

UNLOCKING THE WEALTH WITHIN

HOW TO TRANSFORM YOUR BUSINESS INTO A HIGH-VALUE FINANCIAL ASSET



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Is your net worth trapped?

Small and middle-market businesses are the backbone of the U.S. economy. While many business owners excel in their respective fields, few have received the guidance necessary to transform their business into a valuable financial asset.

Financial data reveals that up to 80% of a business owner's net worth is often tied to their illiquid business. Many assume they can sell it to fund retirement but lack clarity on its true value or finding a buyer at the right price at the right time.

Why business transitions fail

\$18 Trillion

Privately-held wealth trapped and illiquid inside of U.S. businesses.

\$12 Trillion

Potential value of business wealth transfer over the next 10 years.

5.6 Million

Operating US companies with <\$5M annual revenues



49%

Business owners who want to exit soon but do not have a written exit strategy.

40%

Owners who have no plan in place to deal with illness, death, or a forced exit.

18%

Business owners who have completed a formal business valuation in the past 2 years.

Data source: Walking to Destiny, Christopher M. Snider

Business transitions often fail due to a lack of clear planning. Focused on daily operations, many owners overlook defining success for the transition. Without clear goals and a solid strategy, the process can falter, putting the business and its stakeholders at risk.

Common pain points

Business owners face several pain points when it comes to assessing their mental and financial readiness. Addressing these common financial issues is crucial for long-term success of the business and personal financial stability.

1. Cash flow management

Managing cash flow is a constant challenge for business owners. Unpredictable income and expenses can disrupt financial stability, leading to missed obligations, inadequate savings, or delayed reinvestments critical for growth. Poor cash flow management limits opportunities, weakens competitiveness, and jeopardizes employee engagement—all of which can reduce your business's long-term value.

2. Operations and key person retention

Business owners often face the challenge of balancing daily operations with retaining key personnel vital to the company's success. Losing critical team members can disrupt operations, erode institutional knowledge, and stall growth initiatives, while replacing them demands time and resources better spent on driving the business forward.

Maintaining a loyal, high-performing team amidst these demands is a delicate balancing act—but one that directly impacts your business's long-term stability and scalability.

3. Doing proper tax planning

Without proper tax planning, business owners often focus on maximizing deductions to reduce taxable income, leading to unnecessary spending and stifling long-term growth. Aggressive write-offs can also complicate financing, as lenders prioritize strong profitability and cash flow.

This approach increases audit risks and undermines financial health over time. Strategic tax planning aligned with your business's true needs is essential for sustainable growth and long-term success.

4. Valuation and business growth

Regularly tracking your business's true value and the activities driving it is crucial. Many owners either undervalue their business, missing growth or sale opportunities, or overestimate it, leading to unrealistic expectations and flawed planning.

An accurate valuation empowers you to make informed decisions, set achievable goals, and drive value acceleration for long-term financial security.

5. Business exit and monetization planning

Many business owners lack a clear exit strategy, often leading to rushed transitions and suboptimal outcomes. This can result in undervaluing the business, missing tax-saving opportunities, and losing wealth that could have been preserved.

Without planning, owners risk missing chances for strategic partnerships, succession plans, or maximizing their business's financial legacy. Starting early ensures a smoother, more profitable transition and secures the future you've worked hard to build.

Why owners delay planning

Many business owners delay seeking help with their financial or exit plans for a variety of reasons, often stemming from a lack of urgency or awareness. One common reason is that they are deeply focused on the day-to-day operations of their business, leaving little time to think about long-term planning.

The demands of running a business can be all-consuming, and owners may feel that financial planning or exit strategy can be put off until a later date. Unfortunately, this mindset can lead to missed opportunities for optimizing their business's value. By the time they do seek help, they may be facing time pressures that limit their options.

Another reason some business owners hesitate is the emotional attachment they have to their company. For many, their business is not just a financial asset but a significant part of their identity. Financially, owners may find themselves unprepared to sustain their lifestyle post-exit, while emotionally, they could struggle with the loss of identity or purpose.

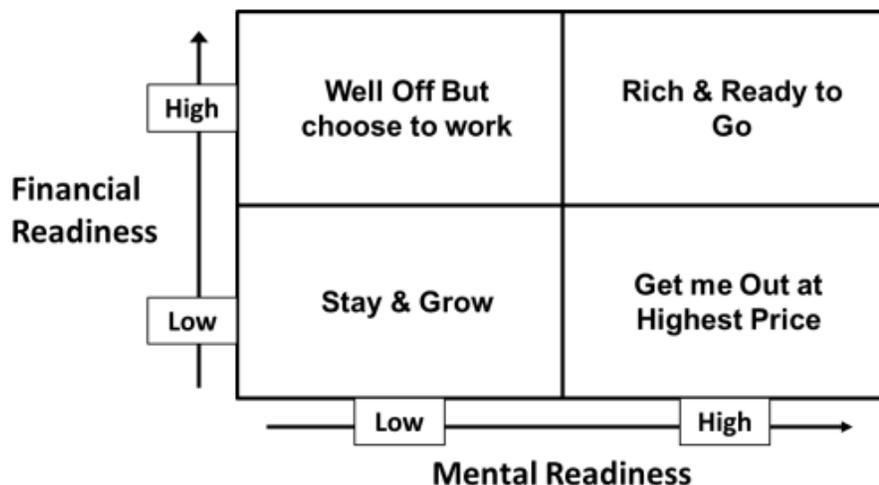
Failing to assess both financial and mental readiness before exit planning can lead to significant risks.

Assessing owner readiness

A high owner dependency business typically suggests the owner may not be fully prepared—emotionally or financially—for the company to run without their daily involvement.

In contrast, a low owner dependency business indicates the owner has built a strong management team, allowing them to step back and focus on the business as an investor rather than as an operator.

Looking at the quadrants below, which one best reflects your current mindset and level of readiness to exit and monetize your business?



Source: *Exiting Your Business, Protecting Your Wealth*, John M. Leonetti; International Exit Planning Association

Let's break down each quadrant to help you pinpoint where you currently stand in terms of your mental and financial readiness.

Rich & Ready to Go

Owners in this quadrant are both financially and mentally well-prepared, giving them the greatest flexibility in deciding how, when, to whom, and for how much they will monetize their business. Their wealth is diversified beyond the business itself, and they've established a capable management team equipped to run the business effectively and navigate a smooth transition.

Well Off But choose to work

Owners in this quadrant are financially well-prepared but lack the mental readiness for a transition. They are fulfilled by their work and feel a strong need to stay involved in daily operations. Often they have not defined a purpose beyond the business, but know they eventually need to "cash in some chips" and start planning for their transition.

Stay & Grow

Owners in this quadrant have low financial and mental readiness. With most of their wealth and lifestyle deeply tied to the business, they have a strong need to keep working. Their focus remains on growing the business, rather than viewing it as an asset to monetize. They're emotionally attached to their work or feel they need more time before seriously considering a transition.

Get me Out at Highest Price

Owners in this quadrant have high mental readiness but low financial readiness. They want out of the business ASAP, but likely have a significant portion of their wealth and lifestyle tied to the business. Neither the owner nor the business is prepared; their exit options and transition success are limited as a result.

Your business is a financial asset

To transform your business into a truly valuable asset, it's crucial to focus ON your business, not just work IN it. By being intentional in these key areas, you can shift from being an operator to becoming an investor in your business.

1. Define your goal

What does a successful exit look like for you? Is it financial freedom, preserving your legacy, or creating new opportunities for your family? Defining your vision is the foundation of effective exit planning. Without a clear outcome in mind, it's easy to make short-term decisions that could undermine your long-term goals.

Start by clarifying what you want life to look like after your exit—personally, professionally, and financially. A well-defined vision becomes your compass throughout the process, guiding every decision to ensure your exit not only meets your financial goals but also aligns with the future you want to create. Write it down, make it real, and turn your vision into a roadmap for lasting success.

2. Write your succession plan

A written succession plan is essential to protect your business and ensure stability when you're no longer at the helm. It signals to employees, clients, and stakeholders that your company is built for long-term success and prepared to navigate both planned transitions and unexpected challenges.

Beyond preparing for your exit, a strong plan safeguards against disruptions from health issues, economic shifts, or leadership changes, ensuring continuity and resilience. It also creates a clear career path for key personnel, keeping your top talent engaged, motivated, and invested in the company's future—all of which contribute to a more valuable, sustainable business.

3. Prepare your management team

Preparing your management team for your exit is key to ensuring a smooth transition and lasting success. Developing their leadership skills and optimizing operations now creates seamless processes and positions your business for growth. This reassures buyers, enhances valuation, and boosts team confidence in the company's future, paving the way for a successful, profitable exit.

Ultimately, the strength of your team determines how much freedom you'll have—both before and after your exit.

4. Get your financial house in order

Clear, accurate financial records not only strengthen your business's overall health but also improve your personal financial standing, making both more resilient and attractive to potential buyers or investors.

Avoid the common mistake of blending personal expenses with business cash flow—it creates confusion, reduces transparency, and diminishes value. A clean financial picture boosts confidence for lenders, buyers, and stakeholders.

Partnering with a trusted financial advisor and tax professional can help ensure your financials are up-to-date, accurate, and aligned with your goals, positioning your business for long-term success and future opportunities.

5. Get a good head-start

Starting exit planning early gives you more options and greater control over how, when, and for how much your transition happens. By preparing now, you can make strategic decisions that benefit you, your employees, stakeholders, and your community.

Planning ahead prevents rushed decisions and allows you to maximize your business's value, secure your largest asset, and ensure its continued success after your departure.

Know your transition options

Starting your exit planning process NOW puts you in the driver's seat when planning your future. Here are a few exit and monetization options to consider:

1. Sell to a third party

This involves selling your business to an external buyer, such as another company, a private equity firm, or an individual investor. It can provide a clean exit and potentially the highest sale price but requires careful valuation and due diligence.

2. Generational transfer

Transitioning ownership to a family member can keep the business within the family legacy. However, it often involves navigating complex personal dynamics and ensuring the successor has the necessary skills and resources to succeed.

3. Management buyout

Selling to trusted employees or managers ensures continuity and rewards those who've contributed to the business's success. Seller financing arrangements are usually required, which can add time and complexity to the process.

4. Employee Stock Ownership Plan (ESOP)

An ESOP allows employees to acquire ownership of the business through a structured plan. This option can preserve the company culture and provide significant tax advantages to the transitioning owner, but requires annual valuations, as well as significant legal and ongoing financial planning.

5. Merge with another company

Merging with a similar business, like a competitor, can create synergies, increase market share, and potentially enhance the business's value. However, it requires alignment on goals, culture, and management to keep customer and employee loyalty throughout the entire transition process.

6. Sell to a strategic buyer

Strategic buyers often seek businesses that align with their existing operations, allowing them to integrate and grow more effectively. If your company's products and services can serve as a perfect complement to the buyer's offerings, this type of sale may yield a higher price due to perceived synergies.

7. Take the business public (IPO)

Transitioning the business to public ownership through an IPO can provide significant capital and prestige but involves rigorous regulatory compliance and loss of private control. You may be required as the founder/owner to remain active in operations of the company for an extended period of time, and your tenure may be decided by an executive board, shareholders, and activist investors.

8. Stock redemption plan

A stock redemption plan allows a business to buy back an owner's shares, providing a smooth exit strategy while keeping ownership within the company. This approach ensures tax-optimized liquidity for the departing owner and maintains business continuity. This option requires careful planning, several years to execute, legal documentation, and sufficient company funds to redeem the owner's shares.

9. Liquidate business assets

Liquidating business assets can be a practical exit for businesses that aren't positioned for a full sale. By selling equipment, inventory, and other assets, owners can recover value and close operations efficiently. While it may not maximize returns, it's a straightforward option for asset-heavy businesses or when no buyer is available.

10. Create a charitable legacy

For business owners driven by social impact, transitioning to a non-profit can align the company's legacy with their personal values. This option allows the business to continue serving its mission in a way that benefits the community. Whether converting the business into a non-profit or creating a charitable foundation, it requires careful planning to ensure compliance, sustainable operations, and long-term impact.

Take your next steps today!

It's time to take action! Here are five powerful next steps you can take to transform your business into a high-value financial asset. You've got this!

1. Get help organizing your books

Avoid costly mistakes and get a clear picture of your business's financial health. Good bookkeeping helps you plan for growth, manage cash flow, and prepare for a potential sale or transition. By working with professionals, you can focus on what you do best while gaining confidence that your financials are in order.

2. Complete a business valuation

Whether you're planning for growth, considering a sale, or just want to ensure you're on the right financial path, knowing your business's value helps you make informed decisions. Don't leave it to guesswork—get a professional valuation!

3. Form your transition (exit) team

By bringing together experts in areas like finance, legal, and tax planning, you'll have the support needed to maximize your business's value and avoid costly mistakes. Don't wait until the last minute—start building your team now to take control of your future.

4. Hire a real financial planner

A true financial planner helps you align your personal and business goals, ensuring you're building wealth beyond just your company. They'll guide you through complex decisions like tax strategies, retirement planning, and eventual business transitions, so you can secure your financial future with confidence.

5. Put your plans in writing

Putting your business plan, exit plan, and estate plan in writing ensures your vision is clear and your future is secure. These plans work together to protect your legacy, maximize business value, and give peace of mind for you and your family.

About the Author



Hi, I'm Dale Shafer, founder of Life Moves Wealth Management, an independent, fee-only firm in Scottsdale, AZ, serving business owners and business leaders. These are "my people" because they are often ignored by advisors until they are ready to sell their business.

The problem is less than 30% of current business owners will ever be able to transition and monetize their business asset on their terms. I'm on a mission to move that needle!

As a CERTIFIED FINANCIAL PLANNER (CFP®) and Certified Business Exit Consultant (CBEC®), I specialize in helping clients align their personal and business financial goals. This approach begins long before the transaction and empowers owners to transform their business into a high-value financial asset.

Outside of work, I enjoy all things outdoors, playing music, and contributing back to my community through Rotary, Scottsdale Leadership (Class 38), and other volunteer opportunities.

Scan below to learn more about our approach to business owner wealth management:



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