

SUCCESSION PLANNING IN THE "NEW NORMAL": STRATEGIES FOR SMALL BUSINESS OWNERS LOOKING TO RETIRE DURING THE PANDEMIC

By Steven Podnos, MD, CFP® March 31, 2021

The COVID-19 pandemic has clearly added a great deal of complexity to the lives of small business owners who wish to retire and monetize their life's work. Issues include trying to function in a world with remote workers, dealing with potentially or actually sick workers, and more uncertainty about the future value of the business than before the pandemic.

Let us start with the understanding that most small businesses were already disrupted over the last year, both related to where workers can function and how productive they can be, and to the effects of the pandemic on the business' customer base. Many of the disruptions might relate to governmental restrictions on the business function (think restaurants and bars), and/or to internal factors (trouble keeping the workforce in place or children schooling at home). Add in the uncertainty as to how long these factors will be present into the future and the complexity of expectations and decision making extends in a temporal manner.

Think about the mindset of a business purchaser. These many uncertain factors are likely to suggest higher risk moving forward, reducing the price that the buyer might be willing to pay. Many businesses had marked interruptions in cash flows this last year, which makes valuation more difficult. Just the very thought of the economic uncertainty involved might decrease the number of buyers competing for the purchase of a business. As an example, imagine trying to sell a small business in Manhattan today. The city remains relatively empty and quiet, still with many restrictions of what various businesses can do, and with no timeline as to when things may return to normal (if ever). Comparatively, the same business type in a state like Florida might have a very different experience and outlook on the future.

Internal business succession (having the business taken over by family members or current employees) should be smoother, assuming that the successors have the necessary skills and funding to move forward. These people would have the experience of the business before the pandemic as well as the institutional

difficulty in valuation. The seller must evaluate all of the risks a buyer must be considering and should work with advisors to come up with creative solutions. One example might be a willingness to keep working in the business for a longer transition period in the attempt to make the turnover successful during the pandemic.

In this setting, having a good business broker, attorney and CFP® professional would be an excellent start to determining all the options for a successful transition, and would allow the business owner to make the right legal and financial choices. The business broker should specialize in the owner's particular industry if possible, and even better if they are local geographically. A good financial planner could offer creative ways to structure payments that might benefit both sides of the transaction.

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