As a business owner, can you afford to retire?

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For 20 years, Lori Kaiser owned 100 percent of Kaiser Consulting. But recently, she sold a portion of the company to six top managers on staff.

“I want to keep working and keep engaged, but have time to do other stuff,” the Columbus, Ohio-based CEO told the Columbus Business First. “You never know what may happen to your health.”

The strategy she took – selling part of the business and continuing to work in it part time – is one option for a business owner interested in moving to the next phase of their business and personal life. There are others, such as selling the entire business to key employees, passing it on to children, or selling it to an outsider buyer. Each method has its pro’s and con’s. What matters most, as in Kaiser’s case, is that a business owner actually has a plan.

Many don’t.

Common threads in successful transitions from owning and running a business to retirement, are recognition that the business makes up the bulk of an owner’s wealth, a clear sense of the business valuation, and a solid plan for passing along the company to others.

Those three items, though, are in short supply.

Of particular concern: Business owners may have unrealistic ideas about the valuation of their companies, and about their sources of retirement income.

According to the [2018 Business Owner Perspectives Study] from MassMutual, three out of four business owners have less than $500,000 saved in retirement accounts, meaning they're underestimating they're financial reliance on their business, post retirement.

"It's been my experience over at least 45 years that I've never met a business owner who understated the value of the business," says Alex Howard, managing director in the Valuation Advisory group at Stout Advisory. "That probably includes me when I had my own business."

Howard says he has heard business owners say they didn't need to know the value of their business many times over the years.

"But if you look at it statistically that closely-held business owners tend to have a very large concentration of their net worth in their business, the value of that business is going to be extremely important to their quality of life in retirement, their ability to live a productive life, to do the things they've always wanted to do," he says. "By thinking of value based on many wonderful indicators such as what your golf partner got for his business...or you read the newspapers and look at EBITDA multiples for transactions, it gives a real misperception about a person's net worth."

For the majority of business owners, Howard says, the proceeds of a sale, either to employees, an outside buyer, or in passing along the business to family, are what a business owner is going to have to live on throughout retirement. The optimal attitude is for a business owner to begin their business with the end in mind.

Howard says one way to approach retirement as a business owner is to determine early on how much you would need out of a sale to have as much freedom as you want in retirement. "If you plan early enough, you have plenty of time to implement decisions and processes to get you to that point," he says.

But the world isn't optimal.

Howard has personal experience with preparing a business for his retirement, without having begun with the end in mind. He was the founding partner and president of Howard Frazier Barker Elliott (HFBE), after having held numerous positions in the securities industry.

"It's almost as if I looked up one day and I was 65," he says. "I looked at my age and said, 'I don't know how much longer I want to take care of my employees. I reached a point that many business owners reach. Most businesses reach this crucial point where, in order to grow, they have to do something. That something could be starting a new product line. It could be buying another business. Those all require a lot of energy on the part of the owner and sometimes, you just don't want to go through it all over again."

Many people at that point, Howard says, realize they have a few good years left, but it makes sense to look at an acquirer.

"That decision is a difficult one, even if one has done a lot of planning," he says.

When Howard got to that point and realized he had not done enough planning, he moved into high gear. He hired a consultant he knew well to help him, and his senior people, focus on reaching the next level and on succession. It took a couple years to put together strategic goals around operations and succession and he was able to move his business from having a personal brand to a corporate brand.

That reduced the dependence of the business upon individuals, specifically, him, allowing him to sell the business.

One of the lessons he learned was that planning pays off, and it's a lesson he shares with other business owners now.

"You're going to leave your business at some time. It's just a question of whether you're going to walk out or leave feet first," he says. "All these things are interrelated. Your retirement planning. Your business planning. Your succession planning."

To learn more, please visit www.massmutual.com/business-owners.

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