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Funding your retirement by selling your company? Follow these tips

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Nam Y. Huh/AP file Many a small business is never sold.

When successful entrepreneurs look to sell their business — the fruit of years of their blood, sweat and tears — and sail into retirement the challenge they often face is, what is it worth without them?

Owners of companies with annual sales from a few million to $25-million or more, rarely have to deal seriously with this question. The common exception being to obtain Key Person Insurance to backstop a bank line of credit, or provide support for an outside investor. This provides the business enough cash to replace the entrepreneur without advance notice. The payout can be considered a rough proxy for the value they bring to the business, but often far understates it.

Under ordinary circumstances, a lack of management depth could be a concern to an outside party considering financing or collaborating with the company, but the entrepreneur is generally a key or even the sole reason why they do.

Serial entrepreneur Barry Wood, contends entrepreneurs set the internal culture of the business — either vibrant and open with ideas or a dictatorship where workers merely execute assigned tasks. Their vision often drives the direction and growth of the company, which can be the source of a large portion of the company's value.

But when the entrepreneur is looking to exit, the buyer's motive is different. The buyer is no longer backing the entrepreneur, rather they are backing the business. And while the entrepreneur may play a transitional role, he or she generally needs to back away quickly post-sale.

Wood says many entrepreneurs struggle in letting go of the reins and board intervention is often required. Without advance planning, they are often shocked at the impact on the value of the business: It is fairly common for a company to be unsaleable or have little to no value without its owner. This should serve as a wakeup call to those who count on the sale of their business to fund their retirement, because many a small business is never sold.

There are a few exceptions such as when a company is bought by a competitor as a tuck-in: The company is absorbed into the buyer's, generally stripped of executive and administrative roles. A sale is more complicated when there is still a lot of value to be created, either by the current team or the buyer. Buyers will want to see a full core team in place before they consider paying for future growth potential.

If you are looking to sell as an exit strategy, here are a few steps to help maximize the value of your company:

Strategic planning If the future directions in new products or markets exist only in your head, you have a problem. Strategic planning can be imbued into your company in a variety of ways, depending in part on its size and complexity. You want to create a culture where leaders emerge in many areas and levels of the business.

You can hire or promote to CEO a president under you to be your successor. In smaller companies, the role can be given to existing core employees, including your sales manager, vice-president of finance, plant manager and office manager. You should participate in this group, but not dominate it.

Your board can help by formalizing and facilitating a strategic planning process that includes senior management. It can also help the company chart progress and make better decisions, as well as mentoring the new leaders on your team.

Creating this framework can move the entrepreneur toward being ready to let go.

The buck stops elsewhere. For this strategy to work, owners need to quit being the arbiter of all minor, or even major, tactical decisions. If all lines in the organizational chart lead up to you, you have a problem. To deal with this practically, begin by hiving off one major area of your business from your control. Once it has been handed off effectively, remove yourself from another, then another.

Start with sales. This is the most common reason why business owners fail to exit their companies profitably. It is also the riskiest area of your business to hand off the reins. You can either elevate a salesperson, or bring in an outsider to take on this critical senior role. Whoever it is, that person should be empowered to run and manage the department, with minimal meddling from you.

He or she should also take the reins of most, if not all, major customer relationships. Your goal is to create multi-point relationships with your customers. You may find this redundant and inefficient, but it is the single most important thing you can do to make your business saleable. It's also a good way to expand your customer base, by injecting new energy into new business development. Do not estimate the time and energy this process will likely take, even with a star sales employee.

While there are many more steps you can take, these alone may materially increase the value of your company without you in it, as well as open the door for a management buyout by your trusted employees.

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