What Business Owners Assume About Financial Planning Hurts Them

One of the most important goals of Exit Planning is to position business owners for post-exit financial security. To do that, business owners and their advisors must have several pieces of information: how much the business is currently worth, how much money the owner will need to live the post-exit lifestyle they choose, and which non-business assets the owner has.

In our experience, business owners tend to overestimate how much their businesses are worth, overestimate how much their investment portfolios will grow, and underestimate the amount of money they need after they exit. Unless a financial planning expert tells them otherwise, many business owners often try to exit their businesses using faulty information. Consider the example of Lynn Setum, a business owner who nearly courted disaster by making incorrect assumptions about her financial planning.

Lynn Setum was approaching her 65th birthday, and she wanted to exit her business by the time she was 70. She had spent over 30 years creating comfortable outerwear for people with mobility issues, both a passion and a business, growing the company to a 65-person powerhouse in 7 different locations. She had spoken to two of her business-owning friends who had similarly sized businesses in distribution and manufacturing. They had managed to sell their businesses to outsiders for $8 million and $13 million, respectively.

Lynn figured that because her business was comparable in size and had a distinct competitive advantage, she could probably get about $10 million by selling. She lived a modest life in a state with no income taxes. Her children were grown and successful. She still had sizable medical bills to pay off for her recently deceased husband's care. But combined with the $250,000 she had invested in various funds, Lynn thought she was in good shape. But ever the cautious owner, she decided to speak with an Exit Planning Advisor, Taunya.

Taunya came from a financial planning background. She learned that Lynn's management teams usually only followed Lynn's orders, and Lynn had the final say in all major decisions. Also, the business consultant that Taunya worked with noted that most of Lynn's locations were using inefficient systems in both production and accounting. These systems would take at least two years to update.

Based on this information, Taunya's business valuation colleague did a "back of the napkin" assessment and valued Lynn's company at $5 million if she left today. Based on Lynn's own *health issues and her husband's outstanding medical bills, Taunya calculated that Lynn would need about $15 million pre-tax to live comfortably after her exit.*

Lynn was initially crushed, but Taunya reassured her. "You've given yourself enough time to fix these issues," Taunya said. "We can start installing appropriate management without firing the managers you have. We can begin updating your production and accounting systems. And I am sure there are buyers who would love to own your business for what it does: We just need to make it less reliant on you."

Over the next five years, Lynn, Taunya, and her Advisor Team installed strong management teams, updated the company's systems, and pursued buyers interested in Lynn's products. She ended up selling the business for $18 million, as more companies vied for space to serve customers with mobility issues.

Whereas Lynn believed she could get $10 million for her business, it turned out she would have only gotten $5 million in the best conditions. She also underestimated what it would take for her to live a comfortable life without the business. But by speaking to a qualified professional in Taunya and working with her Advisor Team, Lynn gave herself a better chance to avoid a potential disaster and improve the business. By confronting her assumptions, Lynn positioned herself to exit the business on her timeline and terms.

If you'd like to discuss how you can bring together financial, operational, strategic, and other business issues to achieve your goals or learn more about how you can minimize the effects of these common assumptions, please contact us today. Don't let assumptions about financial planning hurt you.

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