



Preventing a Post-Sale Derailment

PART ONE
ONWARD! CHARTING
THE COURSE OF THE
NEXT PHASE OF YOUR
ENTREPRENEURIAL LIFE

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Imagine yourself in this scenario:

You own and operate a successful business and you decide now is the right time to sell. According to your advisors, you've done everything you need to position yourself and the company for a transaction. You've completed all of the pre-sale planning — taking care of those aspects of the business that were important to you personally, while also structuring entities and employing strategies to mitigate the tax implications of a transaction best suited for you. So you proceed and you and your deal team negotiated very favorable sale terms.

The sale closes, and the proceeds will more than support you and your family for generations to come.

Now what?

You knew that you would not remain active in the business post-sale. You're not someone that can work for someone else or work within a larger corporation. You also had no plans to retire.

But, like most entrepreneurs, the unknown didn't bother you — you would just figure out your post-sale life, well, after the sale. After all, how many times did you tell yourself not to count your chickens before they were hatched?

So, now here you are. Your company has sold, you took that dream vacation and you're back home. You're well-rested, refreshed, ready to start upon your next endeavor... and you're bored. You've reached out to contacts and friends you developed through your old business, but they are slow to return your calls, if they bother to return your calls at all. You find yourself puttering around the house, being disruptive to your family. Even your dog is starting to wonder why you're always around.

And then it happens... you start to miss your old business. While you're thrilled with the payout, a feeling of seller's remorse starts to creep in.

You worked hard, built momentum in the business, and earned the payout you could only have dreamed of when you started the company. But you're longing for the adrenaline rush from your jam-packed schedule before the sale. You want to get back in the game.

So what led to this post-sale derailment?





Why It's Important to Start at the End

Welcome to the first installment of *ONWARD! Charting the Next Phase of Your Entrepreneurial Life*.

You might think it's odd that we are starting off here, talking about life after the transaction, rather than talking about the key aspects of actually selling your company — assembling your deal team, preparing your business for a transaction, identifying suitable buyers, structuring the deal and closing the sale. Of course, these are all important topics, especially when you consider that, according to the Exit Planning Institute, only two out of every ten businesses that come to market reach a successful sale. And so, we'll cover these issues in-depth in subsequent installments.

So again, why here? Why start at the end?

As private wealth advisors, we have a great deal of experience supporting successful middle market entrepreneurs. Our aim when working with entrepreneurs is to help better position them, their family and their company so they can successfully navigate the process of a transaction if, and when the time is right.

Far too often, however, we have found that even under the most successful of circumstances — where our client got everything they wanted out of a deal, and then some! — there was still a level of dissatisfaction.

This isn't just our experience — the data backs this up. According to the Exit Planning Institute's Readiness Survey*, 75% of business owners "profoundly regretted" selling their business 12 months after finalizing the deal. Certainly, much of that regret can come from a poor deal — if not the valuation of the deal, but the impact of the deal on their employees, the trajectory of the company and other factors.

But we have also found that even in the best of circumstances, like the scenario we laid out at the beginning of this report, few entrepreneurs are adequately prepared for the mental and emotional changes and challenges of life that post-sale will present to them. They haven't thought through "what's next?"

Of course, one of the jokes we tell is how a deal oftentimes goes off the rails when a business owner mentions that they are headed to the boat show — they are already mentally spending the money.

When thinking about what's next, we're not talking about daydreaming about your next boat, home or car. As you consider a move into the next phase of your entrepreneurial career — switching tracks and heading on a new path — it's important to keep in mind that the same keys that made you a successful entrepreneur apply to how you approach your post-sale life. Preparation and planning.

Entrepreneurs need to approach their post-sale life with the same dedication to preparation and planning as they did when they started their company. And they need to start it BEFORE they sell their company, if possible. Reason being is that not only does planning for this transition lessen the emotional burdens placed upon your shoulders during the transition, but it could also impact how you evaluate aspects of potential deals. What we're talking about here are things such as non-competes, on-going consulting retainers, future performance payouts and more. It's important to have an idea of what you want to do next so that you don't end up becoming boxed out of pursuing those plans by the terms of the current deal.

The Many Tracks to Be Taken

Track Switch #1: Retirement

In general, entrepreneurs who decide to sell their company in order to retire and no longer actively run a business seem to have an easier transition post-sale. Mentally, they have run the race, and are using post-sale proceeds to fund their retirement lifestyle. They have given extensive thought to what comes next, whether that is travel, playing endless rounds of golf or spending more time with loved ones. For retired entrepreneurs who chose to plan ahead, this final station is a satisfactory stop.

But what if you still feel the urge to run a business? Then you may not be in the right mindset to have a successful retirement. Of course, the first thing you need to do is find out if this is just a phase or if you truly are ready to get back in the game. Engaging a post-sale advisory team to act as a sounding board can help you determine if that urge is a phase or a burning desire that cannot be extinguished. In this situation, the optimal track is to find some way to channel those entrepreneurial urges, whether that is starting a new business, becoming a passive investor, volunteering or focusing on philanthropy.

Track Switch #2: Start a New Business or Purchase a New Company

If you are a serial entrepreneur, particularly if you've had a significant liquidity event, the next venture can be a smoother endeavor than your previous efforts. You have the ability to capitalize the new business adequately and not be hampered by a lack of start-up funds. You've also amassed an enormous amount of valuable experience, which will enable you to avoid many of the pitfalls you fell into in your previous companies. Additionally, the emotional attachment to the new business may not be as intense. The challenge for the serial entrepreneur may be finding the right business venture, which is again a good reason to engage with a post-sale advisory team.

Though difficult to quantify, it is not hard to imagine a ride on this track can generate successful results yet again.

Track Switch #3: Passive Investor

If you find yourself at a point where you are not ready to fully retire; however, you're also not prepared to start another venture with the blood sweat and tears required to get it off the ground, then the passive investor option may be a good compromise. Because the nature of passive investing (i.e., owning minority interest) does not require active participation, the entrepreneur can still identify ways to add value to

the business without bearing all of the heavy life burdens. Passive investing can take the form of direct investments, private equity and angel investments.

The challenge for most entrepreneurs turned passive investors is that the skills needed to succeed as an entrepreneur are very different from those as a passive investor. Your mindset needs to be different when you become a passive investor. Sure, beyond just your money, you have plenty to offer the new venture in terms of your insight, knowledge, contacts and experience. But you're not in charge. Your plans and vision for the new business might not be fully embraced or executed the way you think they should be. This can be a very frustrating experience if you fail to recognize going in that your level of control in this business will be significantly less than in the previous business. If you keep that in mind, then passive investing can represent a happy compromise for a life-after sale for a seller who wants to stay active and yet is no longer interested in starting a new venture. It enables the seller to invest passively and still pursue another range of post-sale activities at the same time.

Track Switch #4: Volunteering

Many non-profits can surely use your entrepreneurial spirit and energy, whether that's to jump start fundraising efforts or to expand the mission of the organization. Volunteering time to a charitable cause can be flexible and varied, and it often runs a parallel track to retirement objectives or new business ventures. And certainly, many entrepreneurs have said the rewards they see from their volunteering efforts are more rewarding than the monetary reward from selling their company.

Track Switch #5: Philanthropy

Philanthropy is intentional and deliberate action geared towards supporting charitable causes that mean the most to you may be the track for you. Philanthropic intent forces you to plan ahead to determine the charitable vehicle that makes the most sense (i.e., private foundation, charitable trust, LLC, donor advised fund, etc.), when distributions should be made to the charity, how much should be distributed, and how long will the charitable support last. In addition to supporting organizations through charitable vehicles, many entrepreneurs serve on boards of not-for-profit entities.

The nature of this type of engagement can be all-consuming and provide certain entrepreneurs with a sense of fulfillment. The entrepreneur turned philanthropist can find many ways to express the interest and intent to donate time, talent, treasures and ties to a worthy cause.





It's Never Too Early to Think About Your Next Destination

Successful entrepreneurs are typically laser focused on running their business and have little time to focus on much else, let alone prepare for the emotional side of selling the business. There are no “ready-set-go” solutions to the points highlighted above.

Recognizing that there are emotional elements that are best addressed prior to switching tracks in your entrepreneurial career is the first step towards a successful, post-sale life regardless of the track you choose.

Below we have provided a checklist to help avoid the Post-Sale Derail.

- Start mentally preparing for your post-sale life while you are doing pre-sale planning.
- Develop a network of former owners who have been through the sale cycle. Ask your advisors to make introductions. Owners who have experienced life post-sale tend to be the best resources to help you manage expectations and avoid common pitfalls.
- Just as you did for the business, be intentional in creating a post-sale plan. Structure it as you did business plans for your business. Include a timetable, milestones, metrics and measurement for how you are defining success in your post-sale life.
- Consider engaging an experienced life coach to help you mentally and emotionally prepare for life after the sale.
- Take the time to identify causes and passions outside of your business that could potentially fill a void left from the sale of the business.
- And just like in the early days of starting your business, be prepared to change course and adapt. The business that you are looking to sell or have just sold may look nothing like the original business concept you originally had.

Let's talk.

For more information call 855-949-5855 or visit www.newedgewealth.com.

Sources

*[Exit Planning Institute](#), April 2018

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