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# ***What will you put on your business card after you've exited your business? and other tough questions regarding the next phase of your life . . .***

**Larry Gard, Ph.D.**

I recently sat down with Peter Christman, a respected pioneer in the field of Exit Planning. We discussed his years of experience advising business owners, and the three key pillars of exit planning:

1. Maximizing the value of the business.
2. Tax, estate, and financial planning at the personal level.
3. Determining what you'll do next.

Peter shared with me how challenging it is for business owners to engage in this type of comprehensive planning, in part because they're too busy running their businesses and in part because they haven't found an objective, trusted advisor who can help them with all three pillars.

Peter also noted that the third pillar, figuring out what to do after you exit, is the most widely neglected of the three. It stands to reason; we spend years thinking about and working toward our professional goals. Few of us stop to consider anything beyond their attainment. And yet the failure to address this third pillar can delay and complicate the exit planning process, causing people to fall short of their goals and objectives.

Consider the case of a 54-year-old business owner named Bill. His commercial roofing company was doing well. He had minimal debt, reliable employees, loyal customers, and solid profits. His business would easily attract buyers and it would command a good price. He had taken steps to minimize his tax liabilities, maximize his retirement savings, and provide for his three children.

Unfortunately, Bill had given no thought to what he would do once he sold his business. It wasn't even on his radar. In fact, in 2006 when his accountant (who happened to be a certified exit planner) suggested that they bring in a valuation specialist to get a sense of what the business might be worth, Bill balked at the idea.

Shortly thereafter in 2007, Bill received an unsolicited offer to buy his firm. He was excited and he scrambled to produce the information requested by the buyers. However, as the due diligence process unfolded Bill realized how unprepared he was to sell and how ambivalent he was about doing so. Although the buyer's offer was excellent and the terms were appealing, Bill pulled back and stopped the negotiations. It took him weeks to get his head back in the game, and he resolved not to even consider any unsolicited offers in the future. Sadly, his business suffered significantly in the recent recession, and his debt skyrocketed.

If you're a business owner, in the future you won't be. It's just that simple. There is no escaping the reality that eventually you will exit from your business. Perhaps you will sell it; perhaps you will retire. You may grow bored with it or you may fall ill. The list of positive and negative possibilities is vast. And yet very few business owners engage in proactive exit planning. Most fail to establish arrangements for a thoughtful transfer of ownership that protects their interests, and the interests of other stakeholders including employees, vendors, and valued clients.

This whitepaper is designed for business owners who ought to be working on an exit plan, but haven't yet done so. It explores why exit planning is so challenging for so many, and how you can overcome the emotional obstacles that prevent you from tackling this absolutely essential business process. This paper addresses five key questions that must be considered as part of the exit planning process:

- 1. How will you structure your time?**
- 2. How will other people react to you?**
- 3. What are your assumptions and beliefs?**
- 4. What will your role be?**
- 5. How will your departure affect your firm and your employees?**

## **How will you structure your time?**

One of the functions of work is that it introduces structure and routine to our lives. Even if your work is quite varied and even if you don't maintain a full-time office, chances are you still follow a schedule of some sort. Now, for just a moment, imagine not adhering to that schedule. Imagine not going to work. Imagine not having standing appointments. Some people are reluctant to even think about exit planning because they can't conceive of a life without a full work schedule. They're convinced that such a life will feel aimless and unsettling.

Not knowing what your day-to-day life will look like can pose an obstacle to exit planning. None of us can fully predict the future, but that shouldn't stop you from planning for it. Think about when you purchased your first home. Chances are,

eighteen months prior you had no idea which specific house you would buy. You might have had some neighborhoods in mind, the style of home you liked and so forth, but the lack of specifics didn't stop you from planning for that major life transition. The same principle holds true with exit planning. Just because you don't know how every day will be filled doesn't mean that you shouldn't plan for a time when you've exited your business.

How will you spend your days? Will you need to have a new routine in place immediately, or will you be comfortable allowing one to emerge gradually? Either way, you should identify in advance a few practical and rewarding activities that can be introduced into your daily or weekly routine. Think about where you would like to spend your time. Will you feel comfortable operating out of your home or will you find it more appealing to be in an office setting – even if it's only part time?

If you're truly at a loss about what you will do to occupy your time, try to identify the most critical, essential ways in which work is a source of satisfaction for you. Once you've discerned the ways in which work is particularly satisfying, you'll be in a better position to select reasonably satisfying alternative activities.

For example, if work provides you with a sense of routine and structure, then you probably won't be happy volunteering somewhere on an as-needed basis; you will do better with a set schedule. The exercise on the next page can help you identify what makes work satisfying for you:

<p>Rank each statement according to the degree to which it is a source of satisfaction derived from work.</p> <p>This is a “forced ranking” exercise. No more than four of these statements can fall into any of the four categories on the right side of the chart.</p>	<p>1= Essential Source of Satisfaction  2= Highly Important Source of Satisfaction  3= Somewhat Important Source of Satisfaction  4= Minimally Important Source of Satisfaction</p> <p>remember: No more that four statements can be ranked in any category (i.e. no more than four #1's, no more than four #2's, etc.)</p>			
1. Work keeps me intellectually challenged and keeps my mind active	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
2. Work provides me with a sense of membership in a group	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
3. Work provides me with opportunities to develop professional and/or personal friendships	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
4. Work is a way in which I can create something of lasting value that will endure	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
5. Work affords me the chance to help others	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
6. Through my work I'm able to demonstrate my values and my ethics	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
7. Work presents challenges that test my problem-solving abilities	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
8. Work gives me opportunities to feel pride in my accomplishments	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
9. Work allows me to combine my effort with that of others, to accomplish more than what any one of us might achieve on our own	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
10. Work is an important vehicle by which I can make a contribution to my family and community	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
11. Work provides me with a routine and helps me structure my time	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
12. Work is a means by which I'm able to establish, pursue, and/or achieve goals	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>

Once you've ranked the statements, pay particular attention to those you've ranked #1 and #2 (in the green and yellow columns). These represent significant sources of satisfaction that you get from working, and it will be important for you to find alternative activities that can offer a similar sense of satisfaction.

For example, Jackie was the owner of a residential architecture firm. She completed this exercise as part of her exit planning process. She placed statements 2, 4, 5, and 8 in the #1 column. Several years later, as she was selling her business she was invited to write a chapter in a book about current housing trends. She was also asked to serve on a "Women Build" project with Habitat for Humanity. Based on how she ranked the statements it's easy to see why she opted to do the latter.

## **How will other people react to you?**

Most people report that work contributes to their sense of identity. Not only does it influence how you feel about yourself, it also shapes how others view you. How do you imagine other people will think about you and treat you once they find out you've exited your business? How will you manage the beliefs that others may have about you? For example, some people might make unwarranted assumptions about your financial status once you've sold your business.

Gary was the owner of a healthcare consulting firm. He was concerned that after he sold his business, friends and associates would expect him to have all the time in the world for them, and unlimited discretionary funds to donate to their various causes. To manage this, Gary gave some thought to how he might respond to requests for his money and his time.

He now handles such matters by saying, “Thanks for telling me about the important work being done by (name of charity). I still have existing commitments that preclude me from taking on anything new right now.”

How will you respond if someone asks, “what do you do for a living?” If you reply “I’m retired” or “I sold my business”, it’s almost a sure bet that the person will inquire, “what did you do before?” Does this question imply that whatever you do after exiting work is of little interest or value? More importantly, will you infer that it does?

Consider the case of Jack, the co-owner of a construction equipment dealership. Other than enjoying a round of golf now and then, his work was his life. It was all he ever thought about or talked about. For many years he resisted his business partner Cal’s efforts to position the company so that it would be attractive to a buyer. To Jack, the notion of not working was almost incomprehensible. In those rare moments when he was able to think about it, it evoked images of aimlessness and feelings of worthlessness.

His partner Cal wisely noted that over the years, Jack had limited his friendship network to others of a similar bent – guys who were totally consumed with work. Cal was able to share this observation with Jack, who gradually began to identify and socialize more with peers who had meaningful, satisfying lives outside of work. When a motivated buyer subsequently approached them, it wasn’t easy for Jack to sell the business - but he no longer considered it a death sentence.

If you’re concerned that people will treat you differently or with less respect once you’re not working, pause and consider what sort of reaction you would like to receive. If you want people to show interest in you for who you are (not just for the business person you once were), then you have to give them enough information to pique their interest.

If you're asked "what kind of work do you do?" you have the choice of responding simply, "I sold my business two years ago" versus saying "I sold my business two years ago and I'm busy crafting the next chapter of my life." Which response do you think will lead the conversation forward more readily?

## **What are your assumptions and beliefs?**

Certain assumptions can impede exit planning – even if those assumptions aren't warranted. Most people find it tough to challenge their assumptions, and they don't abandon them easily. Remember, it's human nature to pay attention to and believe information that supports our views, while ignoring or discounting information to the contrary.

A very common assumption held by many business owners is that they don't need to learn about exit planning. They believe that running a profitable company is the only thing that matters. The reality is that they might know a lot about their business, but they know very little about exit planning. Just because your business is a success doesn't automatically mean that you will exit from it *successfully*.

Some business owners are reluctant to contemplate or engage in exit planning because they are firmly wedded to assumptions about what will happen once they leave their business. For example, some assume that the right buyer will come along and the sale of their firm will generate so much revenue that they don't need to be concerned about anything else. Others make gloomier assumptions. For example, they believe their business has no commercial appeal so there's no need to think about its continuation into the future. It's not unusual for an entrepreneur to resist exit planning because he or she is troubled by the prospect that the next owner will make significant changes to the business they started from scratch.



Many of our assumptions are based on prior family experiences. Consider Sam, the founder and owner of a wholesale seafood distributorship. He hoped to work well into his 60's but after a health scare at age 55, he decided to sell his business to an eager buyer who quickly ran it into the ground. This left Sam heartbroken and deflated.

Years later, Sam's son Jerry, himself a business owner, told me that he would have to be carried out of his office on a stretcher rather than turn his business over to anyone. He was unwilling to consider any exit planning whatsoever. Jerry was worried that if he sold his firm he would suffer the same fate as his father, and he was adamant that he would do whatever he could to prevent it. Think about your own family history; what assumptions do you automatically make that could potentially delay or complicate your exit planning process?

## **What will your role be once you exit your business?**

As a business owner you wear many hats, occupy many roles, and are viewed by others accordingly. How will it feel to relinquish some if not all of those roles, and what new roles might you take on? How might your role change within your family? Will you be spending more time at home? Will you take on more responsibility for managing household affairs? How do you imagine other family members might react to your new status?

Consider the case of Marilyn, co-owner of a small human resources consulting firm. Her husband Greg had already sold his business and he was enjoying a second career writing mystery novels part time. He was eager to have Marilyn stop working so that they would have more time together. Marilyn was concerned that if she sold her share of the business, there would be an unspoken expectation that she would spend

more time at home preparing meals and cleaning – something that she wasn't eager to do. Before Marilyn was able to do some serious exit planning, she needed to have multiple discussions with Greg in order to reach a shared understanding of how she would spend her time once she left the business.

Role shifts within a family-owned business can feel particularly powerful. What will it feel like if you have less decision-making authority? Will you be viewed as a wise and trusted mentor or as an intrusive meddler? Should you retain a limited advisory role in certain areas (e.g. customer retention) or remove yourself completely? Talking this through with family members is essential, and the discussions should take place well before a transfer of responsibility occurs.

How might your role change within your company? Once you announce that you are exiting, you may be less involved in business decisions. How will you handle not being “in the loop”? Think about how you will react if you learn that others have made mistakes after you leave, or if successors make major changes to (or eliminate) projects that were important to you. Will you still be honored as a founder and/or past leader? After you exit will new employees even learn of your history with the firm? Nobody wants to be forgotten about, but keep in mind that regardless of your legacy your departure will create an opportunity for others at your company to step up, make their own contributions, and achieve their own goals.

## **How will your departure affect your firm and your employees?**

I know of a business owner named Roger who found it nearly impossible to think about exiting his business because he was so concerned about what might happen to his employees after he departed. He worried about their job security, their financial well-being, and their professional development.

At the same time, Roger knew that he couldn't work forever; he needed to balance his own needs with those of his employees. As part of the exit planning process Roger listed the potential challenges his employees might face if he sold the business, and he identified some reasonable things he could do to lessen the impact.

For example, he has now begun a five years plan to set aside funds to ensure that severance packages will be sufficient. He spoke with his attorney about stipulating that certain key employees be retained for a period of time if the business is sold to an outside entity. He is training senior personnel so that they can run the business themselves if they end up buying it. Roger's approach is multi-pronged because he's not sure when he will exit and under what circumstances.

## **Other points to consider**

Some people put off exit planning because they think of it as something very far in the future. They convince themselves that when the "time is right" they will focus their attention on exit planning. If you wait until the exit planning feels right, you might be waiting a long time. Don't expect that this process will be without some misgivings, uncertainty, etc. Use those feelings to further your planning process, but don't allow yourself to be paralyzed by them. For example, if the prospect of exit planning leaves you feeling anxious about the net worth of your company, use that anxiety as a signal that it's time to arrange for a business valuation.

It rarely makes sense to engage in exit planning by yourself. Take advantage of skilled, trusted advisors who can make sure that you're being objective and looking at every aspect of this complex matter.

To manage this life transition successfully you must be brutally honest with yourself, not just about what is important to you moving forward but also about what worries you. For example, some people remain in their business long after they should because they have no idea what they want to do next. They continue to work, by default and sometimes against their own interests, because they're unwilling or unable to grapple with what the alternatives might be.

Procrastination is the biggest threat to effective exit planning. It is imperative that you take time now to begin thinking about your future, because now is when you have the opportunity to set a trajectory for the type of exit you desire. Don't wait until circumstances change and you're pushed to exit on someone else's terms ... not yours.

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Larry did his undergraduate work at the University of Michigan in Ann Arbor where he received a bachelor's degree in psychology with honors. His doctorate in clinical psychology is from Northwestern University Medical School.



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Peter is an experienced entrepreneur, corporate executive and investment banker. During his 30+ year career Pete has successfully sold more than 200 companies in a wide variety of industries. Transactions have ranged in size from several million dollars to over one hundred million dollars.

Peter is also the co-founder of the Exit Planning Institute, which educates business advisors on how to implement business owner "exit planning" into their practices. The Institute has developed its own proprietary certification program ([www.exit-planning-institute.org](http://www.exit-planning-institute.org)).