



Strategies for Success!

Study Shows Why Many Business Owners Can't Sell When They Want To

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To hear business owners tell it, a top goal of selling or transferring their business is to get the full value for it so they can fund retirement. Most also understand that a transition strategy is important for them and their business.

In reality, however, many owners probably won't be able to sell their businesses when they're ready, because they're not taking critical steps toward a transition or toward getting the full value of the enterprise, according to Christopher Snider, president and CEO of the [Exit Planning Institute \(EPI\)](#).

Snider, whose firm certifies exit planners and provides them with professional development and networking, said recent [surveys of business owners](#) by EPI show that many owners have little to no exit planning in place, even though many of them have 80 to 90 percent of their financial assets based in the business itself.

"Owners are woefully unprepared for this event that -- for probably two-thirds of the business owners -- is likely to occur within the next 10 to 15 years," Snider said in a recent interview. (Snider has helped lead webinars hosted by Sageworks in recent years.)

EPI estimates that some 4.5 million firms representing more than \$10 trillion in business value will transition over the next decade or so, but Snider believes only about 20 percent to 30 percent of businesses that go to market end up selling. This estimate is consistent with [BizBuySell](#)'s most recent national report, which indicated about one of every five listings on the online marketplace for small business sales and purchases had closed a sales transaction in 2016.

Snider said it has been a seller's market for businesses in the last year or more, but he attributed that trend to unattractive supply rather than to strong demand. "Multiples are historically high, but I think that's more because the private equity companies and the strategic buyers don't have a lot of businesses to pick from," he said. "There's not enough good quality businesses out there [for sale] for them to buy."

Indeed, forecasters had expected an enormous transfer of businesses to start happening a decade ago, but baby boomers, who now range in age from 53 to 71, have been holding onto their businesses longer than the previous generation, Snider said. "Baby boomers don't really want to leave their businesses, and they're not going to move the business until they really have to, which is probably when they are in their early 70s."



Unfortunately, many owners also appear to be waiting until late in the game to begin planning for the eventual sale or liquidation of the business. EPI's recent survey of San Diego area business owners' sheds light on the hurdles owners may face selling their businesses when they want, or at the price they want. The survey's results closely resembled those of an earlier [nationwide survey](#) of business owners by EPI, which will release additional regional surveys this year.

Here are at least eight statistics from the survey of more than 200 San Diego business owners that point to some of the challenges:

- **Minimal mindshare:** 53 percent said they had given little to no attention to their transition plan at this point, even though three-quarters of respondents were age 51 or older.
- **No transition plan:** 88 percent had no written plan to transition from the current owner (this includes 66 percent who had no plan at all). This figure is consistent with other recent surveys, including [PwC's recent survey](#) of family-owned firms.
- **Going it alone:** 80 percent had never sought advice about a transition.
- **Lackadaisical about future financial needs:** 70 percent don't know what after-tax income they need to support their lifestyle.
- **Estate exclusions:** Only 58 percent of those surveyed have an estate plan. And among those with estate plans:
 - 69 percent said their estate plan doesn't include an updated business value, and
 - 65 percent said the estate plan doesn't provide for the sale of the business.
- **Unknown value:** Two-thirds agreed that "Getting full value for my business to fund retirement or other business interests" was their top goal in the transition of the business, yet less than 40 percent had a formal valuation conducted in the last three years, and 65 percent have never had their financial statements audited.
- **Partnership planning:** Less than 48 percent of businesses with multiple partners have a buy-sell agreement in place.
- **Management questions:** One-third of surveyed owners had not even thought about management succession, and only 25 percent were comfortable that their managerial team would be successful if the owner wasn't involved after the transition.

Snider said the survey shows many owners aren't positioned well because they're not [maximizing the transferable value](#) of the business and/or they're not positioning it to transfer successfully so that they can "harvest wealth locked in the business."



For example, he said, “If 80 to 90 percent of owner wealth is in the business, how can these estate plans be effective if two-thirds of them don’t incorporate a recent business valuation or plans for the transition of the business?”

Brian Hamilton, chairman and co-founder of [Sageworks](#), noted that many business owners don’t have a good idea of the value of their business. He pointed to business owners on the television show “Shark Tank,” who often estimate the business’s value way above the estimates of the “sharks.” “Sometimes this is because a business owner is valuing the business based on revenue projections or prospects for orders, while the sharks usually base their value estimate on the cold hard cash the business is already generating,” Hamilton said.

Snider suggests owners seek help from accountants and other advisors to get an accurate picture of the business value – a picture that tax returns cannot provide. He also said owners need to stop viewing the business transition plan as important but not urgent. Instead, they should get educated about the process and make time for planning. “You can’t start working on the asset until you know what it’s worth,” he said.

Sageworks, a financial information company, collects and analyzes data on the performance of privately held companies and provides accounting, [financial analysis](#) and risk management solutions.

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