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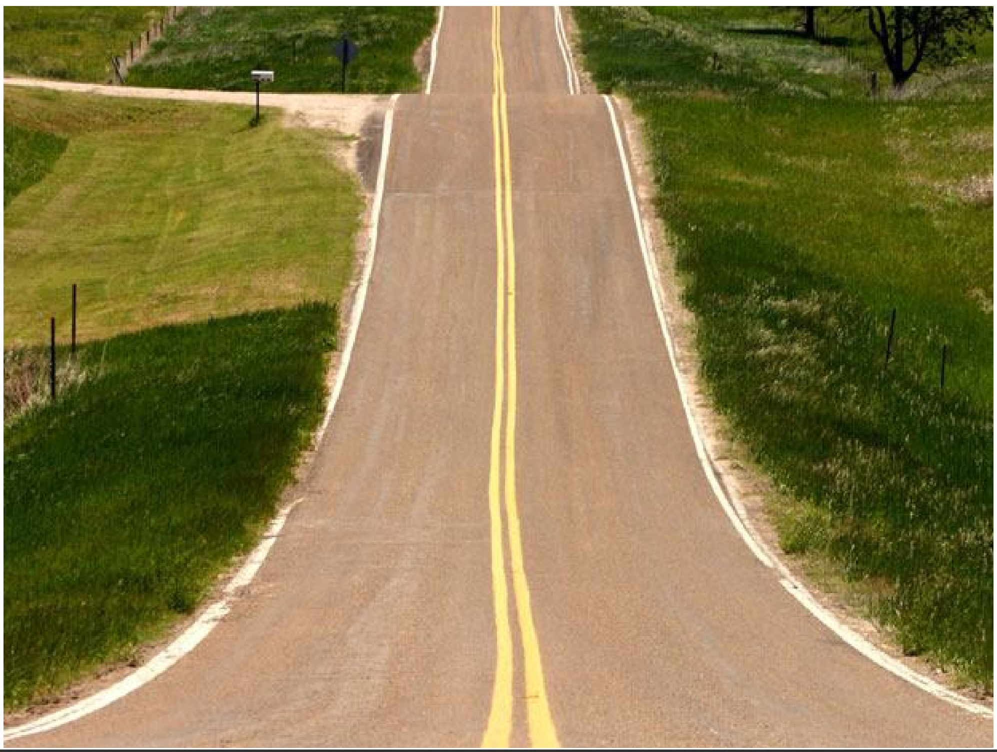
There's no road map to retirement



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There's no map for the road to retirement, but there are a few strategies you can use anyway.

Brad Cherniak, Financial Post · May 9, 2011 | **Last Updated: May 9, 2011 9:35 AM ET**

From a practical, day-to-day standpoint, business owner/operators considering retirement need to change their way of thinking. Until this moment, they likely have been focused on running and growing a business. There are so many objectives, questions and fears it is hard to assess which ones to tackle first and which to defer or ignore. There is no foolproof checklist or road map to success.

In the most general sense, the key is to be aware of the effect your decisions are having, react to contingencies and be prepared to bring the process back into equilibrium.

Value benchmark This is your only objective guideline. Get a handle on the current value of your company, create a benchmark and then track the trend. This forms the baseline against which all other actions and deliberations will be gauged. This baseline will be a major ally even if you end up keeping your business.

It is important you understand the trend and whether it looks to change in the future. What, if any, investments in infrastructure, staff or marketing are necessary to maintain or build value? Investment decisions are difficult to reconcile with exit decisions.

Next, assess how much time and attention you can take away from your business -temporarily and permanently -without harming its value. Examine your team. Is there a successor in-house who can take the reins to facilitate your exit, perhaps through a management buyout funded by third party capital? Or you may decide to fund a portion of buyout yourself, allowing you to participate in the upside. And you may or may not play a continuing role at the company.

Of course, the outright sale of the company may be a cleaner and easier alternative. In a family-owned business, the succession process is even more tricky and less objective and linear. Assessing the impact of each option on value will go a long way to choosing your path.

Recognize and deal with contradictions Every exiting business owner needs to facilitate their own professional demise to exit via a sale or other transaction. It is exceedingly difficult to find a successor for a one-man-or-woman-band business and execute the transition. These types of businesses also are difficult to sell as going concerns. This is the step that most hinders and often destroys the process of business owners moving on with their lives.

The second contradiction arises when you try to run a business while figuring out how to get out of it -two very different priorities for SMBs.

Large companies can segregate these processes. Internal groups focused on one track may not even be aware of what is going on with the other track -or even that there is a separate track. But SMBs do not have this luxury. The two tracks are exceedingly difficult and risky to balance. But how do business owners recognize and deal with these inherent conflicts?

Timeline To start properly planning and running your business, pick a 12to 18-month (no longer than 24) period in the future when you intend to retire or exit the business. This may take some serious reflection.

Kevin O'Neil, a partner at Sapient Capital Partners, says this date becomes the known variable in the equation to maximize the entrepreneur's objectives in his or her exit. "Without clarity of timing, planning and aligning business, employee and shareholder interests becomes almost futile," he says.

You may change your mind about this timing later, but at least you have given yourself an option to drive for.

All roads lead to Rome Then you need to create a single body to oversee and integrate the many conflicting decisions that must be made. Everything needs to run through this body to make sure the big picture isn't lost, priorities are maintained and the process stays in equilibrium.

Are you capable of doing this while staying objective and not getting overwhelmed to the detriment of the process, your business and even your health? If not, what about a board of directors, an advisory board or a family council, or even some employees?

The key is that the business owner has good information and supporting analysis, and they make decisions with the whole picture in mind.

In a family-owned company, this body is also a mechanism to structure communication throughout the family and get buy-in for decisions.

Get ahead of complexity and risk Finally, it is critical to understand that matters of succession and exit are best dealt with when business is good -a lesson most don't learn the easy way.

- Brad Cherniak has spent more than 20 years as a principal, advisor to and investor in private companies. He is co-founder and partner at Sapient Capital Partners, a Toronto-based advisory firm to companies from early stage to $50-million in revenues. His column appears monthly in the Financial Post. He can be reached at brad@sapientcap.com.