Enterprising Rural Families™

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EXITING YOUR FAMILY BUSINESS

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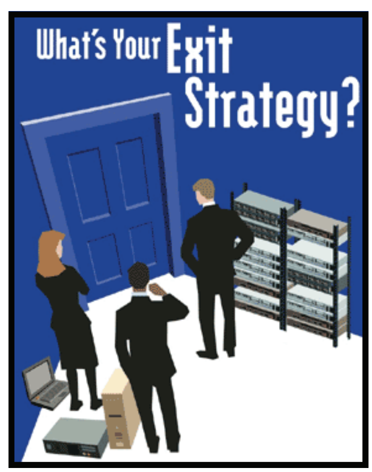
There are many reasons why people leave their businesses. Some are forced out due to loss of managerial control, strong competition, bankruptcy, or poor health. Others decide to leave because they have plans such as moving to a new area, starting a different business, going to work for another organization, or selling out and using the proceeds for retirement. Many owners of family businesses decide to leave the business to a family member in the next generation.

However, the vast majority of businesses get started, whether family managed or not, with little or no thought of what the principles will do if and when the business needs to be exited. Most of us hope the business, especially in a family situation, will outlast us and we can pass it on to willing and capable hands. However, even in the best of cases, many questions must be answered, either by pre-determination or by default: Who will take over and how is that determined? Will the transition be gradual or abrupt? Will the new manager need to buy out your share? How will retirement income be managed? Will there be the human resource (children, grandchildren, employees) to take up the extra workload?

Business experts recommend that preparation for exit be started when the business is started. This is important for several reasons including timing, raising capital, planning for the future, and watching for obstacles that might deter your exit plans before they occur.

Heather Douglas, in *Exiting your home business*, gives us these questions to consider:



- Will you work until you drop?
- Will you simply pack your home office into boxes and stack them in the garage when you're through?
- Will you build up the value of your business and sell it as a going concern?
- Will you build up the value of your business and bring in investors to own part – and perhaps eventually all – of it?
- Will you build up the value of your business, have someone manage it, and live off the income without putting in the time personally?
- Will you sell the business to a partner, co-owner, or employee?
- Will you sell the blueprint for your business many times over as a franchise?
- Will one or more of your children succeed you?

This newsletter is an instrument of the *Enterprising Rural Families: Making It Work* program of the University of Wyoming Cooperative Extension Service. For further information concerning the Enterprising Rural Families program or on-line course contact *information@eRuralFamilies.org* or go to *http://eRuralFamilies.org/*.

TIP OF THE MONTH:

BEING AN ENTREPRENEUR

Starting your own business takes several proven characteristics:

- **Self confidence—**critical for facing risks and dry spells.
- **Integrity**—people do business with those they trust.
- **High energy level**—are you physically and mentally ready for the long hours and high energy levels required?
- **Experience**—start where you have interest, knowledge and experience.
- **Support**—is your family ready to give up vacations, savings, and risk the home?
- **Passion**—will carry you through the burnout. Work should be your play.
- **Adequate resources**—can you survive three years without a profit?
- **Organizational skills**—you may need to juggle CEO to janitor duties, as well be able to delegate to others.
- **Competitive nature**—you will need to continue when the competition is tough.
- **Risk taker**—if you hate risk don't even start.
- **Flexibility**—you must able to adapt to constant change.

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Alternatives for exiting your business

Passing the business on to family members. It is not unusual that a family business is the key component of family wealth. An orderly succession of this valuable asset to family members can be the ultimate management challenge, according to the U.S. Chamber of Commerce. The Chamber emphasizes that the succession of ownership and management be perceived as a process rather than an event.

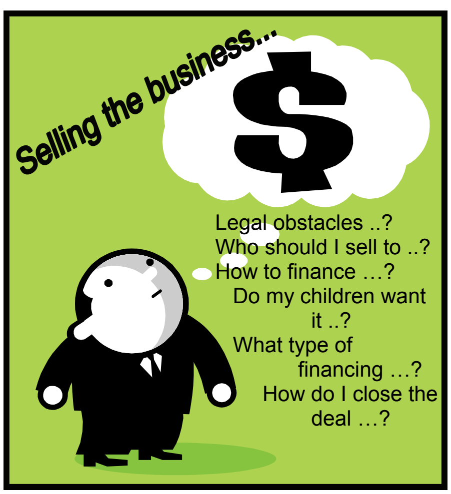
A successful succession is rare; barely 30 percent of family businesses survive into the second generation, and fewer than 15% continue to exist into the third generation. The process requires planning, teamwork, and constant re-evaluation. The transition must preserve the continuity of leadership. The owner must deal with business, family, tax, and estate issues when planning for the succession of management and ownership.

There are two elements in a typical succession plan. Each of these should be considered separately:

- the transfer of power - control of the business's operation is transferred to those best suited to run the business, and
- the transfer of assets - the wealth in the business is transferred to designated family members, who may be a different or larger group that the person(s) who will be assuming the power.

Selling the business. The U.S. Chamber of Commerce Small Business Center offers the following major issues for consideration:

- Initial issues in selling out: how should you time your decision and choose experts to help, what legal/ethical obstacles do you need to avoid?
- Valuations of a small business: how does the market put a price on a small business, what do you need to do to maximize your own business's value?
- Finding a buyer: what do you need to know about working with a business broker, creating a selling memorandum, and other marketing concerns?
- Structuring the deal: what are your options as to terms, paying particular attention to the tax implication of various alternatives?
- Financing the deal: what should you know about seller financing, and third-party financing through leveraged buyouts?
- Completing the deal: from the Letter of Intent through due diligence to the closing, what are the typical steps you can expect to go through in the sales process?



Selling to a financial buyer. The buyer may not have a particular interest in the specific business but has money and management skills and is interested in acquiring a profitable business.

Selling to one's heirs or employees. Since the buyers are closely associated with the business, they should have a good understanding of the real value of the business but may not have the money to purchase it. The seller would benefit by adequately training the future owner so that he or she protects the owner's investment. A long-term payout from the business profits may cover many years.

Selling to a supplier, customer, or competitor. The buyer may have some knowledge of the value of the business and will benefit by acquiring the business, either to reduce competition, control distribution, or increase vertical growth.

Going public. The owner of a financially sound, growth-oriented business has the option of remaining in the business for a while after selling his or her stock to the public. Technically, this is not an exit strategy because the owner must remain involved in the business for a period of time. However, many owners use this strategy because, eventually, the owner can sell his or her stock and cash out.

Liquidating the business and selling the assets. Liquidation is a process by which the business is terminated, the assets of the business are recognized, the resulting proceeds are applied to settling all outstanding debts and liabilities, and the balance is distributed among the business owner(s) and members according to their rights and interests.

> ***Enforced liquidation.*** A business owner has little or no control with this type of business exit, other than trying to salvage as much as possible from the remains. Enforced liquidation occurs because of bankruptcy or a loan default.

Declaring bankruptcy. Although you do not plan to become insolvent when you leave your business, if other exit strategies fail and you have extensive debts, this may be the only option available. Study the process carefully. Work with a competent attorney specializing in bankruptcy law. If you have a farm or ranch, work with a competent attorney who not only specializes in bankruptcy law but also in working with farm bankruptcies.

Managing for life. This strategy frequently is chosen by business owners. You keep your business until you die. Business experts warn against the "manage-until-you-drop-dead" strategy. If you plan to manage your business until you die, be sure to have enough business insurance to sustain the business until a new owner can be found.

Exiting a family business takes time to plan well ahead for a satisfying life when you leave your business. It requires critical thought, knowledgeable professionals, and a willingness to learn complicated processes. It is essential that you involve your family in your goals and in the process, because the transition affects their lifestyle as well. The process includes setting goals for your life after the exit and requires bringing closure to your goals.

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Regardless of whether your exit occurs according to a planned schedule or you are forced to make a move unexpectedly, the decisions you make when setting up your business can affect how easy it is for you to eventually exit your business. Don't run! Make it a slow methodical walk to an effective end.