



EXIT PLANNING SOLUTIONS

BEI 2016 BUSINESS OWNER SURVEY REPORT



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BEI 2016

BUSINESS OWNER SURVEY REPORT

Baby boomers have begun to exit their businesses en masse, and their exits have triggered perhaps the most massive transfer of wealth in history. Yet, even as this monumental wealth transfer takes shape, most business owners find themselves either partially or entirely unprepared to exit their businesses with the financial security they need to assure that the quality of their post-exit lives matches or exceeds the quality of their pre-exit lives.

The purpose of this report is to provide business owners and their advisors with an overview of how, when, and why owners plan to exit their businesses. In this report, we will present *The BEI 2016 Business Owner Survey's* demographics, expand on three notable themes from the survey, and provide information that may explain the problems and obstacles business owners and their advisors face as owners exit their businesses.



Demographics



BEI worked with a professional research firm to collect data that are statistically valid and representative of a range of business sizes and geographic regions. Owners between 40 and 69 years old comprised 80% of all respondents. Respondents reported yearly revenues ranging from \$500,000 to \$500 million. The survey included responses from members of the construction, professional and business services, and manufacturing industries, among others.

WHAT WE LEARNED

In the two years since BEI's last business-owner survey, we have noted significant changes in how owners have approached their business exits. Generally, business owners' responses reflected three themes:

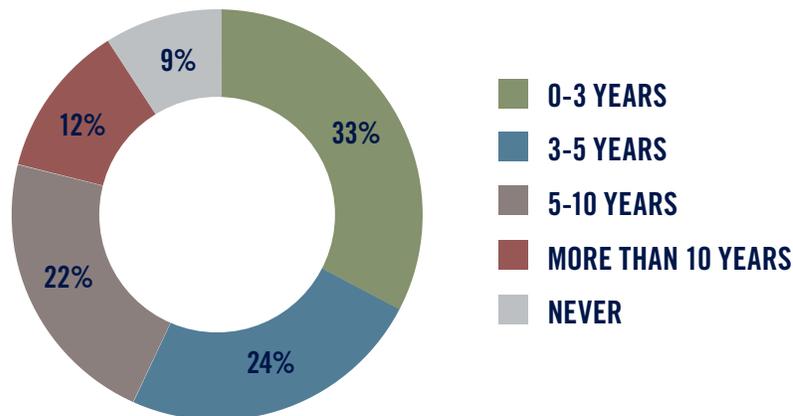
- Most business owners want to exit their businesses within the next 10 years.
- Most business owners believe that their exits will occur because of planning and action items they implement.
- Most business owners have not created a concrete, written plan for their exits.

79% OF BUSINESS OWNERS PLAN TO EXIT THEIR BUSINESSES IN THE NEXT 10 YEARS.

75% WOULD EXIT TODAY IF THEIR FINANCIAL SECURITY WERE ASSURED.

100% OF BUSINESS OWNERS WILL LEAVE THEIR BUSINESSES, WHETHER PLANNED OR OTHERWISE.

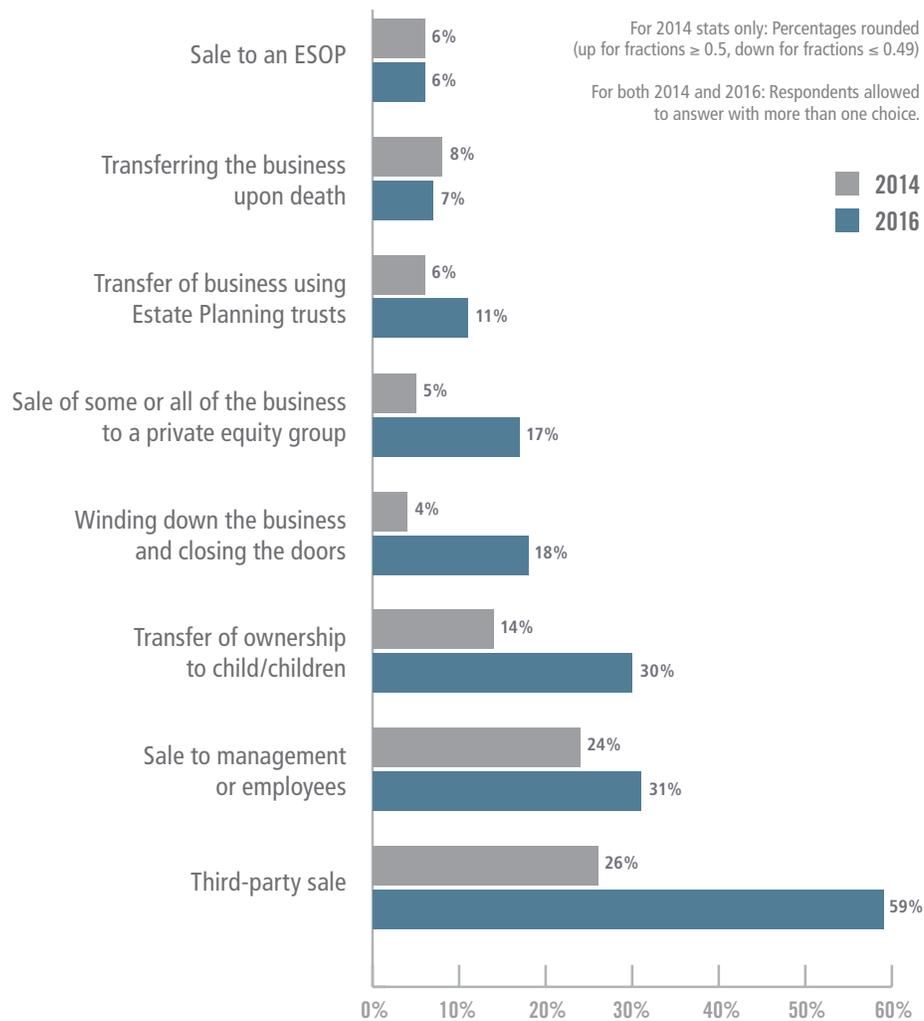
HOW LONG BEFORE OWNERS WANT TO EXIT THEIR BUSINESSES



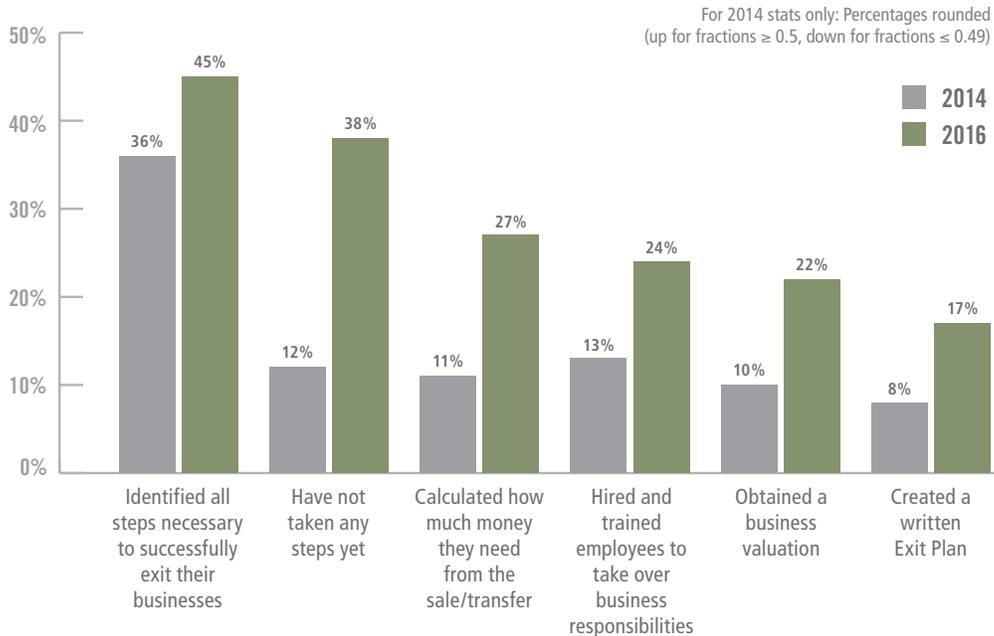
The Options Seem Limitless: Owners' Chosen Exit Paths

An *Exit Path* is the route that an owner takes to successfully exit his or her business. It's defined by the person or group to which the owner sells or transfers the business. When asked about which Exit Path owners were most interested in, owners often chose more than one option.

OWNERS' CHOSEN EXIT PATHS



ACTIONS OWNERS HAVE TAKEN TOWARD THEIR EXITS



WHAT WE LEARNED

The survey shows that a majority of all business owners have not identified all of the steps necessary to exit their businesses successfully, and fewer still have created written Exit Plans.

Concrete: The Best Foundation for a Dream

80% OF OWNERS BELIEVE THAT A SUCCESSFUL EXIT WILL RESULT FROM PLANNING AND ACTION ITEMS THEY IMPLEMENT.

Owners understand the importance of concrete plans and implementing action items in exiting their businesses successfully. In the context of their careers, it makes sense that business owners believe that planning is paramount to success: Without business planning, most business owners would not have achieved success, because their businesses likely would have folded long before they could exit successfully.

You Can't Build a Dream Without Concrete Plans

45% OF OWNERS BELIEVE THEY'VE IDENTIFIED ALL OF THE STEPS NECESSARY TO EXIT THEIR BUSINESSES SUCCESSFULLY.

24% HAVE HIRED AND/OR TRAINED EMPLOYEES TO TAKE OVER BUSINESS RESPONSIBILITIES.

22% HAVE OBTAINED A BUSINESS VALUATION.

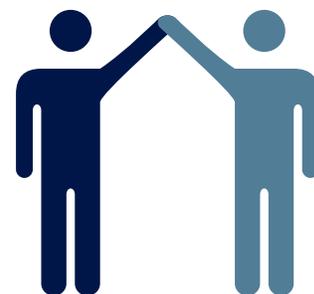
Despite understanding the importance of planning in a successful exit, most owners have not yet identified all of the necessary steps to exit their businesses successfully. Fewer still have (a) hired and/or trained employees to take over business responsibilities and (b) obtained a business valuation, both of which are critically important to a successful business exit, regardless of the chosen Exit Path.

Why Aren't Owners Exiting Their Businesses?

37% OF OWNERS WILL TAKE THE NECESSARY ACTIONS WHEN THEY ARE READY TO EXIT.

31% BELIEVE THAT THERE ARE OTHER ISSUES THAT REQUIRE THEIR IMMEDIATE ATTENTION.

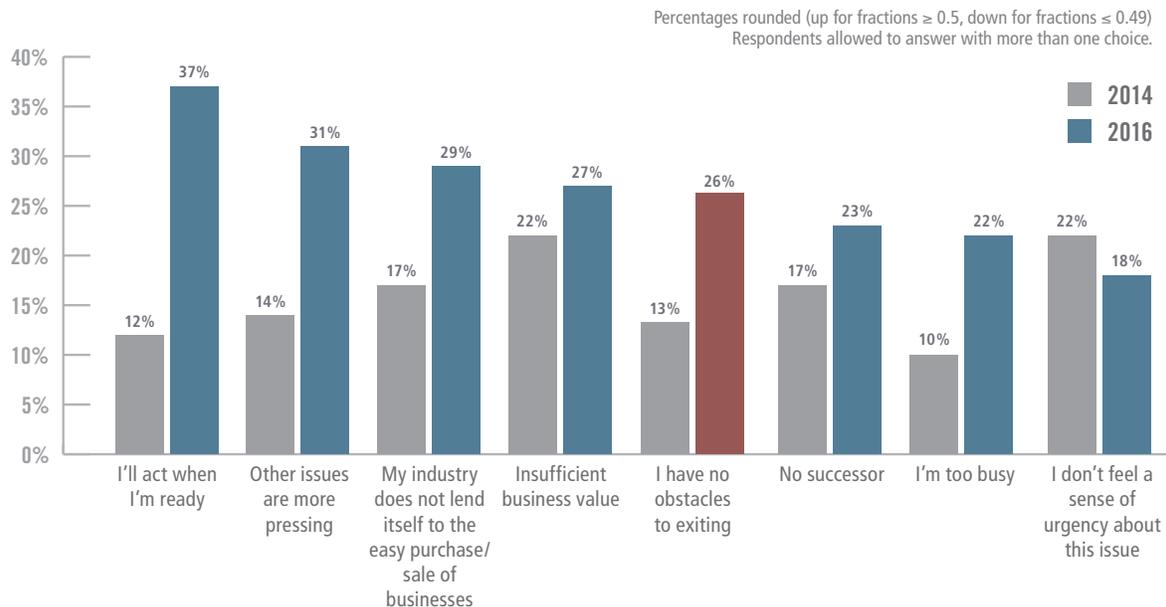
As many as 68% of owners consider Exit Planning a low priority compared to other business-related needs. This is an interesting tie-in to three facts: (a) Owners often need to dedicate 5–10 years to Exit Planning if they want to exit their businesses with financial security, (b) 80% of owners believe a successful exit will be the result of planning and action items they implement, and (c) 75% would leave their businesses today if they were assured financial security.



ONLY **17%** OF OWNERS HAVE CREATED A WRITTEN EXIT PLAN.

The 83% of owners who had not created a written Exit Plan provided several reasons why.

REASONS WHY OWNERS DO NOT HAVE WRITTEN EXIT PLANS



Can Optimism Be an Obstacle?

26% OF OWNERS SAID THAT THEY HAD NO OBSTACLES PREVENTING THEM FROM EXITING.

Between 2014 and 2016, there was a twofold increase in the percentage of business owners who believed that they could leave their businesses at any time.

John Brown, former business-planning attorney and Founder of BEI, noted, "The most common complaint that we receive from private equity representatives is that owners vastly overvalue their businesses and then demand unobtainable sale prices based on the overvaluation."¹ Brown also noted, "Many, if not most, business owners are faced with the inability to replace current lifestyle spending with the investment return from the [business'] sale proceeds and existing non-business assets."²

¹ John Brown, "Overly Optimistic Owners vs. Deal Killers," last modified January 29, 2017, <http://bit.ly/2ovA7cc>.

² John Brown, "If I Sell My Business, Can I Maintain My Current Lifestyle," last modified May 3, 2016, <http://bit.ly/2ovyE5y>.

Whom Are Owners Talking to About Their Exits?

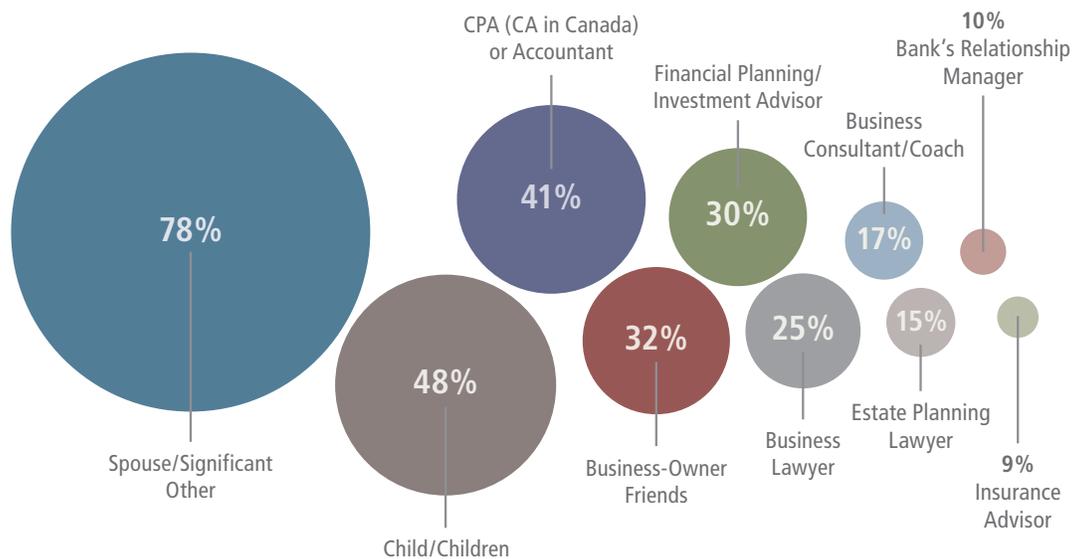
78% OF OWNERS HAVE DISCUSSED THEIR BUSINESS EXITS WITH A SPOUSE/SIGNIFICANT OTHER.

48% HAVE DISCUSSED THEIR EXITS WITH CHILDREN.

32% HAVE DISCUSSED THEIR EXITS WITH BUSINESS-OWNING FRIENDS.

Business exits are emotional events. It makes sense that owners tend to discuss their exits with the people they trust most, including spouses, children, and friends.

WHOM OWNERS ARE TALKING TO ABOUT THEIR EXITS



ONLY 18% OF OWNERS HAVE TALKED TO SOMEONE WHOM THEY CONSIDERED TO HAVE TRAINING OR EXPERTISE IN EXIT PLANNING.

11% HAVE TALKED TO NO ONE ABOUT THEIR EXITS.

Of this group, more than 50% still said they planned to exit within the next 10 years.

Where Do Owners Keep Their Money?

58% OF OWNERS SAID THAT THEIR BUSINESSES COMPRISED NO MORE THAN HALF OF THEIR NET WORTH.

Most of this survey's respondents said that they kept at least half of their wealth outside of their businesses. According to John Brown, these numbers are interesting: "In our experience, most financial advisors think that 80–90% of owner wealth is in the business."³

Only 4% of respondents reflected that belief.

Is Exit Planning Possible in All Industries?

29% OF OWNERS SAID THAT THEIR INDUSTRIES DO NOT LEND THEMSELVES TO THE EASY SALE OR PURCHASE OF BUSINESSES.

Is it possible that nearly one-third of business owners work in industries that are not conducive to Exit Planning? Company size, owner age, and geographic location can all affect the effectiveness of Exit Planning. Additionally, certain industries, such as lifestyle industries, face difficulties when planning successful exits.

However, of these respondents, nearly 20% came from the construction or contracting industries, two industries that typically lend themselves to successful Exit Planning.

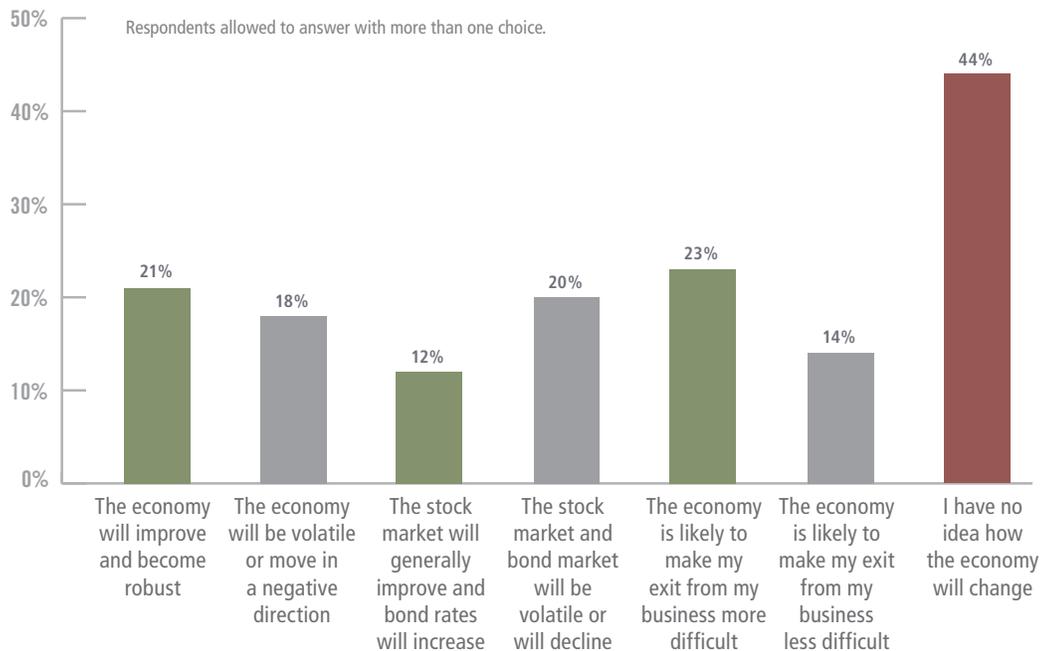
Nearly three-fourths of this respondent group had at least five employees and sales volume ranges between \$1 million and \$50 million.

"Businesses that are good Exit Planning prospects have several traits. They have an owner who controls most of the business, a management team, a diverse customer base or strong book of business, a good reputation in their communities, and/or intellectual property or special expertise." – BEI Leadership

³ John Brown (retired business-planning attorney, Founder of BEI), interviewed by John Pullega, Denver, CO, February 7, 2017.

The Economy's Role in Exit Planning

OWNERS' THOUGHTS ON THE ECONOMY OVER THE NEXT 5 YEARS

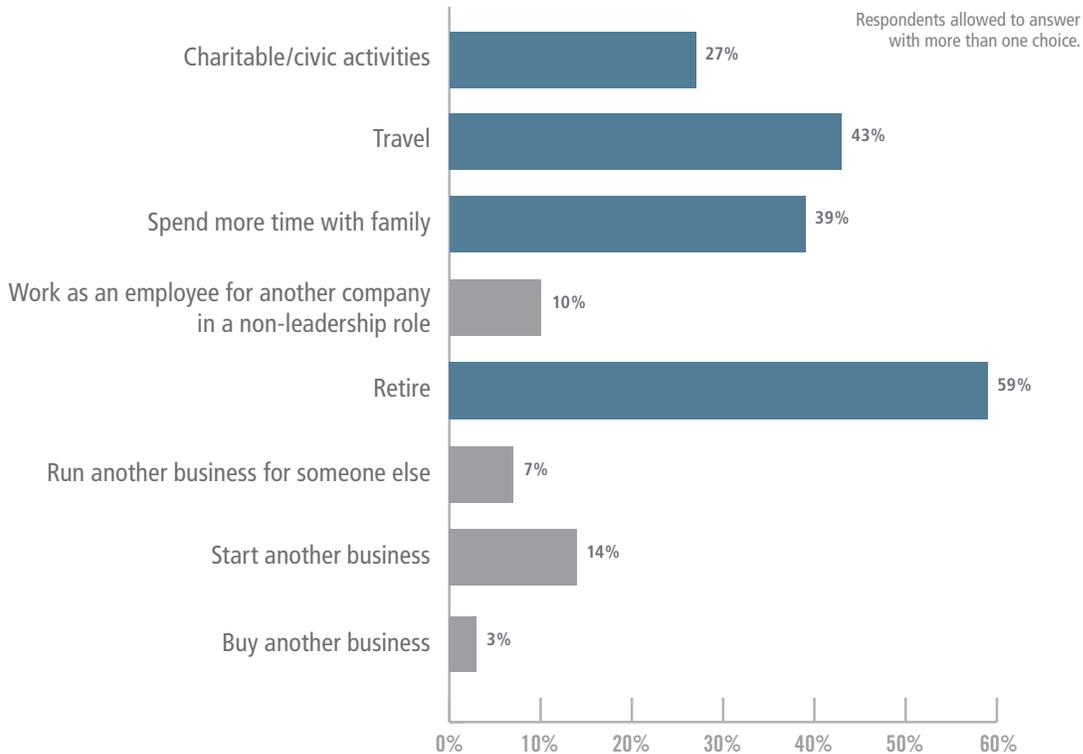


Owners largely admitted that they had no idea how the economy would act over the next five years. Those who did opine on the direction of the economy tended to split between positive and negative outlooks, but more respondents believed that the economy would make their exits more difficult, not less.

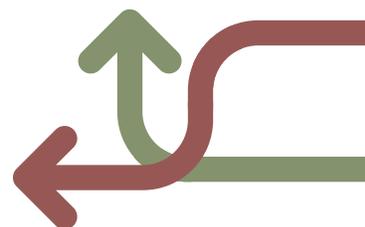


What Do Owners Do After They Exit?

OWNERS' POST-EXIT PLANS



Upon exiting their businesses, most owners intend to retire, travel, spend time with family, and increase their charitable and civic activities. Relatively few owners planned to continue working, whether for a new enterprise or for someone else.





Conclusion

The BEI 2016 Business Owner Survey provided three key insights:

- 1. MOST BUSINESS OWNERS WANT TO EXIT THEIR BUSINESSES WITHIN THE NEXT 10 YEARS:** Seventy-nine percent of owners want to exit their businesses within the next 10 years. Since strong business exits typically require actions that business owners may not be aware of—such as installing Value Drivers and increasing transferable value, which often take 5–10 years—owners who desire to exit within the next 10 years should begin planning today.
- 2. MOST BUSINESS OWNERS BELIEVE THAT THEIR EXITS WILL OCCUR BECAUSE OF PLANNING AND ACTION ITEMS THEY IMPLEMENT:** Owners have had more conversations about Exit Planning with more people than ever before, reflecting an interest in and understanding of the importance of Exit Planning. Eighty percent of owners believed that planning and action items they implemented would lead to a successful exit.
- 3. MOST BUSINESS OWNERS HAVE NOT CREATED A CONCRETE, WRITTEN PLAN FOR THEIR EXITS:** Despite an overwhelming desire to exit within the next 10 years, only 17% of owners have created written Exit Plans. Nonetheless, 80% of owners believe that a successful exit requires planning and action items that they implement, providing fertile ground for both owners and their advisors to assure a successful business exit.

Baby-boomer business owners are starting conversations about Exit Planning and often considering multiple Exit Paths at once. They have various plans for what they'd like to do after they exit, but most have not yet identified all of the steps necessary for a successful exit.

As baby boomers begin exiting their businesses en masse, they will need to assure that they can leave their businesses with the financial security required to allow them to transfer their pre-exit quality of life to their lives after their business exits.



EXIT PLANNING SOLUTIONS

About BEI

BEI is the leading innovator in the Exit Planning industry. We offer comprehensive Exit Planning training, marketing support, and plan-creation tools to our Advisors. Members of the BEI advisor community have access to an established, systemized process that allows them to easily help their clients with their business-transition planning. Professionals in a variety of disciplines leverage Exit Planning to attract and keep high-caliber business clients in their practices. BEI trains and supports business advisors to be the preeminent Exit Planning resource for business owners in their communities. Members of The BEI Network of Exit Planning Professionals™ ultimately seek to help business owners and their families benefit from their lives' work.

Contact your Exit Planning Advisor to learn more about Exit Planning or to get started planning for the future. Exit Planning workshops, business owner assessments, and planning solutions are available through your local BEI Exit Planning Advisor.



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