
Special

Retiring after you sell your business? It may not be as simple as you think

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Small business owners pour years of blood, sweat and tears into building their entrepreneurial livelihood, first to provide for their lives and their families during the working years, and then later to transition as a retirement asset through sale or other succession planning. But how can you possibly place a value on a well-executed vision, or on an entire lifetime of effort? It's no easy task, which is why business brokering is a specialty service and the cost of a formal business valuation can run into the tens of thousands of dollars. In fact, the average business owner has little idea of what their enterprise is worth year-to-year, which can make retirement planning a tough calculation.

What is your business worth? The short answer is it is worth what someone else is willing to pay for it. That said, there are so many factors that need to be considered when valuing a business. Just a few to think about include age of the business, revenue, income, stability of revenue and income, growth rate, industry, management, systems and procedures, key employees, employee turnover, the economy and many more. In addition to the criteria needed to value the business, there are multiple methods used to value it: Book Value, Comparative Business Sales, Multiple of Discretionary Earnings, Discounted Cash Flow and Asset Valuation to name a few.

Given all that is needed to effectively determine the value of a business, it is not surprising that most business owners have never done so. But, knowing the value of your business is important for a lot of reasons. In many cases, the business is the single biggest asset owned by the owner and may represent the majority of his or her net worth. If this is the case, the owner needs to think about how he or she will monetize the value of the business when it comes time to retire. They also need to protect the business against risks that could cause it to no longer exist.

In the event of a fire or the death or disability of the business owner, how will the business be impacted both short term and long term? How will its value be impacted? It would be helpful to have a starting value and know how to protect it against these losses.

If the business is the owner's biggest asset, how will he or she retire comfortably? Will the business be sold to an outside third party, to company employees or to the owner's children? Does the owner have sufficient other assets to allow the business to be left to his or her children? What if there are multiple children?

What would happen if one child worked in the business while other children did not? If the owner were to sell or leave the business to the child that worked in the business, what would happen to the other children? Would this cause any animosity between the children? Without knowing the value of the business, it would be impossible to make educated decisions regarding any of these questions.

Given the high cost of a formal business valuation, as an interim step for business owners to help them benchmark and plan ahead, some companies offer a complimentary, informal business valuation as an initial guide. This is good first step because it is much less time consuming and requires less information to produce the valuation while at the same time providing a realistic valuation to the business owner. This service is available to you by working with a qualified financial professional.

While the business is typically where the business owner spends most of his time, focus and energy, it is only one part of his or her life and financial picture. But, given its dual roles as both income generator and asset, the business has an enormous impact on the personal financial planning of its owner and family. It impacts so many aspects of personal planning to include: time spent with family, estate planning, retirement planning, investment management, succession planning, exit planning, charitable giving, health and fitness goals, and spiritual goals.

We spend so much time working in our businesses and working on our businesses. They are often like a child — something we have given birth to and have watched grow. They are part of us. They become a part of our identity personally and to the world at large. Given their importance in our lives and to those we hold most dear, understanding their value should be something we know.

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