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# FIVE STRATEGIES FOR MANAGING A BUSINESS SALE

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*Strategies for making a successful  
transition from business owner to  
wealth manager.*

Mark Gordon Huffman, J.D., CFP®



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STRATEGIES FOR MAKING A SUCCESSFUL TRANSITION FROM  
BUSINESS OWNER TO WEALTH MANAGER.

BY: MARK GORDON HUFFMAN, J.D., CFP®  
W E L C O M E

There is no greater distinction in our capitalist system than taking a business you have developed through the unrelenting application of time, sweat and innovation, and finally realizing that hard won value through a business sale.

The sale of your business will likely represent the most important transaction of your life – unlike any you have ever participated in – with far reaching consequences for you and your family, potentially for generations. Unfortunately, the business owner is often so focused on negotiating the sale and its countless complexities (while continuing to run the business itself) that he or she neglects to consider and plan for the personal and wealth manage-

ment changes that he or she will be confronted with as he or she transitions from the owner of a business, to the manager of liquid wealth. The result all too often is the former business owner finds him or herself feeling disoriented and overwhelmed in surprising and unexpected ways.

What follows are Five Strategies to help you think about these issues and to incorporate them into your business sale process to make sure your business sale does what it is supposed to do – make your life better!



## *The Business Sale: Contemplated*

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*“Regardless of the precipitating event, the question is, will your business be sold in a way that provides maximum value to you and your family, and will that transition make your life better?”*

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The fact of the matter is, every small business will be sold eventually. It may be deliberate, animated by a desire for liquidity, retirement, or to pursue fresh challenges and opportunities. Or it may be compelled, made necessary by disability, illness, divorce, the sudden death of you or another key partner, or by the realities of the business environment.

Regardless of the precipitating event, the question is, will your business be sold in a way that provides the maximum value to you and your family, and will that transition make your life better? A common reaction is, “Of course it’s going to make my life better! How could realizing so much liquid wealth do anything but make all my dreams come true?”

It is beyond question that the liquidity that comes with a business sale opens up an abundance of options and opportunities not previously available. In many cases, although the business owner’s net worth may have been high when the value of the business was considered, he or she may have been living on a relatively modest income stream in the form of salary and perhaps dividend distributions.

Once the value becomes liquid, however, everything changes. The former owner’s lifestyle expenses will come in the form of portfolio distributions as opposed to salary and dividends. The purchase of big ticket items such as a second home or luxury items are suddenly possibilities, with all their burdens and benefits. Questions about benefitting younger generations through gifts or the payment of tuition arise as well.

Despite the former owner’s experience running his or her business, those skills may be of limited utility in understanding

## FORMER BUSINESS OWNERS: BIG CHANGES

### ◆ *Employment*

If the former owner is totally retired, if he or she has not determined how his or her time will be spent, the lack of sense of purpose can be difficult. If sale includes an earn-out, though still working, the former owner may have to deal with an unaccustomed lack of control.

### ◆ *Lifestyle*

Liquid wealth creates new opportunities, but often unanticipated responsibilities as well.

### ◆ *Loss of Prestige*

Much of the former business owner's sense of identity and respect in the community may be associated with being the owner of the business.

### ◆ *Complexity*

Complicated estate and income tax structures are sometimes warranted which present unfamiliar management issues.

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**Not As Easy As It Seems.** The transition from business owner to manager of liquid wealth can be surprisingly disorienting.

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how to deal with liquid wealth. Not only does this leave the former owner vulnerable to poor decisionmaking, it can be distressing on a personal level as the former owner, accustomed to and proud of being an expert in his or her field of business suddenly finds him or herself unsure how to proceed in this new environment.

The sense of displacement is often experienced more broadly when much of the owner's sense of identity and respect in the community is associated with being the owner of the business. Without a succeeding sense of mission or purpose, he or she may feel completely lost and even experience a loss of self-esteem.

Additionally, the former owner may find him or herself presiding over a dozen or more legal estate planning entities such as family limited partnerships and trusts that involve enormous levels of complexity and constant attention. Accustomed to being an expert leader in his or her business field, the former owner may feel he or she needs to fulfill a similar role but without the background and expertise to do so.

So despite the pride and distinction that comes from building a business that someone is willing to pay a lot of money for, adjusting to your new life post-sale may not be as easy as it seems.

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*“The good news is that the same fundamentals that made you a successful business owner in the first place will serve you well as you navigate the transition to your post-sale life.”*

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## *Five Strategies for Managing a Business Sale*

So for all the benefits of your business sale, managing the transition in a way that makes your life better is not easy, or even assured.

What follows, then, are five strategies designed not only to help you avoid the dangers that can imperil your post-sale financial future and happiness, but just as importantly to capitalize on the opportunities your new life makes available.

The good news is that the same fundamentals that made you a successful business owner in the first place will serve you well as you navigate the transition to your post-sale life.

In *Strategy One: Start Early*, you acknowledge that events could conspire to compel a sale earlier than you might anticipate, and that it is prudent to operate your business with that possibility in mind. When you get to the point of contemplating a deliberate sale, you understand that beginning the process as early as possible not only helps you maximize value but helps you avoid unpleasant personal wealth management surprises after the deal is done. You also make the conscious decision to go into the Decision Free Zone<sup>1</sup> in which you have the freedom to test and consider different pre- and post-sale scenarios and alternatives without the pressure of having to make any binding decisions.

In *Strategy Two: Build a Team*, we discuss the kinds of expert advice you will need to help you articulate your Personal, Wealth and Legacy Visions for your post-sale life and how to assemble a team of advisors to help you move from vision to execution.

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<sup>1</sup> Susan Bradley, *Sudden Money: Managing a Financial Windfall* 19 (2000).

# THE FIVE STRATEGIES



**Importance of Process.** The discipline of a process oriented around fulfilling the business owner's Visions is essential.



You acknowledge that working through and articulating these visions is a necessary prior step to being able to define what a "successful business sale" means to you.

In *Strategy Three: Your Vision*, we observe again that the real value of wealth isn't measured in dollars but rather in its ability to make your life better. How you define "better" – in three, ten, twenty years or at the end of your life – is your "vision," and we describe a process for articulating it.

In *Strategy Four: Your Wealth*, we provide a process for determining early on what kind of lifestyle you can reasonably expect after your business sale is completed, and steps you can take to improve that result if you find it insufficient.

Finally, in *Strategy Five: Your Legacy*, we describe various legal, estate planning, and charitable techniques that can be used to transmit the three kinds of "capital" – financial, human and social – to subsequent generations.

Only once you have worked through these issues with the assistance of your advisors are you able to know whether you are ready to sell your business, and if so under what terms it would be acceptable to do so.

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*“For business owners who do not start early enough in the planning process, it can be much like a downhill ski racer hitting a jump head on. They find themselves soaring through the air, fighting for control. On landing, some recover, though at compromised speed, others do not.”*

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## **STRATEGY ONE: START EARLY**

Perhaps the biggest obstacle encountered by the downhill ski racer is the large jump. Being in the air compromises control and performance, and so the goal of the racer is to keep his or her skis on the snow as much as possible. The way the racer minimizes the impact of such an obstacle is by “pre-jumping.” That is, the racer proactively jumps *before* hitting the jump. The result is a gentle glide over the obstacle, and back down onto the snow.

For business owners who do not start early enough in the planning process, it can be much like a downhill skier hitting a jump head on. They find themselves soaring through the air, fighting for control. On landing, some recover, though at compromised speed, others do not.

The question is, is there anything the business owner can do to “pre-jump” the experience to help ensure a smooth landing on the other side? The answer is most assuredly yes.

First, even if you are not planning on selling your business anytime soon, remember, all businesses are sold eventually and often not necessarily because you are seeking a sale. You may find yourself disabled, or you may lose a key partner forcing a sale. Your industry may be experiencing a consolidation obligating a sale to an erstwhile competitor.

Under these circumstances, because the sale was unexpected, the business may not have much time to position itself to command the highest possible price. If the success of your business is largely dependent on your specific skill set, say it is oriented around your personality or your unique ability to generate sales, the business may simply not be viable in your absence.

## CASE STUDY: GENE<sup>2</sup>



*Gene is the sole owner of an accounting firm specializing in tax return preparation for individuals and small businesses. He has several technically astute associates, one of whom is his daughter, who do most of the return preparation work.*

*He is well connected in the community having lived in it for his entire life and is solely responsible for the generation of new business. Most current clients feel a personal loyalty to Gene as opposed to the firm itself.*

*Gene has decided he would like to retire in a year. He and his wife have already made plans to travel as soon as he retires and they are both extremely excited about the prospect.*

*He hires a business valuation expert who reports that with Gene's continued involvement the current cash flows make the business very valuable. However, because it is so dependent on him, it likely could not continue in his absence which diminishes its value considerably.*

*Both Gene and his wife are extremely disappointed knowing it will likely take three or more years to make the necessary changes in the business so that it can be sold for what they need it to sell for to support their plans for retirement.*

<sup>2</sup>See back page for important information on Case Studies.



Because you may find the decision to sell your business imposed on you by events, the best practice is to run your business as if you were preparing it for sale, even if you have no present plans to do so. One effective technique is to “Fire Drill” the situation.<sup>3</sup> That is, think very hard about what would happen if you were unable to be involved in the business. Could it survive? If not, what specific functions would fail in your absence? Once you have identified those, determine what would need to change in your business to mitigate or even eliminate that risk.

Even if you have made a conscious decision to sell your business, not starting early enough can result in some unpleasant surprises. For example, in **Case Study: Gene**, Gene made the decision to sell his business, even going so far as to make specific retirement plans in anticipation, before understanding how much it could realistically fetch given how inextricable his presence was to its success.

In the ideal case Gene would have entered the “Decision Free Zone” where he would have had the time to “Fire Drill” the sale of his business by ascertaining the realities of its true value, *before* making the decision to sell it and retire. He and his wife would have articulated their Personal, Wealth and Legacy Visions, without the pressure of having to make any decisions, and to see how realistic they were in light of an accurate assessment of sale price and the terms of the deal.

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<sup>3</sup> Bonnie B. Hartley and Michael T. Hartley have developed the “Fire Drill” concept and offer a number of Fire Drill guides, one of which is oriented around contemplating a business sale. They are available on their “Think Ahead – A Wealth of Tools for Families” CD available through the Cambio Press (see: [www.cambiopress.com](http://www.cambiopress.com)).

Neither Bonnie B. Hartley, Michael T. Hartley nor the Cambio Press is affiliated with Royal Alliance Associates, Inc., or Genovese Burford & Brothers Asset Management.



## STRATEGY TWO: BUILD A TEAM

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*“It is essential, at the outset, that you assemble a team of experts, working collaboratively with you and each other, to provide integrated services and advice to proactively address the Personal, Wealth, and Legacy issues presented by your business sale.”*

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As we have discussed, managing a business sale requires dealing with an enormous amount of complexity. Not only does it involve detailed technical issues having to do with the business itself, it involves hard thinking about how you will live the rest of your life.

But as most successful business people know, the success of any substantial endeavor is rarely traceable to the efforts of a single individual. Selling your business well requires the input of a team of highly trained professionals dealing with extremely technical issues that are constantly evolving.

It is essential, therefore, at the outset that you assemble a team of experts, working collaboratively with you and each other, to provide integrated services and advice to proactively address the Personal, Wealth, and Legacy issues presented by your business sale.

Specifically, your team fulfills two important roles: (1) at the outset, while in the safety of the “Decision Free Zone,” it helps you work through pre-sale issue of discerning what the true value of your business is, what changes need to be made to the business to receive maximum value, and what your personal, financial and estate planning needs will be in retirement, and (2) on an ongoing basis (for the rest of your life), to identify issues that arise as a result of changes in your personal life, your finances, tax laws, etc., and propose and implement solutions.

Your team will consist of a Team of Advisors, some of whom are Core Team Members who will advise you on an ongoing basis after the transaction is completed (see Figure 1 on Page 10).

## EQUIVALENT EXPERTISE



*“It is essential that your advisors equal the sophistication, expertise, and experience of a buyer’s advisors. For example, prospective buyers from private equity firms or Fortune 500 companies likely will be advised by prestigious law firms and reputable investment bankers. Your advisors should be comparable in quality and experience to assure your strategy and negotiations are on equal footing. As the process moves to drafting purchase and sales agreements – especially representations, warranties and escrows – expert legal counsel will assure that you are not disadvantaged.”*

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**Source.** *Selling Your Business for More*, Daniel R. Barron, Mary Geddes Boehler, and Marian F. Cook 89 (2010).

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The two most important Team Members at the outset are the Business Sales Expert and the Financial Planner. The Business Sales Expert is best suited to evaluating the prospective transaction strategically. He or she will provide a process for thinking about the business from a buyer’s point of view and will know when it is appropriate to bring in other experts.

It is important to bring the Financial Planner into the picture at the beginning for at least three important reasons: he or she will (1) provide essential input as to what kind of retirement lifestyle the net proceeds of the business sale can reasonably support, (2) provide information needed by the Estate Planning Attorney and Personal Income Tax Advisor to advise on wealth management issues, and (3) help with the transition to the business owner’s post-business life.

**EXHIBIT 1**  
**PROFESSIONALS NEEDED FOR A SUCCESSFUL BUSINESS SALE**  
**(CORE TEAM MEMBERS IN *ITALICS*)**



## ARTICULATING YOUR VISION



1. Define what would have to happen by the end of your life for you to be able to look back and say, “I had a successful life.”
2. Determine what would have to happen at the end of 20 years for you to meet your lifelong goals.
3. Determine what would have to happen at the end of 10 years.
4. Determine what would have to happen at the end of 3 years.
5. Working with your Core Team of Advisors, determine if your goals are realistic given cash flow requirements, risk tolerance, asset base and income tax effects. Determine what kinds of estate planning documents would be required.
6. If necessary, modify items 1 – 4 to make sure they are realistic and reflect your highest priorities.
7. Core Team of Advisors working collaboratively create written Wealth Management Plan.
8. Review and modify Plan at least annually in consultation with your Core Team of Advisors.



## STRATEGY THREE: YOUR VISION

Simply put, your Vision is your definition of success in the near, medium and long-term. It is a lifelong plan for fulfilling your highest ambitions and desires, guided by your values, with a keen sensitivity to what is reasonable given your resources.

The advantage of engaging in this process while in the Decision Free Zone is that it gives you the opportunity to consider various alternatives without the pressure of actually making decisions. It allows you the time and space to deal with your feelings about your wealth and to develop a complete understanding of its opportunities and limitations.

To that end, it is essential that your Business Sale Expert and Core Team Members be included as a part of this process to help you understand what is possible, what is prudent, and to balance the alternatives. Committing to an unrealistic vision leads to failure and feelings of regret. It is an example of how selling your business can actually fail to make your life better.

Your Core Team Members should have in one form or another a process for helping you understand your Vision, ideally reducing it to a written Wealth Management Plan setting forth specific goals and timelines. The Sidebar sets out a proven process for working out your Vision and Wealth Management Plan.

## FORMS OF BUSINESS SALE

### ◆ *Liquidation*

Pro: receive cash, liquidity.

Con: typically lowest value.

### ◆ *Share Purchase*

Pro: if for cash, liquidity.

Con: if for shares in acquiring company, single stock risk.

### ◆ *Asset Purchase*

Pro: receive cash, liquidity.

Con: sales transaction is complex.

### ◆ *ESOP*

Pro: creates market for stock if none other exists, incentivizes employees.

Con: complex legal structures.

### ◆ *Management Buyout*

Pro: maintains continuity of business and therefore value.

Con: usually involves payment over time.

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**The Form of Business Sale Makes a Difference.** How the business sale is structured affects the former business owner's finances in retirement.

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## STRATEGY FOUR: YOUR FINANCES

One of the biggest transitions faced by a former business owner is adjusting to a regime where income is derived from liquid marketable assets as opposed to distributions

from the business. In both cases an asset base is generating wealth that can be spent. In the case of the business, however, the income received is liquid while the asset generating the income is illiquid. In the case of marketable securities, both the income and asset base are liquid and they can be easily confused.

This is one of the reasons it is essential to have a good Financial Planner on board early on, preferably one with experience working with clients navigating a business sale and using the following process.

1. Working closely with the Business Sale Expert, Business Valuation Expert, and Income Tax Advisors, obtain a realistic idea of sale price and in what form it will be paid.
2. Using financial planning analytical tools, determine how much the asset base can support in the way of annual cash payments to support the client's lifestyle in retirement and have a reasonable probability of achieving their stated goals.
3. Compare those results with the client's expectations.
4. If the amount of spending determined to be prudent is less than needed to support the client's desired lifestyle in retirement, work with the Business Sale Expert and others to evaluate options for improving value.

## FORMS OF CAPITAL

### ◆ *Financial*

Measured in units of currency. Includes stocks, bonds and real estate as well as instruments derived from them, such as mutual funds, hedge funds, venture funds, certificates of ownership, forward-selling contracts, stock options, private equity holdings and other forms of financial interest.

### ◆ *Social*

The family's impact on society through its philanthropy. Vehicles include charitable remainder trusts, donor advised funds, private foundations, and charitable gift annuities.

### ◆ *Human*

Consists of the knowledge, skills, attitudes, values, and wisdom of your family members and the people important to you.

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**Source.** *Master Plan: Integrating Your Financial Planning, Legal and Estate Planning, and Life Planning*, Byron E. Woodman, Jr., and Michael T. Hartley, 36–41 (2006).

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## STRATEGY FIVE: YOUR LEGACY

Simply put, your Legacy is the “wealth” you transmit to subsequent generations. In thinking about wealth, it is helpful to think about it along three dimensions: Financial Capital, Social Capital and Human Capital (see *Sidebar*). Not only do these encompass the financial wealth normally associated with a business sale, it includes the values and experience that you as a business owner have lived by and developed over many years of hard work.

While it may be natural to assume that the Social and Human Capital elements are best considered after the business sale, having an initial understanding of these issues can be helpful in terms of preparing for the eventual execution of the sales transaction.

For example, if the sale proceeds come in the form of stock in the acquiring company, there will be a strong incentive to diversify out of that single position. Any sales of the stock, of course, will incur capital gains tax. A popular technique for diversifying out of a single stock position is to create a charitable remainder trust. Shares of stock can be transferred to it in-kind and a lifetime income stream retained. Because the charitable remainder trust is a tax-exempt entity, it pays no capital gains tax when it sells the shares and diversifies them.

However, creating such an entity takes time, and if you wait until after the sale occurs to decide if such a trust makes sense and how to structure it, you may leave yourself vulnerable to market fluctuations in the stock. Much better to have thought about it beforehand and have the trust ready to receive the stock as soon as the transaction occurs.



## *Your Next Steps*

**W**hether you are contemplating a business sale or simply want to prepare for an unexpected event that might compel one, getting the right advice is essential.

The most important professionals in the early going are your Business Sale Expert and a Financial Planner with experience working with business sales. The Business Sale Expert will help formulate the global business sale strategy, and the Financial Planner the global post-sale wealth management strategy. Both will know when to bring in other professionals as the plan progresses.

As we have seen, your post-sale life may include a lot of complicated legal entities subject to complex tax compliance rules. Managing this specific kind of complexity may be new to you and so it is important building a team of experts to guide you is critical. In the ideal case you would form what would be in essence a Board of Directors with you as the CEO. It would consist of your Trust & Estates Attorney, your Financial Planner/Asset Manager, and Income Tax Advisor and others as needed. In the ideal case, your entire team would meet at least semi-annually to work collaboratively to identify issues and solutions to them.

You have put so much into your business. You have a right to expect that your post-sale life will be at least as good as it was when you owned your business. Fortunately, with the right amount of time, the right process, and the right advisors, you can make that dream a reality!

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*“You have a right to expect that your post-sale life will be at least as good as it was when you owned your business. Fortunately, with the right amount of time, the right process, and right advisors, you can make that dream a reality!”*

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**M**ark joined Genovese, Burford & Brothers in 2010, a fourth-generation Sacramento native returning after 25 years living in Massachusetts and Virginia.

He graduated from Williams College in Williamstown, Massachusetts, in 1988, with a B.A. in History, and earned his J.D. from the Washington & Lee University School of Law in 1997. Mark is a CERTIFIED FINANCIAL PLANNER™ certificant.

Prior to joining Genovese, Burford & Brothers, Mark worked as a trust and estates attorney in the Boston area for over 13 years, and concurrently was the COO of an independent registered investment advisory firm and multi-family office serving high net worth individuals and families. He also has a background in trust administration being responsible for the management of over 50 irrevocable trusts.

Mark specializes in providing financial services to high net worth individuals and families, with a special emphasis on Surviving Spouses, Recent Inheritors, Divorcees, Family Trustees, Recipients of Legal Judgments and Business Owners engaging in liquidity events.

*Case Studies presented are hypothetical examples only and are not representative of actual client experiences. Each client has unique circumstances and the case studies presented are only meant to illustrate common errors individuals make when handling their investments. Case studies presented should not be interpreted as a guarantee of future performance or success. Genovese, Burford & Brothers Asset Management does not offer tax or legal services.*

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### **Five Strategies for Managing a Business Sale**

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