

Family Leaders: Can Your Business Still Sail Without You?

Bradford C. Jeter, CEPA (Exit Architects)

KEYWORDS: family business advice, legacy, Help with a family business, family business succession planning.

Without a map for navigating emergencies and guiding successors after your departure, your business and your legacy could be left adrift.

Imagine you're at the helm of a ship, sailing through calm seas, when suddenly, the storm of life hits. Without a map to navigate these turbulent waters, your business and your legacy could be left adrift. This isn't just the stuff of fiction but the reality for many family business owners who haven't prepared for their exit. This article explores why starting your exit strategy today is not just wise: It's essential.

While businesses are often laser-focused on growth, expansion, and innovation, the owner's departure plans are just as critical. The initial steps in crafting an exit plan are like laying down the keel of a ship; they define the structure that will keep it afloat when the captain steps down.

Such planning is more important today than ever. With the Baby Boomer generation aging, the United States and much of the western world is on the verge of a massive wealth transfer involving closely held businesses. About \$14 trillion worth of small and medium sized business enterprise value is expected to either change hands or partially disappear in the next decade in the United States. The Exit Planning Institute estimates that 73% of privately held U.S. businesses would like to transition over the next decade. And according to a [recent PWC study](https://www.pwc.com/us/en/services/audit-assurance/private-company-services/library/family-business-survey.html) (https://www.pwc.com/us/en/services/audit-assurance/private-company-services/library/family-business-survey.html) , around 70% of family-owned businesses intend for the business to stay in the family.

Many of them will face tough odds, as these sobering statistics suggest:

- Only [20-30% of businesses](https://exit-planning-institute.org/state-of-owner-readiness) (https://exit-planning-institute.org/state-of-owner-readiness) listed for sale will end up selling
- Only [30% of family owned businesses](https://www.score.org/sites/default/files/d7_migration/03/SCORE%20FINAL%2021-0915.pdf) (https://www.score.org/sites/default/files/d7_migration/03/SCORE%20FINAL%2021-0915.pdf) survive into the second generation; only 12% of family owned businesses operate into the third generation; and only 3% operate into the third generation and beyond.
- [1/3rd of businesses](https://cmapspublic.ihmc.us/rid%3D1227459615945_1100677163_14681/Preparing%20for%20Organizational%20Death.pdf) (https://cmapspublic.ihmc.us/rid%3D1227459615945_1100677163_14681/Preparing%20for%20Organizational%20Death.pdf) that shut down are successful at their time of closure.
- Only [roughly 20% of business owners](https://exitplanning.com/exploring-exit-planning-trends-2022-business-owner-survey/) (https://exitplanning.com/exploring-exit-planning-trends-2022-business-owner-survey/) have a written exit or transition plan.

What is Exit Planning?

Put simply, exit planning is the strategic preparation by a business owner to exit their business through a sale, transfer or other means. It can involve selling to a third party, or to the management team or employees. In family businesses this could also involve succession. It encompasses not only raising the enterprise value of the company pre-exit, but also addressing the tax, estate, and wealth concerns of the business owner along with their family.

For family businesses, this process may involve a succession plan, which is a specific type of exit plan. Other family business concerns are typically legacy preservation, wealth preservation, and whether the departing leader will have a role in the company post-exit. If you've ever seen the HBO hit show *Succession*, then you have some idea of the chaos that can surround an unorganized exit plan and the consequences it can have on loved ones. Exit planning is multidisciplinary and will draw in your family, company stakeholders, and

your legal, tax, and financial advisors. It typically requires more time than business owners expect, and rushing the process can lead to poor outcomes.

Deciding to sell your company is not a plan. If the value proposition has not been examined, if financials have not been recast, and if there is no plan to retain key personnel or improve current personnel, then you're swimming upriver. The low success rate for third party sales is not because there are not enough buyers. It is because such a small percentage of closely held businesses are transferable, valuable, exit-ready enterprises. Those that crack the value code, who have their family onboard and have their personal wealth goals aligned with their business legacy goals, end up as the big winners.

Succession plans involving the next generation need just as much care and planning as a sale. Choosing and conditioning the right successor is key, but so is ensuring they will have a solid management team around them. It is common to see closely held businesses sell off a minority stake in their company to an institutional or experienced operator to both secure some personal liquidity for the retiring owner and bring in a growth partner to work alongside the next generation. The choice isn't between liquidity and keeping the business in the family; both can be achieved if desired.

As the above statistics show, a vast majority of owners may have an idea in their heads about an exit, but lack a written plan that they've discussed with their key stakeholders or key advisors. The formula to a successful exit plan does not have to be overly complicated: Study and evaluate all of your potential options, then choose and surround yourself with a capable team to execute it.

But first, you need to have a clear understanding of your business and protect it from risks.

Valuation: The Compass for Your Business Journey

Before setting sail towards the horizon of retirement or transition, you need to know the true worth of your vessel. Business valuation isn't just about numbers; it's about understanding the story your business tells. Are you selling a legacy, a brand, or merely assets?

A thorough valuation process illuminates not only your

business's current standing but also areas ripe for improvement. It's your compass, guiding strategic decisions that can amplify your business's value over time. This isn't about inflating numbers but about ensuring that when you decide to dock, your ship is in premium condition, maximizing your negotiation power and setting realistic expectations for all parties involved. In addition to a financial valuation, your business also needs to be scored for transferability, based on things like human capital, systems, and processes.

Attempting a third-party sale with an unrealistic valuation in mind is a recipe for disaster. You don't want to walk away from a good deal because you are shooting for the moon.

The valuation also gives you an idea of where you need to improve -- such as better human capital, diversifying revenue sources, and reducing owner dependency.

For those more interested in keeping the business within the family, a valuation is still important. If you intend to sell a minority stake to a third party, you'll want to focus on value enhancement in the lead up. It is also not uncommon for heirs to buy out their retiring relatives. In this case the business is not sold at a premium, but in order to have this conversation a valuation needs to be in hand. It also comes in handy when explaining the current state of the business to a potential or selected heir. Showing them the current enterprise value and what it could be worth in the future under their stewardship could be a powerful motivator and bring them into the fold on fixing the areas that could be dragging down the value.

The Missing Link in Your Financial Plan

A valuation also represents a missing link in most business owner's financial plans. Maybe you've been plugging in an unrealistic number or not planning to live off of a liquidity event at all. Either way, a realistic valuation lets you strategize around the potential financial effects of a partial or full sale on your own wealth and your family's generational wealth. Business owners typically have about **80% of their total net worth** (<https://www.kiplinger.com/business/small-business/entrepreneurship/603901/warning-your-business-is-not-a-retirement-fund>) locked up in their enterprises. Keeping an eye on the valuation and improving it will have an outsized effect for generations to come.

Preparing for the Unforeseen

What if you're suddenly unable to steer the ship? The risk review is your lifeboat, a critical part of your exit strategy. It involves peering into the fog of potential crises—be it your health, the health of key partners, or external market storms.

This review isn't about fearing the storm but preparing for it. It means having life insurance or disability policies in place, ensuring there's a financial safety net if you're knocked out of the captain's chair through a key person policy. It's about financial and legal frameworks like buy-sell agreements that keep the ship moving forward, even if you're not at the helm. It's training your crew, your employees, to navigate without you. Before looking ahead to growth and a potential transfer, it's important to first identify the value of your business and subsequently move to protect it. Identify and protect first.

Death, disability, disagreement, and even divorce could put your dream exit at risk. Take steps early to prevent this.

Charting the Course: Implementation and Action

Starting this journey requires more than mere intention; it demands action. Early in your business voyage, engage professionals—ideally a Certified Exit Planning Advisor (CEPA), financial advisor, accountant, and lawyer. They're your navigators, helping you chart a course through the complexities of business valuation and risk management. Importantly, this cabinet of advisors needs to be working as a team in lockstep, not competing against each other.

Bringing in a dedicated exit planning consultant gives you a person to quarterback the process: a point-person to direct the other subject matter experts. Early in the process the exit planner will work with the financial advisor to understand the financial needs for the owner and their estate. Income replacement needs may be a factor dictating the acceptability of liquidity event options. The exit planner will also work with tax advisors who can run through the tax consequences of different exit types; an accountant or bookkeeper who understands the business's financials; and an attorney who can strategize around the business's entity type and focus on protecting assets and estate planning.

With the myriad of variables involved in an exit, getting these advisors on the same page as early as possible

shifts the odds into the favor of the owner. While you're running your business, your exit planner can serve as your advocate and as an extension of you to smooth the process and save you time.

Deciding on whether to pursue an internal, external, or hybrid exit requires background info and a team. Once this decision is made, it's time to move closer to triggering your exit.

Your Blueprint

Understanding your businesses enterprise value and bringing your team onboard is crucial, but at the end of the day this process hinges on your values and goals. The purpose of your team is to inform you properly as you design your ideal exit. This isn't only about the sale price or timing. It's also about your legacy.

Starting the process early gives you ample time to explore the importance of legacy, preserving your family's role in the business, and, if considering a sale, the type of buyers who share your values. Getting the ball rolling on your exit plan gives you time to talk things through with your family and get your advisors organized around your goals. After gathering information and considering your goals, putting together a written plan is the first big step towards your exit -- whether it's two, 10, or 20 years in the future or thrust upon you unexpectedly. In either case you will have a plan.

The Time is Now

In the end, the story of your business doesn't end with your exit. It's about ensuring that whether you're planning for retirement or preparing for the unexpected, your business continues its journey. By laying the groundwork early, you're not just planning an exit; you're securing a legacy. So, as you ponder your family business' future, remember: the time to start your exit plan is while the seas are still calm.