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Preparing the Next Generation of Your Business



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Your business is likely a large part of your financial success. Even after you eventually leave your business, you may still rely on your business to achieve financial security. This often means that you need to prepare for the next generation of your business.

Whether you plan to sell to a third party, complete a sale to a non-family insider, or

transfer the business to a family member, there are several steps you can take to position yourself and your business for success after you no longer hold the reins.

Step 1: Know What You Need

Your financial security is the most important element of planning for a successful future. It's crucial that you know how much money you need to achieve financial security before you begin to consider what the next generation of your business will look like.

It may be tempting to take a guess at how much money you'll need after you leave your business. However, guesswork could create scenarios where you find that you don't have enough money after you leave your business, which could force you to go back to work after you retire.

You may want to consider avoiding a common error in planning for the next generation of your business: choosing your successor before determining your financial security number. This is because your financial security number may guide you toward your successor. The opposite isn't always true.

For example, say you want to transfer your business to family members. However, you may find that those family members cannot pay you the amount of money you need to achieve financial security. If you had plans to stop working entirely after you sold the business, transferring to family members may not be the best solution for you.

Allowing your financial security number to guide your decisions tends to give you the best path toward exiting your business on your terms. Thus, this is a good place to start when planning for the next generation of your business.

Your Advisor Team will likely play an important role in determining how much money you need for financial security. Certain elements—such as how long you and the people you support will live after you retire, your spending habits, and what you plan to do after you leave your business—will help your professional advisors find the right number for you.

Step 2: Create a Written Plan

Putting your plans in writing can provide you with several benefits.

- Keeps you on track: It's tempting to be reactive when planning for your business' success. A written plan helps you stay the course while providing flexibility when needed.
- Establishes responsibilities: When everyone's responsibilities are in writing, it makes it easier to track success and address shortcomings.
- Uncovers gaps: Planning for a successful future is complex and involves many moving parts. Putting your ideal path in writing can illuminate gaps in your planning, which allows you to address those gaps earlier in the process and helps you avoid the need to start from scratch later.

Step 3: Determine Buyer Interest

A challenging part of planning for the next generation of your business is that your decisions may not be entirely in your control.

Many small business owners dream of selling their businesses to family members or company insiders. This is certainly a possibility, but it's only a possibility if those insiders or family members want to run the business.

Determining whether your targeted buyer is interested in ownership is an often-overlooked step in planning for the next generation of your business, especially if you're considering a transfer to family or insiders. An unfortunately common scenario for business owners is finding out that the people they wanted to transfer the business to have no interest in owning the business.

For instance, you may have a key employee who you believe has ownership potential. But that key employee may have no interest in running the business.

Your Advisor Team can help you determine which buyers are interested, whether they're insiders or family members; gauge whether your targeted buyer will allow you to reach your financial security goals; and vet targeted buyers for their ability to keep the business running successfully after you leave it.

Step 4: Don't Taint the Marketplace

On the other hand, if you intend to sell to a third party, it's still important to determine buyer interest prior to putting your business on the market.

Putting your business on the market before it's ready for sale could taint the marketplace. Tainting the marketplace is when you put your business on the market, discover that there either are no buyers or the offers you are receiving don't allow you to achieve financial independence, and then pull the business off

the market.

Future efforts at selling the business may be more difficult if you do this. That's because potential buyers will wonder why the business didn't sell the first time, which could hurt its value.

A powerful strategy for avoiding tainting the marketplace is assuring that you have installed as many Value Drivers in your business as possible.

Step 5: Install Value Drivers

Value Drivers are elements of your business that make the business more valuable to potential buyers. Whether you're selling to an insider, a family member, or a third party, Value Drivers could help you streamline the process, meet your financial goals, and exit your business on your terms.

There are many potential Value Drivers your company can install. The most important of these Value Drivers is next-level management. These are the people who will run the business in your stead, allowing the business to thrive without you, which makes it much easier for you to sell your business on your terms.

In fact, next-level managers often install multiple Value Drivers while you're still in the business. For example, they may find competitive advantages, make your operations more scalable, make your business resistant to commoditization, or find new markets for your business to enter.

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