

MIAMI TODAY

March 5, 2020

The Principal Challenge for Small Business is Preparing for Transition

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While we pride ourselves on being home to offices of 1,400 multinational companies such as American Airlines, Visa, Hilton, and Hewlett-Packard, it is important to note that these offices are not heavily staffed and more and more downsizing further or relocating to the Latin American region that the vast majority serve. The reality is that SMEs (small and medium-size enterprises) form the backbone of the South Florida economy. They comprise over 80% of businesses in the county and employ well over half of the workforce.

These small businesses across the nation are faced with a myriad of challenges and Miami-based firms are no exception. These included access to credit under terms and conditions (and amount available) that allow small firms to operate and grow; regulatory burdens (federal, state and local); workforce availability, quality, and reliability; firm competitiveness, including technology deployment and sales prowess; and, in the case of Miami, the economic volatility of our trading partners and investors in the region—most notably, Venezuela and Argentina. Another challenge faced by small businesses and the communities in which they operate is *demographics*. For family-owned firms---the vast majority of small businesses---their Baby Boomer founders approaching retirement are in a quandary, especially if their offspring are not prepared, interested, or available to succeed them in running the company.

Unfortunately, most small businesses are not prepared and have not reached “transition readiness”, a stage that is crucial in maximizing the value of the business and paving the way for succession or a “liquidity event” (i.e., the sale of the enterprise).

Unquestionably, the biggest challenge facing owners of privately held businesses is how to build value into their business and ready themselves for transition in order to secure their financial future. Transition readiness seems to be a daunting and complicated task for any private business, especially if the transition involves family members. Properly preparing for it goes a long way toward simplifying the process for a smooth transition to the next generation owners (or family members) and to maximize harvesting their wealth at the transition event.

Business owners bear extraordinary financial risk because the great majority of personal net worth is concentrated in one super-illiquid stock – the value of their business. Well-prepared business owners who have been focusing on raising their business value and reached a transition readiness state, are much more attractive to the would-be buyer than the competition and will inevitably allow the owner to harvest the most out of their lifetime work and ensure their post-transition financial future.

To ensure maximum business value growth and getting the business Transition readiness requires a time horizon of 3 to 5 years where the owner and his or her team, guided by experienced professionals develop and implement a step-by-step plan to achieve stated success. Specialized firms such as SVA Value Accelerators work hand-in-hand with owners and employees in the process all the way to a desired outcome at the-transition event. When the owner and the business are transition ready early, the actual event date is less important as whenever it is, the owner his/her family and employees are ready and will benefit the most.

One should also bear in mind that, local economic development agencies such as the Beacon Council have a big stake in the health and continuity of small and medium size businesses in the County, given these firms' impact on employment, tax revenue, and the business (B2B) customers of these enterprises. It behooves them to support efforts to bolster these companies, whether the goal is sustainability and growth or transition.

According to the Family Firm Institute, 88 of every 100 privately-held businesses will fail to transition (or sell at deep discount) to the next generation of ownership. Business owners of small to mid-size firms can avoid this outcome and ensure a successful and rewarding transition by implementing the principles of value growth and transition readiness in their business operations and strategy. This will result in a successful outcome for the business, its employees and the community. Meeting this challenge today is critical for Miami's small and medium size enterprises.

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