

As seen in:

SCOTTSDALE Airpark News

Department

Business Strategies for “What If” Situations

Become a Passive Business Owner

“If I sell my business today, pay my taxes, brokers and professional advisors, and then invest the remainder conservatively, will I still be able to enjoy my current lifestyle?” Most business owners have asked themselves this question. After building a successful business, they wonder if they will net enough cash from its sale to maintain their standard of living. Often, after calculating the potential returns of investing the sale proceeds, they realize they can make more money by holding onto the business and becoming “passive” owners.

Many business owners consider passive ownership instead of selling their business simply due to economics. Why give up the cow and the milk? These same business owners also feel that they have lost “balance.” They are making a living, but are not enjoying life. They want to come and go as they please without impacting the profitability of the business.

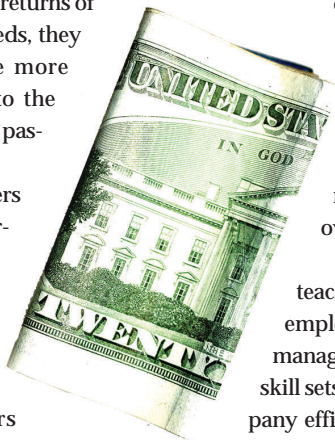
In order for business owners to enjoy the best of both worlds, the business must be structured so that an owner can assume a passive role while having a profitable entity. In a perfect world, the business would become an investment arrow in the owner’s investment quiver. To accomplish this, the business must be totally systemized with a knowledgeable management team in place. Don’t expect to become a passive owner overnight – it is a two- to three-year process. It is a marathon, not a sprint. During this

time, the owner must focus on cleaning up the business and putting the house in order, so to speak, so the new management team can run the business in the owner’s absence.

Passive ownership, under the best of circumstances, is risky. When you are not hands on with your business on a daily basis, there are events transpiring over which you exert little, if any, control. Obviously, under these circumstances, you must rely upon the competence and integrity of your management staff. Your top priority is to assemble a trustworthy team to run the business without your daily oversight.

An owner needs to teach employees how to be employers and insist that the management team acquire the skill sets needed to run the company efficiently in his or her absence. Locking in non-owner managers with an incentive or bonus program will ensure the business’ continued smooth operation. The management team should become very familiar and comfortable with all relationships that impact business operations; for example, legal and financial advisors, suppliers and distributors, to name a few.

Alarming, many owners file information relating to the business only in their heads. When they’re not around, their management staff and employees can’t access the information that’s buried deep inside an owner’s gray matter. That’s why owners need to establish and document systems for both critical and non-critical functions that can be fol-



Nathan Sachs

lowed to the letter.

Many business owners do not realize the emotional impact that reducing their involvement in the business will have on their daily lives. They must fill formerly scheduled work hours with other activities. A lot of owners have been so busy building their business, however, that they have not developed any hobbies. How are they going to fill their days, keep their sanity and not drive their spouses crazy? One month after her husband became a passive owner, a wife lamented to me that she married him for dinner, not breakfast and lunch. He was already driving her crazy.

Passive ownership can be a great exit plan but it is not for everyone. On the surface, passive ownership seems ideal but it does have pitfalls. Owners never really “leave.” Succession planning is hard to do. Owners do not receive any up front cash as they would in a sale, and they still assume all of the risk. That being said, passive ownership can be worthwhile if the business owner takes the time and effort to do it right. Passive owners can reap the benefits of continued ownership and a steady cash flow to maintain their lifestyle, while having time for family, travel, golf, hobbies and other interests. **SAW**

Nathan S. Sachs, CLU, ChFC, CFBS, is founder and owner of Scottsdale-based Blueprints for Tomorrow™, a business advisory firm. Sachs can be reached at (480) 596-1525 or via e-mail at natesachs@blueprintsfortomorrow.com.