

*Our mission is to shepherd as many business owners as possible to fulfillment of their goals and their ideal lifestyle.*

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## It's Been One Heck of a Ride Now What

By

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Tom and Jerry started their business 25 years ago and now they want to meet with me to talk about how they will leave it. They have weathered a lot of storms together - employee issues, high interest rates, vendors and customer issues, struggled to make pay roll, and, they celebrated the victories when times were good. Both are age 62, and, like most business owners, they have some ideas about when they want to leave the business and who the next owner(s) might be. The purpose of our first meeting is to become acquainted to see if I can help them.

I discover that their original goals were to create a nice lifestyle for their families and to be their own boss. Their financials indicate that they achieved those goals long ago. Excellent! Now they want help in figuring out how to leave the business so they can enjoy the rest of their lives with their families, and, pursue all the activities they never seem to have time for now. They have some investments outside the business, but are dependent on the net proceeds from the sale to be able to live very comfortably after they exit. I observe that those assets outside the business are not well-diversified and are not as liquid as they need to be. This means that Jerry and Tom are subject to significant risk, and, their assets cannot be converted to cash or repositioned to maximize income quickly. Then there's the issue of the taxes they will pay when they sell and as they reposition their portfolios.

It's easy to see why they are having difficulty working through their dilemma of how to leave the business. Here is a quick overview of what they are wrestling with:

**Conflicting goals:** It appears that they want and need to maximize their net proceeds and have considered selling to their employees. But, their employees are not in a position to pay top dollar because they lack the collateral to secure bank financing. Even if they could, they would not pay top dollar because the employees contend that they should not have to pay for value that they created.

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**Changing circumstances:** Well-meaning friends and industry peers sometimes tend to embellish and share information that is not exactly correct. For instance, their friend, Harry, told them what he received for his business. But, Harry's sale was largely financed with an earn-out over a 5 year period based on the performance of the business. Since revenues reduced significantly after he sold, it is unlikely that he will receive what he thought he would.

**Conflicting agendas:** Tom and Jerry are receiving advice from well-intentioned professional advisors who have their own respective agendas and whose knowledge is limited to their own areas of expertise. Also, their advisors almost never speak with each other to share notes or to collaborate for Jerry's and Tom's benefit.

**Lack of accurate of information:** They do not have all the facts about what it will cost to maintain their lifestyles, gift to the next generation, and gift to their favorite non-profits, including the effects of inflation and taxes.

**What their business is worth:** Their banker offers one opinion, their CPA another, industry peers yet another. And then Tom and Jerry have their own opinion about value which they base on how well the business has provided for them and their families over the years. But, what would a buyer pay and would they need to finance any of the sale?

**What about their kids:** Both Jerry and Tom have kids in the business who have no interest in ownership. How can they be sure the future owners will keep them on, or should they? And what about the kids who are not active in the business, how do Tom and Jerry "even up" their gifts and inheritance? And what about **their** spouses – some work in the business and some don't. Are their marriages stable and what could happen to the business if they aren't. Or what if their kids are involved in a bankruptcy or a lawsuit. How would any of those scenarios affect the business?

**What about their wives:** Their wives want them to slow down or stop working altogether, and, they have **their** own ideas about what to do for the kids.

**Then there are the "what if's":** What if they lose a key employee. What if Jerry, Tom, or a key person becomes disabled or dies. What if a key person wants a piece of the action. What if Jerry or Tom wants to leave before the other is ready to leave. What if they can't sell for enough to do all they want to do after they exit. What if the market tanks again before they are ready to leave?

Is it any wonder Tom and Jerry are confused and not sure where to turn for help in sorting all this out? It's truly a wonder that they sleep at night.

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The “**Now What**” has become a constant source of confusion and lack of direction for Tom and Jerry when it could be a solution that it is called “**Exit Planning**”, even if their hoped-for exit is a few years away. Getting the facts out on the table, getting organized, setting priorities, and taking the steps in an orderly fashion to implement a well-organized Personal and Business Action Plan is what exit planning accomplishes. The good news is that the steps that Jerry and Tom will take as they work with their exit planner through the exit planning process typically will: reduce or remove risk; increase profitability; and increase the business value, even if they ultimately decide to delay their exit, or, to **not** exit at all.

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**Joan M. Ridley** is president of Business Wealth Solutions, a Dallas-based advisory firm that consults with business owners about how to successfully grow and leave their business. Visit our website at [www.businesswealthsolutions.net](http://www.businesswealthsolutions.net). **Call us today at 214.692.9192** for a complimentary meeting to learn how we can help you get where you want to go. Ask for our complimentary brochure.

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