



January 25, 2024 | Exit Strategies, Selling a Business

ARE YOU RUNNING AN OWNER-OPERATED BUSINESS OR IS IT PROFESSIONALLY RUN?

It's hard to look at your business through an investment lens. No matter how you approach it, all you can see is the decades of blood, sweat and toil you've put in the business to get it where it is today.

Unfortunately, the market for your business takes a hard line in describing, classifying, and valuing your business.

There are two distinct business types when it comes to selling a business: Owner Operated and Professionally Run. Depending on which one your company is perceived as, it will impact your ability to sell it for a profit.

Most business owners want to classify their business as professionally run when in reality its owner operated.

To help shed light on what type of business you have, below are several classifying questions:

1. Are you the key employee?
2. Are you taking all the profits out of the company?
3. Are your financials used to minimize taxes?
4. Are your revenues flat?
5. Do you have an enforced budget instead of a business plan?

If you answered yes to these questions, then your company is owner operated.

You enjoy the luxuries of being the one in charge, controlling the direction, and personally reaping the financial rewards. You are a dedicated owner who loves what you do. However, business growth is limited to maintain your ability to oversee all the operations. Owner operated businesses may have employees, but the owner maintains the ultimate authority to implement changes.

You should celebrate the success of the company and the benefits that it brings to your life, as these types of businesses are very successful at achieving a particular life standard for the owner. However, owner operated companies are much harder to sell. Potential buyers see you as the main value driving the business' success. When you leave, so does the value.

If you answered no to those five questions, then you most likely fall into the professionally run category.

These six characteristics will describe your professionally run business:

1. There are organization charts with officers, directors, and managers linked to job descriptions that outline who reports to whom.
2. Employees have the authority to enforce, reward, coach and expand their reports without your approval.
3. Not only is there a budget in place, but it is enforced and managed against.
4. There is a marketing strategy and budget supporting growth efforts.
5. Profits are reinvested in the company for growth and expansion.

6. You can take vacation and the company still thrives despite your absence.

When someone approaches buying a business, they will look to see which category yours is by asking these same types of questions.

The strongest sales opportunities are in companies that are their own entity, almost their own person, if you will. They have their own FEIN number. They operate independently of any one individual and have both long-term and short-term goals. These are Investment businesses.

This is not to undercut the value of an owner operated business to you and your family. This is only to highlight the differences if you were to sell an owner operated business vs a professionally run business.

Regardless of its classification, every company needs a long-term exit strategy.

There are typically three ways to exit a company:

1. Sell off the parts, settle the accounts and close up shop
2. Pass the business onto a family member
3. Sell the business

If you currently run an owner operated business and your ultimate goal is to sell, then it may be time to consider taking steps to transition to a professionally run operation. This process is completely doable but challenging. And it takes time.

You need to find, hire, and integrate the right senior managers, build a budget, and the hardest part of it all, remove yourself from the center of the company. The good news is that the further you plan ahead and build out your exit, the better chance you will have in actually being able to reap some financial reward from selling it.

If you need assistance in developing your strategy to transition out of an owner operated business to a professionally run company, contact us today. Together, we can work to make your business exit align with your WIN.

