

The Business Transfer Newsletter

Your Exit is Someone Else's Beginning

When giving consideration to who will own your business after you, it is critically important that you are able to see that your future owner will face the same challenges that you face and will be looking for the same reward that you are looking for from the ownership of your business. Therefore, it is very accurate to say that your exit is truly someone else's beginning. This newsletter is written to provide owners with a perspective on what a potential buyer will be experiencing when you sell or transition your business to someone else.

What are you Selling with Your Exit?

It is helpful to ask the question – what am I selling with my business? In some respects you are selling your past performance, along with the notion that some part of it will continue into the future. When your next owner takes over your business, it will be the future that is their primary focus, not the past. Therefore, it can accurately be said that your exit is someone else's beginning of running and growing your business. And, the more you can align your thinking with that future owner's thinking, the higher your chances of success.

Your Buyer Does Not Know That Much More than You

Business buyers do not come with all of the answers to your problems. At best, they

come with money, perhaps some experience and maybe some professionalized systems that will help your organization run and grow into something larger. But the buyer does not know the ins and outs of your business – they need to learn them and how your unique business works. So buyers will not have an effortless ascent in revenue and profitability, taking the business to heights that you could not. In fact, reaching new highs will be a time-consuming, considerable challenge.

Exit Planning Options – Who Will Own Your Business Next

The decision as to who will own your business after you needs to be carefully evaluated. Different buyers bring different ideas and resources to the table. Initially you are faced with two primary exit paths: (i) either an internal buyer will own the business, i.e. a co-owner, your managers or family members, or (ii) an outsider will come into your business to own and run it into the future. Those are pretty much the options for most privately-held businesses that do not want to simply close down and liquidate. Therefore, the question of who will own your business next is of paramount importance for you to investigate, analyze and decide upon.

Why Your Future Owner is So Important to Your Planning

If your exit is someone else's beginning, then it is only logical to begin to plan for that

future owner's success today so that you can more easily transition the business. For example, if you are going to sell to a competitor, it makes sense to think about customer and / or geographic expansion as well as how your key managers are empowered to run the business without you involved in every step. The beginning for these new owners is the relationships that they will develop with your key people and the growth plans that they have once they acquire your business.

By contrast, if you are planning to sell (and / or gift) the business to a co-owner, your management team or family members, it is critically important that this unique team can carry on the business without you. In the majority of cases of co-owner or management buyouts (at least those funded with future profits of the business) the managers will not have cash at closing to pay you for the business. And if you do not have enough assets outside of the business to support your lifestyle after your exit, it may be necessary to stay with the business longer in a phased-out transition. In this case, your longer-term exit is a different kind of new beginning for your managers – one where they have to work for a period of time to pay you out before they enjoy the benefits of 'ownership'. Without the continued success of the business, your future payments may be in jeopardy. Finally, your exit means a whole new type of relationship with the business for your managers as well as with you – yet another beginning for this group of people.

The 'Courtesy' of Preparing the Company for its Next Owner

If we compare preparing a business for sale with comparing a home to sell, we can see some interesting parallels. If you do not fix up your house for your next owner, it will sell for less than you want or it may not sell at all. Therefore, if you are thinking that

your future owner of your business will bring all of the 'fixes' to your business and that you do not need to prepare your company for sale because it is the buyer's responsibility to repair the business, then you are heading down a very uncertain path. No future owner wants to begin their tenure with a business badly in need of repair (at least not the type of future owner that you want to attract, i.e. one who pays a fair price for the business). Help your future owner begin their stewardship of your business by preparing the company to be owned by someone else.

Concluding Thoughts

Remember that your exit is not all about you. Your future owner will need to generate profits from your business and will need to [eventually] do this without you. The better positioned the company is to achieve this, the better position you will be in. And if you keep in mind that your exit is someone else's beginning, then you will take action to prepare yourself and the business for a transition that meets with success. We hope that this newsletter was successful in the stated goal of having you think about the wants and needs of your company's next owner so that you can be on a path to a more successful exit.

[Cathey Paine is a registered representative of Lincoln Financial Advisors Corp.](#)

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