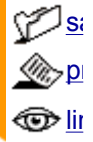




Financial Planning



Helping Your Clients Sell the Business

By David M. Kauupi
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For clients who are business owners, the sale of their enterprise is the single most p event in their lives. By providing the necessary planning discipline, you can help yo dramatically improve the financial outcome of the sale. Here's what you need to con:

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If this recent market meltdown has taught us anything, it is to make sure you are diversified over several investment and asset classes. Would you recommend that clients put 80% or more of their assets into a single investment? Of course not. Yet half or more of your clients actually may carry that level of concentration.

Small-business owners are the single largest affinity group for the financial advisory profession, often making up more than 50% of an advisor's client and prospect base. And your small-business-owner clients likely have 80% or more of their family's net worth tied up in their businesses. On top of that, privately held businesses are illiquid assets often requiring one to two years to sell.

So for baby-boomer, business-owner clients, it is time to have some tough discussions about their plans for business exit or business sale. Depending on how much life pla already do, this may represent a big shift for your practice. You may have been running a financial advisory practice focused on providing financial produ advisor on family wealth maximization solutions. It's a shift that will benefit clients but your own bottom line as well.

Below are two charts comparing the typical portfolio of a business owner another high-net-worth individual.

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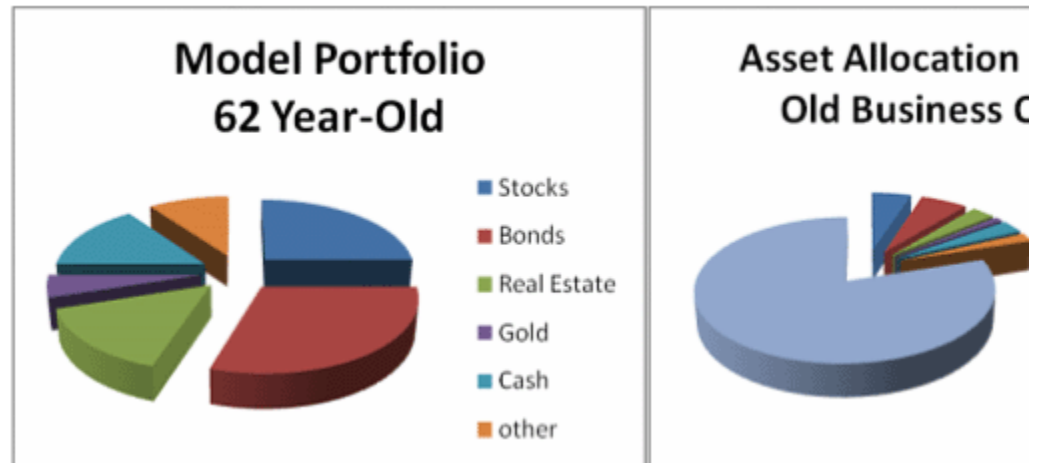
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Business owners are typically not proactive when it comes to exit planning succession planning, because it forces them to embrace their own mortality. If a business owner has a sudden debilitating health issue or unexpectedly dies, instead of receiving full value for the company, his estate often ends up selling it out of bankruptcy years later for 10 cents on the dollar. This is a punishing financial consequence of appropriate planning.

Ask business-owner clients these questions

In your role of providing a holistic approach to maximizing your clients' wealth, you must initiate the discussion about protecting the value of a business through succession planning. You can open the conversation with these questions:

- What are your plans for your business when you retire?
- Do you have children that you want to take over the business?
- Have you determined how you are going to transfer the ownership?
- Do you know how much your company is worth?
- What percent of your family's net worth is in your business?
- In your business life, what keeps you up at night?
- If you were hit by a bus tomorrow—God forbid—what would happen to your business?

Are your heirs interested?

If your client assumes the children will take over the business, he or she may not ask this question. In your role as trusted advisor, you simply must ask these questions and guide your client in exploring options and planning for his or her exit. Before your client just assumes that the torch will be carried by the next generation, find out whether the next generation even wants to run the business.

Are your heirs capable?

Has your client held on to the reins so tightly that the kids involved in the company have not been able to [develop their decision-making](#) or leadership skills? Do the kids respect the company because of their personal strength and skills, or are they granted [granted respect](#) because they are the boss's kids? If the latter is the case, it is not good for their taking over when Dad or Mom retires.

The spectacular fall of Comdisco Inc. illustrates the vital need for success and an actively engaged board of directors. The demise of this unglamorous franchise, which got its start in computer leasing, wasn't inevitable; Comdisco was a flash in the pan, new-economy phenomenon. Rather, as reporter Sandra Serrano explained in "The Crash of Comdisco" (*Crain's Chicago Business*, Nov. 5, 2001), Nicholas K. Pontikes—son of founder Kenneth Pontikes—moved too quickly to diversify the company into new business lines.

The firm needed to diversify, but Mr. Pontikes invested too much too quickly in a number of untried business ventures. The crash was rapid and dramatic and resulted in a proud \$3 billion market cap company being dismantled and sold for pennies on the dollar in bankruptcy.

Succession or sale?

The business owner must make some difficult decisions when he or she decides it's time to retire. Why did your client create this business? Was it to keep this business in the family for generations, or was it to provide for the family for generations? If the children have neither the desire nor the capability to run the business, and if the company is large enough, it's time to think about other options.

In that case, getting outside board members actively involved is step one. Step two would be to hire professional management to run the business. A second alternative is to sell the company while your client is still running it and it can command its highest price. If the client has children that want to remain in the business for the immediate future, they can be incorporated in the sale agreement through employment contract.

Here's another way to ask your client to think about the value of the business: If your client is running the business, the best return on investment is to keep his or her net worth invested in this company. But if your client is no longer running the company, what is the best risk/reward profile for the family's net worth? Would it be better off if the business was sold and the value converted to financial assets? That's something to consider.

Take the quarterback position



There are many complex issues involved in a business transition or a business sale. Poor decisions at this critical time can result in swings of hundreds of thousands or even millions of dollars. The best thing you can do to prevent this is to be involved in front of the process with your client. This decision and how it is executed is the single most powerful event in your client's financial future. You can take a quarterback position in assembling a multidisciplinary team to supervise the transition. The team can include:

- **You, the financial advisor:** Coordinate all the pieces for a holistic wealth maximization plan
- **Attorney:** Create the necessary documents, wills, trusts, family LLC structure, etc.
- **Estate planner:** Work with you and the attorney to create the properly documented estate road map
- **CPA/tax advisor:** Review corporate structure, analyze after-tax profit, comparison of various transaction structures, create tax-deferral and tax avoidance strategies
- **Investment banker/merger-and-acquisition advisor:** Analyze the market, develop value-creation strategies, position the company for sale, or a soft auction of multiple buyers to maximize selling price and terms

Inserting yourself into a more holistic role is not only the right thing to do to help to your clients, but it is smart business for you. Remember how you are living. It normally [involves a fee](#) as a percentage of assets under management. Assets do not include the lion's share of your business-owner client's net worth business.

If the client's investment assets are \$2 million before the business sale, they increase to \$10 million or more after the sale. You have no guarantees that you will turn over those assets to you to manage. But by providing the plan, your Rolodex of professional advisors, and your quarterbacking efforts, your client dramatically improve his or her financial outcome and increase your income managing the newly monetized wealth.

As your business-owner clients approach retirement, you need to help them with investment decisions that employ sound diversification and liquidity strategies. Their business is generally the largest, most illiquid, and most risky investment in their wealth portfolio. Their successful business exit should be executed with the same diligence, knowledge, experience, and skill that you regularly apply to the same class decisions.

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