacy you want to leave.

Gord was finally ready to sell his business. He'd had enough. He was 63 and felt time ticking away. Not only had his children grown up while he was working, but now his grandchildren were also missing his attention.

The truth was, Gord was exhausted. By the time he finished his normal ten-hour day, he just didn't have any energy left to play with his grandchildren. Even his weekends were taken up with work that he couldn't seem to get done otherwise.

He had thought about selling his business on many occasions, but he liked his printing operation. He had started it 33 years earlier and it was his baby. He waffled between his desire to let it go and his need to hang on. That and the day-to-day momentum of old habits were powerful currents. The thought of quitting was like paddling upstream.

Was it irresponsible to quit or not to quit? Was selling the business really quitting? Conflicting emotions paralyzed him. As a result, he never got past the thinking-about-it stage.

In the quiet moments of a Sunday morning when his wife was off to church and he had the house to himself, flashes of insight made him acutely aware that he had to do something. It was his business. He ran it. It was his responsibility. If he didn't take charge of the situation, no one else would.

Then doubts would flood in. "What do I tell my employees? Will they be able to carry it on? Who will buy this business? What's it worth? Is it worth anything without me there to run it? If I tell my suppliers, will they stop giving me credit? Will the bank pull my line of credit?"

The questions didn't end there. "Will my managers start looking for other jobs? Will my customers start dealing with that new place around the corner? Who knows anything about selling a business and what will their advice cost? My lawyer has been on my case for a couple of years to get started on this. I'm sure he's licking his chops at the fees involved. What about taxes? What about my kids and their interests? What will I do if I'm not working? What about … "

The complexity and enormity of the change seemed overwhelming. With a shake of his head, he would return to reading the news, effectively shutting down the logical side of his brain that knew he had a problem.

Gord attended one of my seminars and I spoke to him afterwards about his situation. After explaining what was going on, he told me he was planning to call me about this soon.

One morning a couple months later, he rolled out of bed, started toward the washroom, and collapsed on the floor. He had suffered a debilitating stroke. He couldn't speak. He couldn't move. He could still think, though, and one can only imagine the things that were going through his mind as his wife called 911 and he was taken away in the ambulance. Unfortunately, no one will ever know for sure what he was thinking, because Gord died a week later without regaining his ability to communicate.

As a typical tough entrepreneur, you're probably thinking, "Yes, that could happen to others, but it won't happen to me." Well, I've got some bad news for you: It can happen at any time, at any place, when it's least expected. By all means, hope for the best and expect the best, but plan for the worst, just in case.

## 1. The Financial Benefit

Think of it this way: Suppose for the moment that you had the time and the opportunity to spend 36 months or more to prepare to sell your business. Imagine that you took a deliberate action every month to move toward its sale or transition. One month, you might speak with your accountant, lawyer, business coach, financial advisor, or banker. Another month, you might meet with your management team and talk about the future. Another month, you might work on cleaning up your inventory and freshening up your facilities. Still another month, you could get started on gathering your employees' experience and historical knowledge about company systems, complete with binders that detail every step of each process.

With all other things being equal — the market, your product cycle, the economy — can you see how a thoughtful, planned approach to systematically preparing your business for transition will make it go so much more smoothly? Can you see how taking these steps will help you sell all or some of your shares for more money?

Scott in Fort Meyers sold his company for millions and shared that he got a much higher multiple for his business than anyone else he knew in his industry.

"It was because of the systems we had in place," he said. "When the prospective buyer walked into my office and saw the bookcase filled with binders that detailed every aspect of the business, he was impressed. We detailed how the receptionist would answer the phone, how we went through the screening and hiring process, how bonuses were structured, how the bathrooms were cleaned, and what we would do if our profit margins ever dropped below a certain number.

"And we were very profitable! But what really impressed him was that he saw that our people followed the system. It wasn't just a nice platitude and fancy words on a page; we did what we said we should do. We got almost seven times earnings in an industry that averaged about three and a half to four."

> Because he had created a business with systems underpinning it, Scott was able to double the value he received when he sold. As a result, he was also able to share the wealth. He gave more than $3 million to employees to show his appreciation for their part in a highly successful transaction.

Similar results could be yours if you begin to make the time to methodically prepare your business for sale over the next three years.

Now take a moment to imagine continuing to run it as you have over the past three years and then having to sell one day because of disability, death, or some other catastrophe. This exercise brings up several important points.

- You can take various steps to improve the salability, attractiveness, and value of your business.
- Good luck has been defined as the place where preparedness meets opportunity. You should always be prepared to sell, because you never know when the right opportunity will present itself. You might get lucky.
- You know from experience that setting a goal with a clear deadline works better than not crystallizing your plan. Saying that you'll sell the business "someday" is just a weak-kneed intention. It might happen — or it might not.
- If you believe in the law of attraction — that setting a clear goal with a firm deadline can attract opportunities that otherwise wouldn't surface — then it is important to let the "universe" know what you want.
- It is not much of a stretch to believe that good planning and focused attention can increase the value of your business by 25 percent or more. Try getting that return on your investment portfolio! On the other hand, it isn't much of a stretch to think that if you had to sell at an inopportune time because of the myriad of things that could go wrong in your business, you could lose 25 percent or more of the value of your business.

On that last point, consider this graphic example: Suppose when your financial advisor asks you what you believe your business is worth so he can consider it as part of your retirement plan, you tell him $2 million. You may or may not be right, but let's say that you are. If you could increase the value by 25 percent over the next 36 months by acting on the suggestions in this book, perhaps investing ten hours per month, your value increases to $2.5 million. Not bad!

However, if three years from now you haven't done anything differently, and you have to sell because a disability is preventing you from running it anymore, or your market has gone in the toilet, your business could easily lose 25 percent or more in value, dropping to $1.5 million.

So the difference isn't just 25 percent, it's an easy 50 percent. On a $2 million company, the planning and actions you take over the next three years could be worth $1 million! A million dollars divided into 360 hours of effort is $2,777 per hour or $27,777 per month. Can you think of a more profitable way to spend your time?

## 2. The Motivation to Sell

I ask people who have sold their businesses this question: "When you sold your business, were you moving away from your business or toward something else?" It's an important question because it speaks to their motivations. It provides insight into what they might be doing next. It also indicates how they feel about their businesses.

Pose that question to yourself: When you do transition or sell your business, will you be pushing away from it or will you be attracted toward something else — a new goal, a new hobby, a new career, something you've always dreamed of?

If you are simply moving away from the business, what do you plan to do when you get away?

One of the biggest fears of entrepreneurs who have built a business over the years and put their heart and soul into it is, "What will I do if I don't have my business?" For many, they are their business and their business is them. They are inseparable. Their personality, persona, and self-image are intricately tied to the enterprise. They aren't okay with just being "John Smith." They are "John Smith, the owner and founder of ABC Company." They are the active member of the industry association, the Chamber of Commerce, and the buyers' group, and a friend to suppliers, customers, and employees. Their lives revolve around their positions as successful business owners.

While many business owners intend to sell their business sometime in the next five years, few have a plan. They really haven't thought about it. They're so busy running things and pondering how to make the business better, they feel they have little time to reflect on their own future. That's unfortunate, because by not making the time to plan the future, they may never set in motion the steps required for them to get what they want.

So when the time comes to transition from your business, will you be moving away from it or toward something else? Will you wake up one day and announce that you've had enough? Will you be frightened by all the possible "What ifs?"

One successful entrepreneur told me, "I had no idea how big a hole it would leave in my life when I sold my business. Every Wednesday morning I had an association meeting that I wasn't invited to anymore. The suppliers I joked with, the customers who looked forward to seeing me, the employees who worked their butts off for me — all that was gone. It took me two years to get over that feeling of loss."

## 3. Fear of the Dreaded Phone Call

"What motivated you to sell your business when you did?" I asked Tom.

"You'll understand this when I say it," he replied. "The fear of the dreaded phone call – the factory blew up. Someone was killed or maimed by some of the dangerous equipment we run. The vice president quit. The employees are unionizing. You know. Those things that could go wrong that would fundamentally and dramatically change everything."

Entrepreneurs often feel like they're playing the midway arcade game in which they have to whack all the gophers that keep popping back up. They try to handle the above issues with insurance, safety policies, positive employee practices, training, and regular communications with key people. But when I talked with Tom about selling his business, I perceived that somewhere along the way, the gophers had grown in number.

Dino was in year four of a five-year track to sell his business when he received an offer.

"Why did you sell?" I asked him.

"The offer wasn't what I was looking for, but I was afraid the market might drop and the business could be worth less a year later," he said.

> As it turned out, his fear was justified. Shortly after he sold, the market tanked. If he hadn't sold, he could have lost 50 percent of the value almost overnight. Because he had been 80 percent through a planned approach when the offer came in, he was in a good position to recognize that the time was right and make his move.

Why are we motivated to act? Either to gain a benefit or avoid a loss. The majority of the business owners I interviewed sold to avoid a loss.

In some cases, fear had become a stronger force in their life than their former optimism, confidence, and strength. They wanted to sell before it was too late; before something that they couldn't fix went wrong; before their company lost value; before their health declined.

In some cases, the fear was healthy. Things can and do go wrong. If entrepreneurs stop doing the things that made the business successful, or if they lose their spark, they should either sell before the business slides backwards or pull themselves up by their bootstraps and get back on track.

The problem with selling when you are acting from a state of fear or pessimism is that you are far more likely to make mistakes. You may truncate the process because you are uncomfortable with your feelings and want the whole thing to go away. You may accept a lower price than you should. You may fail to consider other options that could provide a better deal for you, your employees, and your family. You may be reactive instead of proactive in managing the process.

Fear tends to come from a real or perceived lack of control. The antidote for fear is confidence. If you have done your homework, watched the trends, and know that the timing is right, you can sell from a position of absolute confidence and abundance rather than of abject fear and scarcity.

Fear in itself is not always a bad thing. It can be a more powerful motivator to take action than the promise of a benefit. The key is to feel the fear, recognize it for what it is, and then do something anyway. Know what you want to achieve. Develop action steps that will move you toward what's necessary to transition the business on your terms. Your why or your motivation for taking action has to be strong enough to outweigh your fears. Business owners who have been most successful in selling their businesses have done so with a plan. They have —

- enhanced their employees, their leadership team, and their sales;
- positioned the right people in the right roles;
- strengthened their story of future potential by ensuring long-term, happy clients;
- cleaned up their balance sheet;
- developed reproducible systems and processes that were consistently followed and proven to work;
- understood their industry, their competition, and their market;
- prepared themselves emotionally for the transition; and
- watched the timing and chosen when to sell.

They were then able to set the terms of their sale with greater confidence.

If the gophers are popping up in increasing strength or numbers in your situation, confront them and use them to motivate you to shore up your defenses. Take the initiative to get your house in order sooner rather than later. Gophers don't make good long-term pets.

## 4. If You Don't Make a Plan

If you don't make a plan, by default you enable the government, lawyers, and your management team to take charge in the event of your premature death or disability. That might be okay, but things probably won't proceed the way you would have chosen if you had taken the time to decide. For an amusing but informative example of how this could play out, check out the Un-Will in Sample 1.

Not having a plan may also lead to a reactive approach to selling your business rather than a proactive, thoughtful, and managed approach. Because of a business situation that was becoming more difficult to manage, Marcel just about sold his service business to the wrong guy.

Marcel had what he believed was a willing buyer who said he had the money to complete the deal. Marcel was a willing seller, and the timing seemed right. His business was just about to launch into a profitable year after investing heavily in infrastructure, marketing, and human resources.

The buyer was an employee: A senior manager with the business who had helped the company get to the point where it could progress to the next level if he managed it well.

But the deal fell apart because of this manager's lack of integrity. What Marcel heard from this man and what he saw were in conflict with each other. While the manager involved was very persuasive, Marcel gradually realized that he couldn't be trusted. In the beginning, he chalked it up to hyperbole and exaggeration.

"I thought he was eccentric. An odd duck," he said. "But discrepancies kept cropping up."

Over time, embellishment accelerated so that lies and deceptions became part of the norm and "reality" was an elusive concept.

Marcel recalled that his prospective buyer at times behaved like Jekyll and at other times like Hyde.

"He was your best friend. He was your worst nightmare. He praised his peers one day and cursed them the next. He created conflict and stress where none was required."

Marcel said the manager was brilliant and lucid at times but then deteriorated to doublespeak and gobbledygook when asked to explain a problem that was his responsibility. "Pinning him down was like trying to nail jelly to the wall."

And the prospective buyer was smart enough to salt his story with just enough verifiable facts, tempting Marcel to believe the rest. In truth, he wanted to believe.

Marcel was not so different from the rest of us. When we want something badly enough, we tend to filter the information we receive to support our goal, not necessarily the truth.

When it came down to finalizing the sale, a picture emerged that shed new light on the oddball things the manager had been doing. He had been manipulating numbers and positioning the business to be sold for a fraction of its value. He threatened to sabotage the business if he didn't get his way.

"In hindsight, there were red flags that I should have heeded earlier," Marcel said. "I kicked myself for a long time for not trusting my instincts and connecting the dots a lot sooner."

In the end, Marcel chose not to sell his business, but he could have saved himself a lot of time, hassle, and money if he had exhibited stronger critical thinking and listened to his intuition sooner. While he knew he couldn't trust the manager to always tell the truth, he thought he could at least trust him not to be malicious or crooked. But he learned what Gandhi meant when he said, "One man cannot do right in one department of life whilst he is occupied in doing wrong in any other department. Life is one indivisible whole. " In other words, if you can't trust people completely, you can't trust them at all.

Selling your business to someone you don't trust raises important issues:

- Will you actually get paid what is promised?
- Will the deal be renegotiated after you've let your guard down?
- Will the negotiations be dragged on deliberately so the value of your business drops?
- Will there be side deals going on with employees to weaken your business and your position as owner?
- Will the prospective buyer be getting confidential inside information or client data with the intent of going after your clients regardless of any nondisclosure or confidentiality agreements?
- If you can't trust some of the information you are getting from the prospective buyer, what part of the information can you trust? It's hard to discern when a liar is telling the truth.
- How will that person treat your employees once he or she has control?
- What will happen to your reputation if your name remains on the business or, worse still, you end up working for the company for a year or more on contract?

Marcel's experience reinforces a rule that I try to live by: I only do business with people I like, respect, and trust. A rule that's well worth remembering.

Sample 1 is used with permission from Jim Ruta International.

As you can see, there's a lot to do. Worksheet 1 (available on the downloadable forms kit; see the back of the book for instructions for accessing it) shows a partial list of what you need to consider in preparing your business for transition. Why plan? Because leaving these and other items to chance is a fool's way to run a business. To think otherwise is a fantasy. Might you get lucky and sell your business for as much as you think it is worth without all this work? You might. You might win a lottery, too, but don't bet your future on it. As Phillips and Jackim have put it in *The $10 Trillion Opportunity*, (Exit Planning Institute, 2006), "Business owners who make the transition out of a business involuntarily, that is, due to family responsibilities, financial difficulties, or poor health, report they have much greater difficulty adjusting to retirement. In contrast, business owners who plan for retirement and voluntarily exit their businesses are three times more likely to be satisfied with the retirement experience and adjust more successfully to the role of retiree."

## Sample 1
## The Last Un-Will and Testament

*Your will is vital to your family security. This is a tongue-in-cheek look at what your legacy might be if you do not have a will. This is not a will. Please consult your lawyer immediately to write or update your will.*

— Jim Ruta

### *The Last Un-Will and Testament*

This is the last un-will and testament of me, ________________________________.

Believing that government bureaucrats are better suited and qualified than I am to choose an executor for my estate, I leave it to them to settle my estate in whatever fashion they find expedient and convenient for them.

I give my blessing to government bureaucrats taking as long as possible to handle my estate without any regard whatsoever for the financial, emotional or material needs of my surviving family.

Not wanting to upset anyone or cause any hard feelings during my lifetime, I direct that government bureaucrats arbitrarily choose guardians for my minor children without due regard for my wishes or theirs. Instead, the Court can be swayed by expediency and legal power. Even though they would have no parents in this event, my children need not be consulted in this selection.

I direct that my estate can be settled in the most expensive way possible, incurring any and all additional bonds, surety or insurance that could have been avoided had I just taken the time to prepare a will.

I agree to probate fees, legal fees and accounting fees being maximized.

I approve of bureaucrats deciding which of my children and family receive what assets.

I unconsciously disinherit any charity that I supported in life and that meant a great deal to me during my lifetime.

I direct that my assets be distributed by standard government formula without any thought at all for the proportionate needs of my survivors or my actual intentions.

I consent that the assets I worked a lifetime to acquire be squandered to pay for the arguing and settlement of the inevitable court cases that may result from this un-will.

I ask that the Courts ensure that every obscure relative of mine be entitled to a share in my estate to the detriment of the needs of the people I love and hold dear.