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Turning a Lifestyle Business Into a Business Enterprise

Many business owners start their companies as *lifestyle businesses* to support a certain kind of lifestyle that they want. Some found businesses because they have an urge to create and build. Others want to be their own bosses. Still others want to control their own destinies.

Whatever the reason, many businesses start as and evolve into lifestyle businesses. This is great for business owners, their families, and their businesses in general, but it can be a big challenge when you start to plan for the future of your business.

As you start thinking about planning for your business' future, you might feel that you can plan while continuing to do business as usual. However, planning for the future success of your business rarely means you can continue doing business as usual. For example, many business owners don't know what their businesses are truly worth. Not knowing what the business is worth might be a part of business as usual, but it makes planning for future success much more difficult.

Likewise, it may be business as usual for you to capitalize on certain benefits of ownership. Things like perks, bonuses, and even personal clout factor into the kind of lifestyle that you might expect for yourself and your family. As you begin to plan for your business' future, you may find that those benefits could disappear if you leave the business, which can affect your lifestyle.

One way to address these issues is to turn your lifestyle business into a business enterprise.

When we use the term “business enterprise,” we mean that the business must have transferable value. It cannot simply act as a means to support your lifestyle, because it's likely that the traits that support your lifestyle have less value to, say, a private equity group or strategic buyer. These traits might include things like your personal relationships with customers or suppliers who know and trust you; handshake agreements; or flexible payment terms for your favorite clients. Additionally, running a lifestyle business typically requires your constant presence to assure that the business actually does support your lifestyle.

Lifestyle businesses support you right now. Business enterprises can support you, your family, and often the business itself, both now and in the future.

If it Ain't Broke, Why Fix It?

For many lifestyle business owners, the very idea of changing a business that brought them the wealth, success, and fulfillment they're used to can be jarring. “This business has done great things for me, my family, and my community. Why should I want to change that?”

The answer is simple and a bit brutish: Potential buyers typically don't care about the owner's lifestyle.

The things that you might consider “good” aspects of a business—supporting yourself and your family, perhaps maintaining a culture—often don't matter as much when an outside buyer does their due diligence. Where you see strength, they will find flaws. They may question practices that fail to maximize profits and cash flow, even if those practices line up with your values. These facts might cause you to resist transforming your lifestyle

business into a business enterprise.

Many of the same factors apply if you ever consider transferring your ownership interest to an insider, like a manager or family member. Insiders look for the same kinds of factors that outside buyers do in a business. While a lifestyle business may adequately support you now, you should think about what happens when you eventually relinquish your ownership interest (whether by choice or otherwise).

Turning a lifestyle business into a business enterprise can be challenging, but there are certain things you can do to begin the transition.

1. **Find or train next-level management:** Next-level management can be the catalyst to building on your current success. It's often an attractive selling point because it shows that the business can run smoothly without you.
2. **Document systems and processes:** When your employees know what they need to do to sustain company cash flow and how to do it, it becomes much easier for the business to run efficiently and effectively.
3. **Put yourself in a buyer's shoes:** Consider what you would look for if you were thinking about buying a business. If you discovered a business that supported its owner but also required the owner's presence at all times, what do you think would happen if that owner wanted to leave the business after you bought it?

Please contact Dan O'Brien for a free one hour consultation on your exit planning needs

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