CONSIDERING RETIREMENT? DON'T JUST SHUT DOWN YOUR BUSINESS, SELL IT!

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It's a well-known fact that most business owners pour their heart and soul into their business ventures. When the time comes to retire, closing down the business may seem like the easiest way out. However, shuttering your business might not be the most profitable decision that you can make. Selling your business is a probably better option. Here's how to prepare for a successful business sale when you feel it's time to move on.

Should You Close Your Business?

Before delving into the details of selling a business, there's a fundamental question: should you close your business? The answer is a resounding, no! Closing your business means walking away from the potential value of your business, consisting of current and fixed assets and goodwill. Even if your business is not thriving, it still has value in the market.

Contrary to popular belief, unprofitable (based on the income tax with a high depreciation) businesses can still be attractive to buyers. Client lists, proprietary processes, and even inventory all represent "good will" and can have significant value to a competitor or a turnaround specialist. Therefore, when you're ready to retire or move on to the next challenge, selling your business should be your first consideration.

The Unforeseen Value in Your Business

Many business owners, especially those in the middle market neglect planning for their exit strategy. This lack of foresight can lead to hasty decisions, like closing the business, in times of crisis or retirement.

Take, for example, the story of a small service company owner who sadly fell ill suddenly. With no succession plan in place, his family considered shutting down the business because no one felt they knew how to run it or wanted to.

However, a consultation with a business broker revealed that the business had value, even in its current state. The broker managed to find a buyer (a competitor), and the family was able to sell the business rather than close it down.

This anecdote emphasizes the importance of planning for business continuity. You never know when you might need to retire or sell your business. Therefore, having an exit strategy is crucial to ensure you can realize the full value of your venture.

Different Types of Business Liquidation

There are two basic types of business liquidation:

1. **Ordinary Liquidation**: This process involves shutting down the business and selling off its assets in an orderly manner.
2. **Forced Liquidation**: In this scenario, the business rapidly sells off all assets to anyone willing to purchase them immediately. This type of liquidation often results in a lower return of what it could be.

While both forms of liquidation can provide some return, they are unlikely to yield the full value of the business. For instance, in a forced liquidation, you may only receive about half of your accounts receivable and 30% of the value of other assets. Therefore, it's more beneficial to consider selling your business instead of liquidating it.

Alternatives to Business Liquidation

If liquidation is not the optimal choice, what are the alternatives? Here are five better options to consider:

1. **Sell to an Outside Buyer**: This approach might give you the highest immediate return. However, you will be sharing your trade secrets with potential competitors.
2. **Sell to Management**: Selling to your management team ensures you know who will take over your business. However, this might result in an installment sale so you won't get your price all at once, and your team might not possess the entrepreneurial skills to run the business successfully.
3. **Sell to a Private Equity Group**: This option can bring significant capital to you and allow you to stay involved in the business. However, you will not have control over decision-making as the private equity group will be in charge.
4. **Form an Employee Stock Ownership Plan (ESOP)**: If your business is incorporated, this approach can offer tax advantages but also adds an extra layer of complexity and expenses.
5. **Gift Your Firm**: If you want to maintain a family legacy, gifting your firm to a family member could be an option. However, as a gift, you might not receive the full market value.

The Importance of Your Business's Value

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Why is the value of your business such a crucial factor? Experts suggest that more than 40% of a business owner's net worth can be tied up in their business. If you're planning on using the proceeds from the sale of your business to fund your retirement, receiving less than 100% of its value could create financial problems.

Is Your Business Heading Towards Liquidation?

You can gauge whether your business is likely to end up in a liquidation process by answering questions related to the business's value in case of your death or disability. For instance, would your spouse or children be able to run the business? Would sales likely suffer? Would key employees or clients consider leaving? If you answer "yes" to four or more such questions, your business might be at a higher risk of forced liquidation.

Preparing Your Business for Sale

If you decide to sell your business, how do you prepare for it? Here are some steps to ensure a successful sale:

1. **Clean Up the Books**: Ensure that all your financial records and important documents are organized and available electronically. You should also separate owner-specific business expenses to provide potential buyers with an accurate picture of your company's finances.
2. **Have Your Finances Audited**: An audit by an independent accounting firm can give buyers more confidence in your company's financial performance.
3. **Pricing and Taxes**: Buyers generally base their offers on a multiple of your company's earnings before interest, taxes, depreciation, and amortization (EBITDA). Strong fundamentals like loyal customers and better margins can fetch higher multiples. Also, consider the tax implications of the sale. Proceeds taxed as long-term capital gains (with a top rate of 20%) are more favorable than those taxed as income (potentially as high as 37%).
4. **Consider the Buyer's Intentions**: The potential buyer's plans for your company may influence your decision. If you wish for your business to continue after your retirement, choose a buyer who is interested in growing your company rather than acquiring it for market share.
5. **Plan for Life After the Sale**: Moving on from a business you've built can be challenging. To make the transition smoother, think about what you want to actually do next and make a plan. You might choose to continue working for the company as a consultant, start another business, or dedicate your time to volunteer work.

To sum up, it's vital to consider selling your business instead of closing it when you're ready to retire. With proper planning and preparation, you can ensure a successful sale and a comfortable retirement.

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