EVERGREEN™ EXITS
A DIVISION OF EVERGREEN WEALTH SOLUTIONS

THE BUSINESS OWNER VS. THE ENTREPRENEUR

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I. Introduction

The phrase "knowledge is power" could not be more applicable than in the case of developing business exit strategies. The successful advisor will need to utilize knowledge about his client to develop and implement a strategy that will prove fruitful and fulfill he client's needs and desires. In this light, an important distinction that an advisor should address before consulting a client on an exit strategy is whether the client is a "business owner" or an "entrepreneur." Traditionally, these terms have been considered interchangeable and synonymous. A business owner can certainly be an entrepreneur and an entrepreneur can likewise be a business owner. The important distinction, however, is that not all privately held business owners are entrepreneurs. The two can be distinct and it is essential that the advisor understand and appreciate them in order to develop a successful exit strategy.

The difference is important because the business owner and the entrepreneur may want very different results when exiting a business. Thus, if an advisor treats them as one and the same he is doing a disservice to both himself and the client.

This paper will help the advisor answer the following questions in order to develop a successful exit strategy.

1. How do I determine if the client is a business owner, an entrepreneur, or both. ("Who Are You Talking To")
2. How will the distinction affect the planning and execution of the exit strategy? (What Will They Want?)

As we consider these issues, it is important to appreciate the fact that the business consumes most of the business owner's or entrepreneur's existence. Therefore, it is crucial to understand what the business truly means to each of them before

embarking on the process of counseling them to exit.

II. Business Owner or Entrepreneur? (Who Are You Talking To?)

Before we discuss the factors that distinguish a business owner from an entrepreneur, consider the following statistics taken at the end of the 1990s to better understand the pool of people we are dealing with.

- Of the 102.5 million households in the US, there were some 13 million households with the heads of the household owning privately held businesses, accounting for 12.7% of total households.
- Of these business owners, some 11.6 million owned and managed a business (the owner-managers), 1.0 million own, but do not manage the businesses (the investors), and some 400,000 owner-managers owned additional businesses that they do not manage.
- In addition, there were a significant number of business owners that owned more than one business and owner/managers that also invested in businesses.
- While 9.64 million households owned and managed only one business in 1998, more than 2.6 million households owned two or more businesses.
- Of these multiple-business owners, 83% managed more than one business and 34% managed more than two.

[NOTE: These figures are for reference purposes only - the fact that they are a decade old is not relevant for purposes of this discussion].

Although not immediately apparent, the above statistics reveal a great deal about business owners and entrepreneurs. After some analysis, the statistics suggest that while entrepreneurs usually expand the businesses they own and manage, they can fully utilize their management capability and investment portfolio by owning and managing more than one business to satisfy their creative nature. Not all businesses, however, are dynamic and entrepreneurial. Rather only 5-10% of businesses in the economy are entrepreneurial ventures which introduce new ideas, methods, or solutions to the production of goods and services in a market economy. The remaining 90% are business owners who may have neither interest nor motivation to create new products or new ways of conducting their business.

It is important to keep in mind that the means by which a business owner and an entrepreneur measure their success can be strikingly different - ultimately affecting how they will want to exit the venture.

The Business Owner

Business: "a usually commercial or mercantile activity engaged in as a means of livelihood"; Owner: "to have or hold as property."

One of the keys to truly understanding the nature of a business owner as a client is to consider what drove or motivated that individual into his business. Such motives can help the advisor to understand or "get inside the head" of the owner and consequently better appreciate the needs of the owner in the exit.

Virtually every business owner had an entrepreneurial urge or motive at some point in his life which led to the establishment or acquisition of the business. Such a motive or urge was the result of potentially many factors - the owner's skill set, a desire to be his own boss, a desire to become an expert and pioneer in his trade, family influence, etc. The urge to be in business for one's self, however, does not make an entrepreneur. The typical business owner has a "daily job" which is to run the business. He considers owning and running a business as a career rather than working for someone else as an employee.

The business provides him with the independence and latitude that he needs to reach his professional as well as personal goals. He is less interested in and not motivated by wealth building or investing in wealth growth. Furthermore, the typical business owner has experience in and is proficient in his business. His measure of success encompasses more than wealth alone. To the business owner the business itself is a living, breathing entity that he created with his own two hands.

In many cases the fulfillment of the owner's dreams and he will remain with it until his retirement.

The Entrepreneur

Entrepreneur: "one who organizes, manages, and assumes risks of a business or enterprise.

Entrepreneurs build and/ or invest in businesses to build and grow new ventures, using new methods or new materials to make new products. An entrepreneur is commonly seen as a business leader and innovator of new ideas and business processes. He is seeking to financially capitalize on his innovation.

Entrepreneurs can be multiple-business owners who start and/or own businesses to build and grow wealth. The entrepreneur understands the components of building, running, and selling businesses. He does not, however, need to be proficient in the technical field of his choosing in order to be successful. The entrepreneur knows the current stage of growth of his business and he will typically have a vision of where he will be in years to come. His "perspective", therefore, of the business is quite distinct from that of the business owner.

The driving force behind the entrepreneur is his creative nature and he may very well be considering his next step/venture while running his current business. In this sense, he is not bound by any limitations and intends to continually grow current business and create new business.

His motivation is not wealth for the sake of wealth but rather to use that wealth to create.

Key Distinctions in How the Business Owner and Entrepreneur View the Business

- Business owners derive security, self-esteem, recognition, and new experiences from the business that they run - they are the "king of the castle."
- Business owners take a great deal of pride in the business that they own/operate and will care about "what happens" to the business.
- Entrepreneurs feel as though they are already beyond the business, they are just "passing time", building up the successful components.
- Entrepreneurs may feel confined and limited by operating a business over an extended period of time - becoming frustrated and bored with the daily mechanics of operation.
- Entrepreneurs use wealth from the business to create additional wealth.

After careful consideration of the differences between the business owner and the entrepreneur, an advisor can approach the client with insightful and thought-provoking questions to guide them in both through the complex process of exiting a business.

III. How to Use the Distinctions as a Tool to Develop the Proper Exit Strategy (What Do They Want?)

Armed with an appreciation of the true nature of the business owner and the entrepreneur, an advisor can tailor the exit strategy to best serve the needs and desires of the client. When the advisor understands the fact that the exit of a business owner and that of an entrepreneur will differ dramatically, he has empowered himself to serve the true needs of his client.

As before we emphasized the importance of determining what motivated the owner to get into the business, the successful advisor must now determine what is motivating the owner to get out of the business. Given that private business owners and entrepreneurs are by their very nature different and distinct, their motivations for exiting the business will also be distinct. In other words, they will expect and want different things when exiting the business.

What the Business Owner Will Want

The business owner's main interests will most likely consist of the following:

- Legacy/Succession [who will take over]
- Control [maintain a "say"]
- Money [highest value]
- Retirement [enough to support spouse and lifestyle]
- Taxes [none or minimal]
- Employees and/or Family [can they become part of new entity - will they be "taken care of"]

The private business owner will most likely be interested in more than just money from the exit. In fact, although rare, the business owner may not want money at all when exiting.

The private business owner possesses a tremendous degree of pride over his accomplishments and he will want to remain the "captain of the ship" in determining the business's fate. He may very well want to pass the business along to a son or daughter, a relative, or a current member of management to ensure that the business will remain in good hands. Children who have "grown up" with a successful business that a parent has created may want to continue the work of the parent and therefore keep the business alive and part of the family.

The private business owner in many cases will want to receive the highest value possible for the business. It is important to note in this regard that the owner may very well place an inflated or distorted value upon the business's worth due to his subjective views. (*See White Paper - "Treating the Business as an Investment - The Piggy Bank Syndrome"*) It is crucial for the advisor to not only recognize this distortion but more importantly to effectively articulate the objective factors utilized in the determination of the business's true and actual market value.

The private business owner will also be concerned with his retirement package and the future welfare of his management team and his employees. He will naturally want, and to a certain degree expect, a return on all of the time, effort and money he has invested in the business. The long hours spent away from his family will now be in the "rear view mirror" and he will look forward to a comfortable retirement - one that can support and/or improve upon the lifestyle he has become accustomed to. A successful business owner will also recognize and acknowledge the contribution his employees have made to his success in many cases will want to help them. For example, the owner may want to offer his employees an opportunity to buy a piece of the business [Employee Stock Option Plan, etc.] as a way of thanking them for their service and also as a means of ensuring their future prosperity.

The advisor needs to be prepared for the possibility that after the consideration of all these issues and extended discussions, the client may realize that in reality he is not prepared to exit the business. For example, in the case of an owner who possessed a distorted view of the business's market value, he may now be reluctant to sell - hoping for a better deal sometime in the future. Furthermore, if the exit cannot realistically support the lifestyle that an owner has grown accustomed to, he may experience tremendous anxiety and feel he has no other choice but to stay with the business. Accordingly, a diligent and prepared advisor will be ready for this possibility.

What the Entrepreneur Will Want

The entrepreneur's main interests will most likely consist of the following:

- Money [highest value possible]
- No Taxes
- Diversify Wealth
- Start/Purchase new business

An entrepreneur's priorities and motivation for exiting will differ from those of the private business owner. Entrepreneurs usually want the most money possible for handing over their successful "money machine." In the eyes of the entrepreneur, an exit could be motivated by the fact that the business has reached its full potential and can no longer generate additional wealth. In this case, the exit from his business is not the end of the road. To the contrary, the exit is a necessary step in order to successfully continue his professional career. The exit, in reality, is a new beginning and one that must prove financially rewarding in order for the entrepreneur to continue his quest to create new products and realize new ideas. Thus, money from the exit is extremely important - not because the entrepreneur is greedy as alluded to earlier - but because the money will enable him to purchase additional companies through which he can offer new products and services to the market.

IV. CONCLUSION

An advisor's chance of success in the exit strategy arena will depend in large part upon his ability to understand his client. He must move beyond what the business appears to be on paper and comprehend what the business means to the client. The essential question being, "Who is the client and what will he want from the exit?" The more information the advisor can extract and learn from, the better chance he will have of delivering his client's needs and desires during the exit. In the process, the client will come to appreciate the complex nature of the exit and ultimately be more satisfied and grateful to the advisor.

As a result, the successful advisor will soon learn that the process of exiting a business is an art form - one to be built upon. The art requires an advisor to think on many different levels in order to appreciate the distinctions between clients. Without expanding the effort to understand his client, the advisor will find it monumentally difficult to appreciate his needs, significantly reducing his chances for success.

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