

## Growth Plan and Business Exit Strategy

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Our family owned business is being transferred to the second generation. As we switch, we're thinking about, and working on both a growth plan and a business exit strategy. What are the things you suggest we watch out for, plan for, and work on to insure a successful business transition?

The challenge of transition is one we'll be talking about a lot over the next 10 years. Privately held businesses exploded as a work and wealth-building strategy for the baby boom generation. Computers, early retirement from corporate jobs and an independent mind-set led many of the boom generation to pursue their own dreams at work. The result is that today 62% of our workforce is employed by privately held companies. The owners of those companies, in large numbers, are approaching, or have just entered into retirement. And with retirement comes the decision whether or not to turn the business over to the kids, and how far to trust the kids with the family jewels, otherwise known as the family business.

This family group is smart to ask what's next. The transition has only just begun and the two generations have lots to consider as they go down the road together for the next several years. Although it is the goal of one generation to exit, and the other to take over, the success of

this transition hinges on how well they share a common goal – the overall success of the business. They would do well to keep in mind that while family owned businesses make up 80% - 90% of companies in the U.S., only 1/3 make it to the second generation.

If your business is preparing for a transition, here are some things you want to consider. Debt load – get rid of it. Assets – build a war chest. Growth – go for it. Retirement – embrace it and get out of the way. Leadership – let the next generation define it. Advisors – transition to a new generation. Goals – use them to keep both generations on the same page as the playing field shifts.

Why does the business need to build assets, get rid of debt, and grow, prior to a transition? There are several reasons. First, with the next generation coming on board there will be more mouths to feed at the top. The retiring generation will want to be paid out. The incoming generation will need to earn a living. Growth and profits fuel the transition.

The new management team will make mistakes. Everyone does. Give them room to maneuver, in the form of assets to work with and no debt to service. This will make it easier for them to recover as they learn.

Parts of the business inevitably need to be upgraded. From

changing over to internet promotion and sales, to developing new products and new markets, change is coming for the whole company. Limited debt load plus a war chest will fund the transition.

Next considerations are retirement, leadership, advisors and goals. Both generations are going to have to change their roles. They can come together by focusing on general principles such as profit, growth, and long term asset building. Use 1, 3 and 5 year goals to stay on the same page. Define transition rules by putting a sale and retirement agreement in writing.

Help the kids build their own advisory team, to cope with the challenges of the 21<sup>st</sup> century. Back the kids as they test leadership skills that will allow the older generation to retire successfully. Meet regularly at the board level, to review overall progress and discuss next steps. Treat the transition formally.

Here are some things for this family to think about as they go forward. Get the next generation trained to take over and then demand the older generation back away. A strong growth plan, assets to build on, and a forward looking advice team are in place. Changing the guard means letting the next generation step up to the plate. It's time for the kids to learn from their mistakes. And with the



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right resources in place, the company might just survive.

I happen to know this firm has done a good job of preparing for a family business transition. The company can support both generations. They sent the children out to get work experience, and then taught them the business from the ground up. The older generation has given the next generation options – from entering the business to taking a share of the profits and moving on to do something else. The kids are here because they want to be here. Now it's time to put the deal in writing and get on with it.

Looking for a good book? Try Buy-Sell Agreement Handbook: Plan Ahead For Changes In Ownership of Your Business, by Anthony Mancuso and Bethany K. Laurence.

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