BUSINESS OWNER SURVEY REPORT

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2019 BUSINESS OWNER SURVEY REPORT

DEMOGRAPHICS

BEI worked with a national independent research firm during the second half of 2019 to collect data that are statistically valid and representative of a range of business sizes and geographic regions. From an initial list of over 50,000 business owners, we received an indication of interest from 1,568 potential respondents. Of those, we collected somewhat detailed information from 73 individuals, and have used detailed responses from 61 business owners who, as a group, are representative of the overall business-owning demographic. These business owners are proportionately distributed across the geographic areas, industries, and age groups that make up the larger business owner population. Therefore, our research firm believes this group provides the most accurate data for this report. We are grateful to those business owners who took the time to share their experiences and information with us.

BABY BOOMERS CURRENTLY OWN

many of the most successful businesses. By 2020, the youngest baby boomer will be 55 years old. This combination of success and aging raises an important question: What are most business owners doing to plan for the future of their ownership? As owners exit their businesses—whether by choice, death, or otherwise—wealth changes hands. These wealth transfers can have profound effects for business owners, their families, and their businesses.

The purpose of this report is to examine owners' beliefs, ideas, and actions as they relate to how they intend to plan for the future of their ownership. This report will present The BEI 2019 Business Owner Survey's demographics, what business owners have done to plan for their exits, and which obstacles owners believe are most pressing to them.

WHAT WE LEARNED

Using a representative sample of business owners, the survey produced three points of interest.

Over 74% of business owners rely on their businesses for more than half their personal income.

Over 58% of business owners would exit today if their financial security were assured.

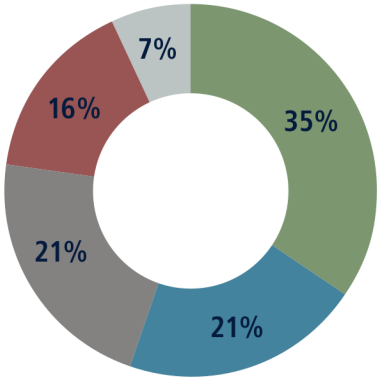
About 80% of business owners have not created written plans to transfer ownership.

> **"Business owners have diverse goals and objectives. Some want to work less, but stay involved in their company long-term. Others want to take their chips off the table and move on to new challenges.** Jared Johnson, CEO of BEI

56% OF BUSINESS OWNERS WANT TO **SELL/TRANSFER** THEIR OWNERSHIP WITHIN THE NEXT 10 YEARS.

81% OF BUSINESS OWNERS WANT TO **STOP WORKING** IN THEIR BUSINESSES IN THE NEXT 10 YEARS.

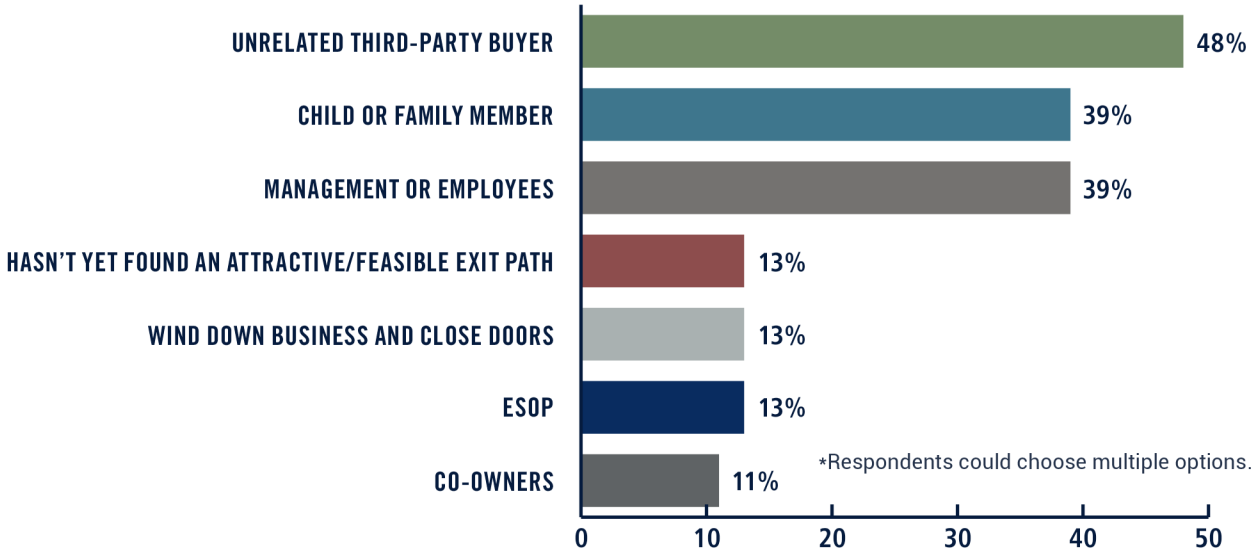
100% OF BUSINESS OWNERS WILL LEAVE THEIR BUSINESSES, WHETHER PLANNED OR OTHERWISE.



- 21% PLAN TO EXIT IN FEWER THAN 5 YEARS
- 35% PLAN TO EXIT WITHIN 5–10 YEARS
- 21% PLAN TO EXIT IN MORE THAN 10 YEARS
- 7% NEVER WANT TO EXIT
- 16% WERE UNDECIDED ABOUT WHEN THEY WANT TO EXIT

Owners' Expected Exit Paths

An *Exit Path* is the route that an owner takes to successfully sell or transfer their business ownership, even if that owner plans to work forever. When asked about which Exit Path they were interested in, owners often chose more than one option.



The results show that a third-party sale is still the most popular consideration, which lines up with trends from previous surveys. Transfers of ownership to children/family members and management/employees are virtually equal in popularity, which implies a strong preference among business owners to keep the business in the hands of people they know.

What Have Owners Done to Plan Their Exits?

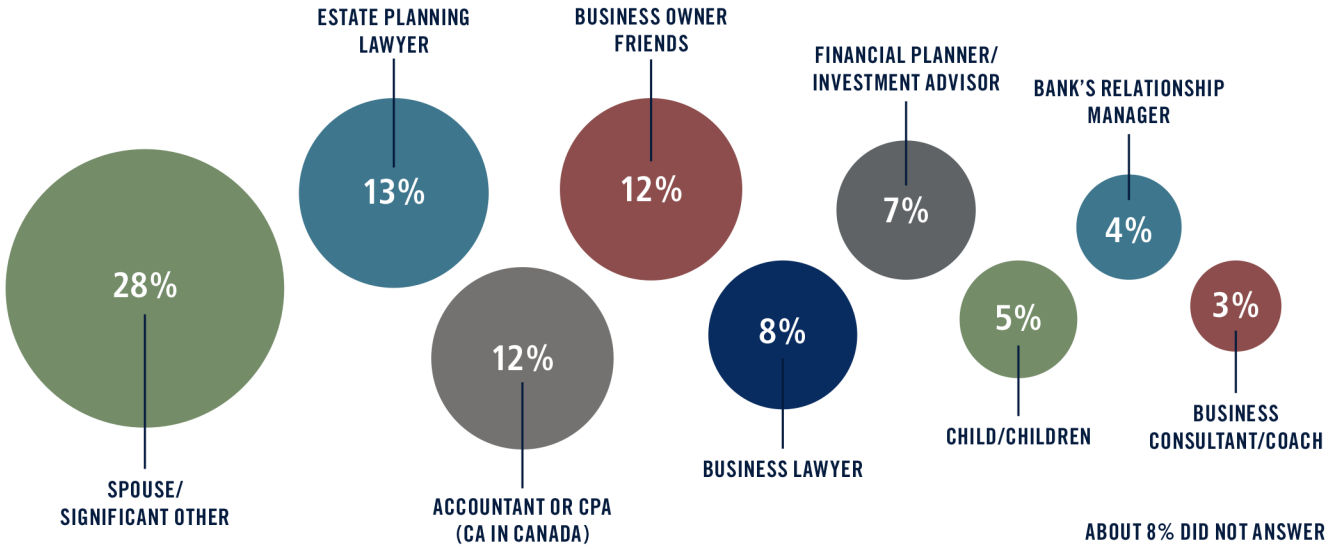
Among respondents, only about 11% said that they hadn't given any thought to their business exits at all. This shows that most business owners are actively thinking about their exits, whether in the short term or long term. Here's what owners say they've done to prepare for an exit.

79% OF BUSINESS OWNERS DO NOT HAVE A WRITTEN PLAN FOR THE FUTURE OF THEIR OWNERSHIP, BUT MANY HAVE TAKEN AT LEAST SOME STEPS

60% OF OWNERS SAID THAT THEY'VE DETERMINED THEIR FINANCIAL NEEDS AND TARGETS FOR A POST-TRANSITION LIFE

Relatedly, nearly 77% of owners said that they had at least some idea of what they will do with their lives after they exit their businesses, with almost 39% of those owners stating that they had a clear idea of what they would do next.

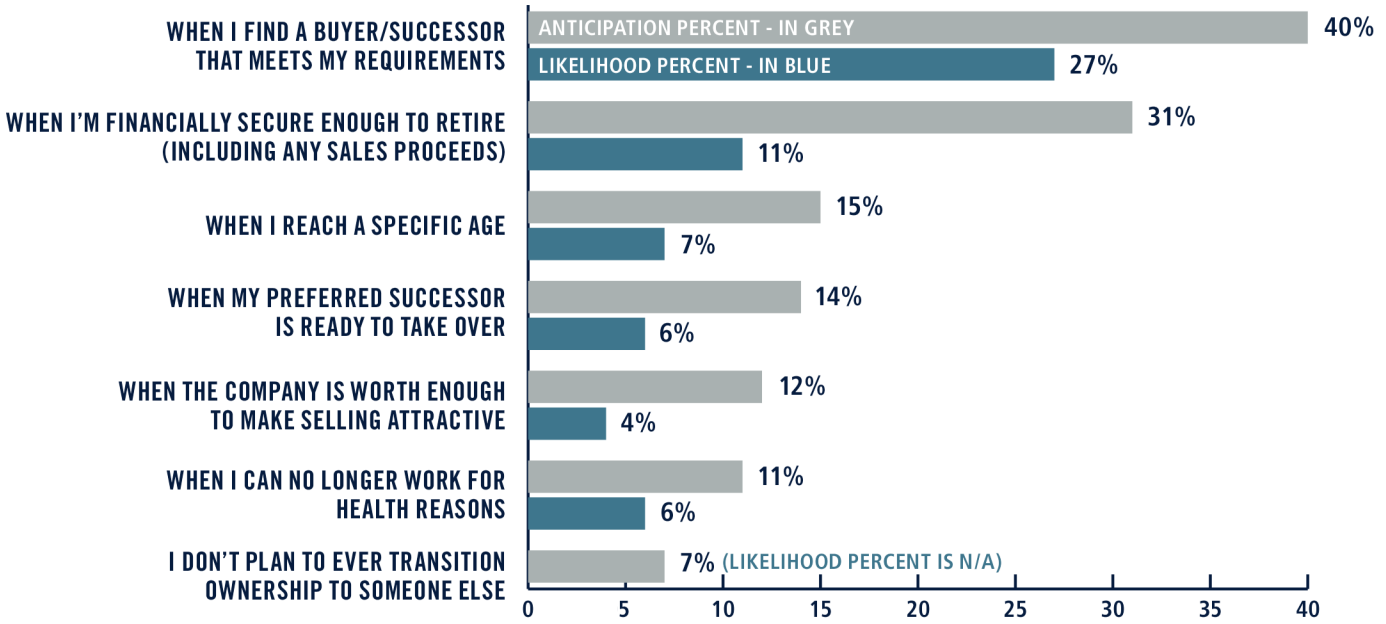
Owners are also discussing their plans with others.
Of the people they're talking with, owners find the following most helpful:



Why Owners Would Consider Transferring Ownership

We asked business owners two related questions:
Under which conditions do you anticipate transferring ownership of your business to someone else? and
Which of the following do you think is the most likely scenario for transitioning ownership of your business?

Owners could choose more than one option, and here are the most common responses.



These responses may imply that owners prefer to be the masters of their own destinies: They want to exit on their terms and with financial security. However, their responses about the likelihood of those things happening were much lower, which may imply some doubt about their ability to reach their anticipated transfer goal.

WHAT'S STANDING IN THE WAY OF YOUR EXIT?

Business owners shared their thoughts about the obstacles preventing them from leaving their businesses.

The most common perceived obstacles are:

33%
NEED TO IMPROVE THE BUSINESS FIRST

28%
ARE CONCERNED ABOUT EXTERNAL FACTORS

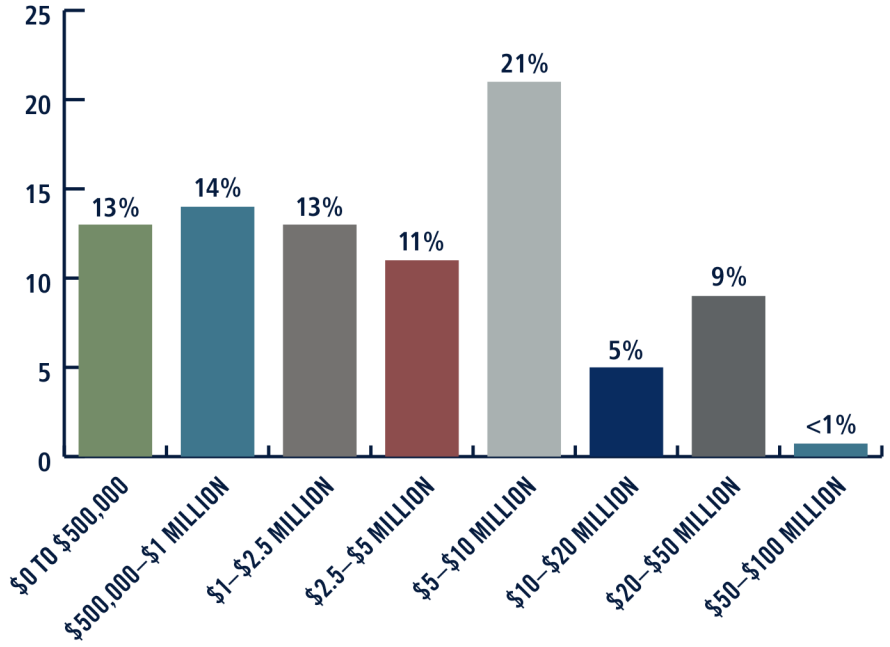
12%
ARE HINDERED BY UNCERTAINTY

Also, 26% do not perceive any serious obstacles.

Most owners in this sample also stated that improving internal functions was a key obstacle. This may imply that owners know that they have work to do within their businesses before they can exit them.

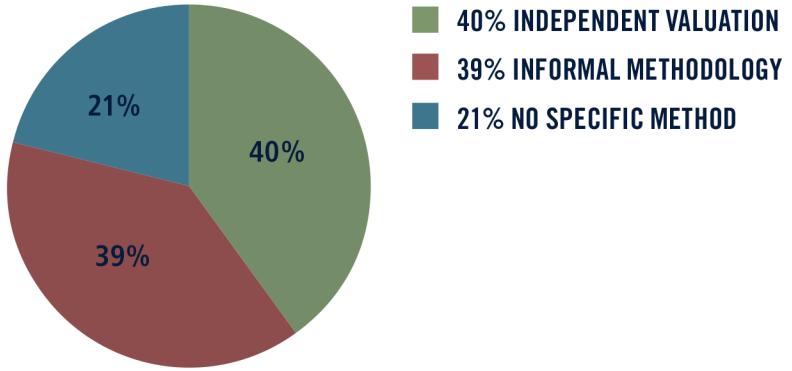
One obstacle that owners didn't pay much mind to was the value of their businesses in terms of their exits. Fewer than 6% considered it an obstacle at all, and fewer than 2% said it was the biggest obstacle.

When asked what they estimate their business' value to be, owners had this to say:



*14% either didn't know or didn't respond.

When asked how they arrived at this valuation, here's what owners said:



It is less common for a business owner to seek a professional business appraisal than it is for them to use other (potentially less accurate) methods.

> **"Owners approach the concept of business value from many directions. An independent and objective appraisal is usually the best starting point.**
>
> Elizabeth Mower, President of BEI

WHAT ARE THE TRENDS?

COMPARED TO PREVIOUS SURVEYS, THERE ARE SEVERAL NOTABLE TRENDS.

In 2019, more business owners believed that they will exit their businesses within 5–10 years. This may imply that they may have more time to adequately plan for those exits. It may also imply that owners are pushing their planning into an indeterminate future.

Interest in an insider transfer (e.g., children, management) increased somewhat, while interest in a third-party sale decreased somewhat. This may imply owners' desire to keep the business in the hands of people they know and trust.

Sixty percent (60%) of owners said they used informal or nebulous valuation methods to determine the value of their businesses. Though this number is lower than the 78% that reported as such in 2016, it may indicate that most owners are still basing their projections on unsteady ground.

CONCLUSION

THE BEI *2019 BUSINESS OWNER SURVEY* PROVIDED SEVERAL INSIGHTS:

Most business owners rely on their companies for more than half of their personal income: Nearly 75% of owners rely heavily on their businesses for personal income.

Owners want to exit on their terms and with financial security: These criteria were a popular desire among business owners.

Only about 20% of owners have a written plan to transfer their business ownership.

Whether by choice, death, or otherwise, all business owners will leave their businesses. Without a written road map for how to do that, it may be difficult for owners to envision an exit on their terms that provides financial security.

ABOUT BEI

BEI *is the leading innovator in the Exit Planning industry. We offer comprehensive Exit Planning training, marketing support, and plan-creation tools to our Advisors. Members of the BEI advisor community have access to an established, systemized process that allows them to easily help their clients with their business transition planning. Professionals in a variety of disciplines leverage Exit Planning to attract and keep high-caliber business clients in their practices. BEI trains and supports business advisors to be the most trusted advisor for business owners in their communities. Members of The BEI Network of Exit Planning Professionals™ ultimately seek to help business owners and their families benefit from their lives' work.*

Contact your Exit Planning Advisor to learn more about Exit Planning or to get started planning for the future. Exit Planning workshops, business owner assessments, and planning solutions are available through your local BEI Exit Planning Advisor.