

Positioning Your Business for Longevity

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Business longevity is creating a business that can survive a change in ownership and/or management and thrive for many years. However, studies indicate that only 30 percent of all family-owned businesses survive into the second generation, only 12 percent survive into the third generation, and only 3 percent operate into the fourth generation and beyond.

“Preparing your company for longevity maximizes the likelihood of a successful exit in terms of price and overall outcome,” says Sean R. Saari, a partner at [Skoda Minotti](#).

Smart Business spoke with Saari about the importance of thinking about and planning for the long-term to increase the value of a company.

What are the benefits of positioning your business for longevity?

Businesses that are positioned for longevity are almost always more valuable than those that are not. In its simplest form, the value of a company is a function of:

- The expected future cash flows it produces for its owners.
- The risks associated with achieving those cash flows.

There are two ways to increase value based on that basic formula: increase cash flows or decrease risk. Positioning a company in a manner that allows it to continue its success in the future without needing to rely heavily on a small group of key employees decreases the risk associated with the business.

This gives buyers more comfort that the expected future cash flows from the business will continue as expected after a sale or change in management. This reduction in risk translates to an increase in value in relation to what the company would be worth if not for the steps taken to prepare it for continued high performance in the future.

Why is positioning your business for longevity important?

Not only does positioning your business for longevity help to increase its value, it can also help separate it from other companies for sale. In a few years, all baby boomers will be at least 60 years old. Over 60 percent of privately held companies in the U.S. are owned by baby boomers.

With this as a backdrop, it is expected that there will soon be many more sellers than buyers in the marketplace, which will only make it more important to stand out from the crowd. Since most business owners' wealth lies in their businesses — studies indicate somewhere between 80 and 90 percent — a critical element of their succession and retirement planning will center on monetizing the investment in their business at maximum value in order to support their retirement.

How do you position your business for longevity?

The most obvious area to focus on is the company's management team, along with the adoption, implementation and execution of effective and efficient processes and procedures. If a company's success or failure is tied to the efforts and/or relationships of a single person or a handful of key employees, work needs to be done to lessen this dependence.

The specific tactics will vary based on the facts and circumstances faced by each company, but it is imperative that enough management depth be developed so the company can survive the loss of any single employee, even its most important employee.

This can be done by 'institutionalizing' customers by giving them multiple points of contact within the company so that they associate with the company itself rather than with any one individual. Another best practice is to systematically 'cross train' employees to give them an understanding of other roles within the business so that they can step in if necessary. Any work that can be done to reduce the company's reliance on specific individuals — reducing key person risk — helps to move the needle.

In addition, it is important to develop an exit plan — when do you plan on transitioning or selling the business? Even if the exit event isn't imminent, setting time-bound goals will help hold business owners and their teams accountable in making the necessary progress so that when the transition or sale is nearing, the company is already as well positioned as possible to successfully overcome the change that inevitably accompanies such an event.