

THE OWNER-OPERATOR DILEMMA – HOW TO GET OUT OF YOUR BUSINESS

You'd like to retire from your business. You've reached the point where you value more time than the extra dollars the business will bring.

You've worked hard to build a strong business, driving it from the front. As the business has grown, although you've expanded and strengthened the team, you still do many critical tasks yourself and your longstanding customers still ask for you. The business is an active asset and needs constant attention. It represents a major investment and you can't leave it entirely to others to run.

The business is now a medium enterprise, with 20 or more team members, and could be valued in the millions, taking into account inventory, debtors, equipment and goodwill, assuming the profit justifies it.

You want to sell the business and, although your team members could run it with some guidance, they may not have the financial resources to buy it.

You want to step out of the business, sell out and hand over to a new owner. This need should be dissected into two parts: (1) Step out of the business; (2) Sell out; They are two different requirements.

If you are still active in the business, you need to be replaced. The new owners not only have to replace your investment, they also need to replace you as a worker. In many cases the investor who can afford your business does not want the job you plan to vacate.

If you hand over the job to employees, you must be very confident with their skills and commitment; otherwise any reduction in profit can reduce the value of your business by a multiple of 3 or 4 times that reduction!

An owner-operator is really packaging up a business and a job into one, and the buyer has to accept responsibility for both roles. This narrows the field significantly. Especially when the business is worth millions, as the buyer with these resources certainly does not want to buy your job!

Q. How do you make the business attractive to purchasers without slashing the price?

A. By making the business less dependent on you.

Q. How can you make the business less dependent on you, while keeping profits up?

A. Firstly, you can replace yourself with others of equivalent cost without reducing the normalised profits and therefore value. But if performance slips, the business value is eroded.

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Here are some suggestions:

- The overall suggestion is that you plan well ahead, so any changes are bedded down and the business is stable.
- You may need to increase the size of your business to be able to support a higher calibre management team. It's generally safer to organically grow your team rather than bring in outsiders. However, this takes time.
- Replace yourself with equivalent people (one or more may be needed). Bring in understudies, train and delegate progressively until the business retains the capacity to do everything as before.

- Let go progressively – one day at a time (literally). Initially, for one day per week do no direct work; instead, just train others to do what you would have been doing. Progressively increase the number of ‘training days’ until you are doing no direct work and no further training is needed! Then it should be safe to progressively withdraw from turning up day-to-day.
- Strengthen your business systems, replacing your day-to-day decisions with how-to instructions; then support with training.
- Install KPI’s & other reporting processes to enable you (& later others) to monitor business performance without doing it hands-on style.
- Employ a business adviser or business coach; preferably one with a track record and who has been referred or recommended to you. He/she should provide a disciplined approach to your process, assist with identifying and strengthening systems and recruitment and training.
- Incentivise your team members so they are as motivated as you are and have the same commitment you have. This can be through a combination of short term and long term incentives.

Once you have made yourself redundant to the business operations (part 1), you now have a choice whether you sell or keep the business.

Ironically, when you reach the point where the business will be attractive to others, by being less dependent on you, you may no longer need to sell it!

When you get into a position where others can buy your business, if the only reason you were selling was to spend less time at work, then there is less need to sell. However, if you wanted to cash out as well, then you will proceed with the sale process. This allows you to convert your wealth to a form more suitable for retirement, ie a passive investment rather than an active one.