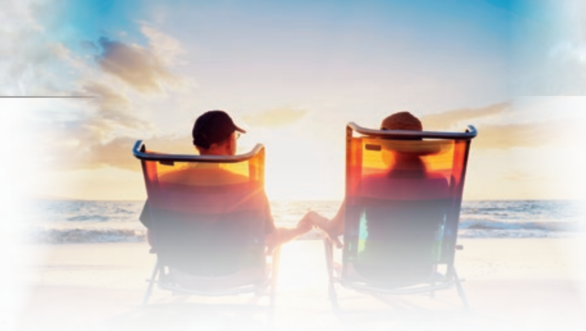
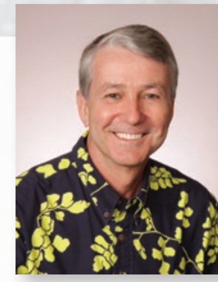
All Pilots Gotta Land





BY GARRETT J. SULLIVAN

Bill started his construction company 25 years ago as a specialty-type contractor. He took in Fred 10 years later as a 10 percent minority owner. The company has continued to grow and prosper each year. Now at age 58, Bill wants to retire and enjoy the leisurely life. He wants to sell the company to Fred if he can be guaranteed a good retirement income.

Bill feels he will need $900,000, but Fred, 43, doesn't have anywhere near that amount. Consequently, Bill believes he must sell the company to an outside buyer. The only problem is that there doesn't seem to be anyone interested.

This all-too-often scenario is especially frequent in the construction industry. Why? Owners spend an extraordinary amount of time growing a profitable business. They enjoy the income, identity, challenge and satisfaction, but forget to plan for a continued income stream after retirement.

One of the main perks of owning a business is the ability to leave it when you want, and under the most favorable conditions. If you own your own business, one day you will leave. Why not think now about a detailed flight plan for your eventual departure? Even if you're in your 30s, 40s or 50s, it's never too early to start your plan. Begin with these questions:

- When will you depart?
- How much will you need in retirement?
- To whom do you want to leave the business?
- What are your retained earnings each year?
- Did you know you can increase the value of your business through your employees?
- Do you know how to maximize cash, minimize tax liabilities and reduce risk with the sale?
- Do you know how to transfer your business over time to a third party or your family, co-owners or employees?
- Have you created a succession plan for the business and for your family's financial security if you're not here tomorrow?

If you can't answer yes to each question, you're in a similar situation as Bill. These questions must be answered early on in your business. It will be very difficult to pass the torch to anyone until you fully evaluate the advantages and disadvantages of each possible type of exit plan. Below are four basic business transfer scenarios to help you prepare for an eventual smooth landing.

Transfer to Your Children

Most business owners strive for this, but it rarely works out. In fact, studies indicate that less than one in three generational business transfers will be successful. Be ready for that likelihood.

ADVANTAGES

- It can fulfill the goal of family unity.
- It can allow you to stay active in the business with your children.
- It can permit you to better control your departure date.

DISADVANTAGES

- It has the potential for an increase in family friction.
- Due to family dynamics, your control may be diminished.
- There is the potential for failure, in which your financial future could be jeopardized.

Sale to Co-Owners or Employees

This can be an ideal situation. You can train your successors, know their strengths and weaknesses and preserve the business culture after you are gone.

ADVANTAGES

- Owners can structure the deal several years ahead of time.
- Buyers have a business purpose and know their future.
- You can maintain a greater measure of control during the buyout.

DISADVANTAGES

- Employees often don't have the necessary entrepreneurial mindset.
- There can be a greater risk to you as the owner if you haven't prefunded the buyout at the time of departure.
- If the business is worth more than about $2 million, it may be too expensive for your employees.

Sell to a Third Party

If properly planned, this can be the best option. The problem occurs when owners such as Bill do not plan far enough in advance. That can cause them to sell their business at a bargain to avoid liquidation.

ADVANTAGES

- There's a higher probability of a larger cash payout at closing.
- With cash, you can later gift your children in a more equal manner instead of giving them stock in your business.
- It allows the potential of "hitting the jackpot" if your business is in a much-needed area of contracting at the time of the sale.

DISADVANTAGES

- The business culture will change.
- If you don't receive all your cash up front, circumstances beyond your control may change your payout.

Liquidation

This is usually the worst of all options and, sadly, the most common. The seller generally collects pennies on the dollar on the sale.

Planning for your departure is a function that only you can perform. There's no better time than now to think like a pilot, work your flight plan and position your jet to take off from a long, smooth and well-paved runway to retirement. *BI*

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