Cultivant

Leave Your Business by Design

Plan now so you can transfer your business
at the right time,
for the right amount,
and to the right people.

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If you're a business owner, your company is probably the most valuable asset you own. As such, growing and protecting the value of your business, and eventually monetizing such value, is enormously consequential to achieving your financial independence.

Said differently, the net amount that ends up in your pocket after selling your business – after taxes, after fees, after paying off outstanding loans and bills, after everything – can directly, and quite literally, impact what you can and can't afford in retirement and how much you can and can't leave to your heirs and/or charities. Clearly, it's worth your time and energy to leave your business by design rather than by default. You can't afford to leave it to chance.

Work *On* Your Business, Not Just *In* It

Several years ago, a friend and an owner of a professional practice asked me to help him run his firm like a "real business." As it turned out (and much to my surprise), I had the temperament and skills to think strategically, lead a team with fortitude, and relentlessly execute a plan with laser focus. I was a natural executive.

My success in that role led me to a project with another firm, and then another, and so on. Thus began my life as an accidental executive and business consultant.

What Buyers Want

At first, with no prior experience running a business and no one guiding me, I had to think hard about how I can maximize my effectiveness in the shortest amount of time possible to help my friend-turned-client.

To this end, I decided to approach the project from the perspective of an imaginary buyer. I asked myself, "If I were a potential buyer of this business, what would make it so attractive and hard to pass up that I would willingly risk my hard-earned money and even take out a humongous loan to buy it?"

I concluded that, as a buyer, I'd look for a turn-key business that's set up to generate healthy cash flows – sustainable, predictable, and transferable – year in and year out long after its owner has moved on. (I would learn later that this is called "transferable value" – that is, what a business is worth to others without the owner.)

In my mind, a saleable business was a healthy business, and vice versa.

Reality Sets In

With that in mind, I rolled up my sleeves and got to work.

Soon, a worrying pattern began to emerge. While each firm I worked with was unique, profitable, and successful, every single one was far too dependent on its owner (also the founder) who acted as its CEO, CFO, COO, relationship manager, rainmaker, HR manager, marketing director, client event coordinator, bookkeeper, and the person who took out the trash.

If the owner were to suddenly disappear – voluntarily or involuntarily – the firm would decline rapidly and may even collapse in time because no one was trained or equipped to step up and into the owner's shoes and keep it afloat, much less grow it.

In short, while these firms were profitable and had the ***appearance of success***, there was ***no transferable value*** to speak of because they were too dependent on their owners.

Let that sink in for a moment. They all owned fabulously successful and profitable – but ***worthless!*** – businesses.

Getting More For Your Business

This observation led me to develop and implement a system that would give them the best chance to generate healthy cash flows – sustainable, predictable, and transferable – designed to minimize dependence on the owner.

Of course, it was easier said than done.

It entailed implementing a strategic plan with discipline instead of operating at the whim of the owner, developing a firm-wide growth strategy rather than depending on the owner's rainmaking skills, documenting business and operational processes and having everyone (including the owner) follow them, managing business risks, tightening up legal documents, formalizing financial controls, and so on.

Sounds simple enough, right? But it was hard work. Really hard and really time-consuming.

I remember a particularly challenging and time-sensitive project where the owner of the firm was facing memory issues. With revenue rapidly dropping and clients leaving by the week – not to mention declining employee morale – we had to act fast and reverse course. When the dust finally settled, I somehow managed to help increase the value of the firm four-fold (400%) and sell it at a price that would have seemed outrageously optimistic and unrealistic when I started the project just one year prior. The most memorable compliment I received from the owner was, "Where were you five years ago?"

Lessons Learned

I'm now back to being a financial advisor full time, but I still think about the many things I learned from working with these business owners. Of everything I learned, two things in particular stick out to me:

1. For a business owner, their business is usually the most valuable asset they own.
2. It takes several years of enormous effort to get a business ready for sale for maximum price.

So, be intentional about working *on* your business, not just *in* it. In addition to your daily tasks, be disciplined about setting aside time and effort regularly to grow and protect the value of your business. Eventually, every business owner is faced with the reality that they have to leave their business – because of age, health, loss of passion, spouse who wants and needs you to spend precious retirement years with them. Your business is your most valuable asset. You don't have other assets to fall back on. So, you should – you must – sell it for maximum price if you want maximum financial independence.

Additionally, don't underestimate the time and effort it takes to get your business ready to sell for maximum price. You should note that it doesn't happen naturally. You cannot go on business as usual and expect your business to be ready for sale. It requires a radical change on your part because buyers want a turn-key business – a company that can function and grow *without you*. Ask yourself, does your business run without you? Can it? My guess? Probably not. It takes work – real hard work – to get your business ready for sale. Realistically, think five years.

Three Questions

When you plan for transitioning out of your business, you should start by asking three questions:

1. When will I retire from my business?
2. How much income do I need after I retire to live comfortably?
3. To whom shall l sell/transfer my business?

When

Unlike your friends who retire from a job, you can't just retire from your business. Instead, you need to set your retirement date and work toward that goal. But don't wait to start planning until you're emotionally ready to retire (or you ***have to*** sell because you are burned out or have health issues). By then, it's too late because it takes years to prepare your company to sell for the amount you need. You have to first grow transferable value. And if you want to sell to your key employees or to your children, you need to get them prepared to step into your shoes. All of these efforts require a lot of time and hard work.

How Much

How much income do you need to support your desired lifestyle after you walk away from your business? How will you replace the income you used to earn from your business? It's important to accurately and realistically quantify your retirement needs and wants, your current resources (including the value of your business), and a shortfall. Then you should develop a detailed plan to bridge the gap. This will in turn compel you to know the value of your business and whether it can fully finance your retirement after you sell it. It will also tell you the minimum amount you'll be willing to accept from a buyer.

To Whom

Who will be the successor-owner(s) of your business? Will it be your key employees? Your children? A third-party buyer? Do your key employees or your children have money to buy you out? (Hint: they almost never do.) If not, will you be able to come up with a creative arrangement to make it happen? Whatever the case, each succession option comes with its own set of advantages and disadvantages. You need to plan thoughtfully and with care (and several years in advance), so you can minimize the disadvantages to make your exit happen the way you envision it to happen.

You Are Not Important, Really

After you gain clarity around when, for how much, and to whom to sell your company, real hard work begins. It's time to grow (accelerate!) transferable value of your business. In short, transferable value is what your company is worth to others ***without you***.

In other words, a successful transfer can happen only if your business isn't dependent on you. Thus, you must grow your business ***beyond your capabilities*** and change your role so your company can function and grow ***without you***. It's a lot harder and more time-consuming than you might realize because it requires a radical ***shift from business as usual***.

Value Drivers

With that in mind, what makes your business attractive to a prospective buyer are strong value drivers because it's understood that strong value drivers contribute to healthy cash flows. All things being equal, a company with strong value drivers can demand a higher price than a company with the same profit/EBITDA, but with average value drivers.

While not exhaustive, below is a list of primary value drivers.

- Strong, professional management team
- Repeatable and standardized processes
- Ability to scale without significant additional investment
- Diversified customer base
- Demonstrated growth strategy
- Recurring, sustainable and non-commoditized revenue
- Healthy, growing cash flows that are sustainable, predictable, and transferable
- Competitive advantage
- Strong financial controls and management

It's easy to see the time and effort required to get your business ready for sale. So, start planning now so you can sell your business when you want, for the money you need, and to the person you choose.

I wish you all the best.

Cultivant Team

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I'm passionate about consistently delivering exceptional and intensely personal client experience that is unmatched by our peers. We accomplish this the old-fashioned way: genuinely caring about the needs and wants of our clients. We also try to reduce friction through smart and wise use of technology. Before founding Cultivant, I was a top salesman at a software company, where I learned to listen intently to customers' needs and wants, deliver the best possible outcomes, and provide the highest level of customer experience.

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I get satisfaction from simplifying complex concepts so clients can understand how these strategies can help accomplish their goals. We do this by cutting through extraneous details down to the very essence of these concepts. We also try hard to minimize industry jargon to clearly communicate these sometimes-confusing ideas. Before founding Cultivant, I was AVP of product management at a software company, where I learned to anticipate customer needs and market shifts, and develop products that customers didn't know they needed.

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As a seasoned financial advisor, I help clients achieve their goals in alignment with people and values that matter most to them. I began my career in financial services over 35 years ago at a Big Four accounting firm, and have since held senior positions, offering solutions to complex financial, estate and business planning issues. I have written numerous articles on financial, estate and business planning, some of which have appeared in prestigious peer-reviewed journals. I've also taught MBA classes and have spoken at conferences and seminars.