

[Home](#) > [Publications](#) > [GP Solo](#) > [2012](#) > [July/August 2012: Buying, Selling, or Closing a Law Practice](#) > [Next Exit: Retirement](#)

## Next Exit: Retirement

Vol. 29 No. 4

By Kyle P. Sitler

[Kyle P. Sitler](#) is president and managing director of [Six Pillar Capital](#), LLC (SPC), a boutique advisory firm providing valuation and strategic mergers and acquisitions, capital raising, and consulting services.

How can I retire from my business? This is one of the most pressing questions facing millions of Baby Boomers right now. Approximately 3.3 million small business owners, including an estimated 400,000 attorneys, will be looking to retire over the next ten years or so. Although these figures alone may be staggering, the real problem is that the vast majority have no plan in place that will allow for a seamless transition into retirement and ensure the survival of their life's work. This represents a problem not only for the owners/practitioners, their clients, employees, and families, but for the United States as a whole. If a significant percentage of these entities simply go out of business, the impact on our country could be catastrophic. The sudden drop in employment, disposable income, office rent, etc., would ripple throughout our economy. For any business owner, identifying and implementing an exit strategy should be a top priority at least a few years in advance of the desired retirement date. For those from this Baby Boomer Business Owner Bubble, finding some form of viable exit strategy might just be considered a civic duty.

There are a variety of retirement-related financial issues facing the aging Baby Boomers, such as inadequate savings, fewer pensions, an underfunded Social Security system, and rising health care



## About GPSolo magazine

*GPSolo* magazine is published six times a year (January/February, March/April, May/June, July/August, September/October, and November/December) by the ABA Solo, Small Firm, and General Practice Division.

GPSolo is devoted to themes of critical importance to your practice. Each issue contains articles exploring a particular topic of interest to solos, small firms, and general practitioners, as well as articles related to technology and practice management. And to keep you up to date, each issue contains five *Best of ABA Sections* digests, reprinting the top articles published by other ABA entities that will be of the greatest interest to you.

- [Visit the ABA Solo, Small Firm, and General Practice Division](#)
- [More publications from the Solo, Small Firm, and General Practice](#)

costs. However, because business entities and employment affect every aspect of our financial system, this article will focus primarily on retirement planning from the perspective of the business owner/practitioner who had the drive to create a job (or many jobs) in the first place. This same creativity and strong work ethic will likely be instrumental in implementing an effective exit strategy and transitioning into the next phase of life under the best possible circumstances.

## Retirement for Business Owners/Practitioners

*"Retirement at 65 is ridiculous. When I was 65, I still had pimples."*—George Burns

Retirement planning is a very broad term. Unlike George Burns, most people nearing the age of 65 are thinking about retirement. Further, they probably have a whole laundry list of concerns relating to retirement. The biggest concern for most people is whether or not they will have enough money to maintain a desired standard of living. Of course, leaving the workforce has a significant impact on finances for just about everyone.

For business owners and practitioners, other concerns might be even more daunting than the financial aspect of retiring. Although difficult on the wallet, exiting the workforce is actually a fairly easy process for the vast majority of the population. For employees of big companies, schools, the government, and other large institutions, retiring may be as easy as picking a date and filling out a few forms. For the small business owner/practitioner, on the other hand, departure can be much more complicated, primarily because there is nobody ready and able to take over all the responsibilities. Such complications create the need for an exit strategy.

## Exit Strategy Alternatives

The term "exit strategy" is often used in conjunction with a planned sale of a company. Although working toward an eventual sale of the business is one exit strategy and probably a desirable one for a hopeful retiree, there are other options available that may be more realistic and prudent. Statistically, very few small, private businesses or practices are purchased by a third party. Although there are a number of factors that contribute to this statistic, there are two primary criteria that need to be satisfied for a sale of the business to have any likelihood of success. First, the business needs to have value that is sustainable and transferable to another party. Second, the business needs to be positioned in a market with a pool of potential buyers. Most small businesses and practices do not satisfy one or both of these criteria.

## Subscriptions

A subscription to *GPSolo* magazine is included with a \$45 [annual membership in the Solo, Small Firm, and General Practice Division](#). If you are not a member and belong to the ABA, you can join the Division by visiting the [ABA membership website](#) or calling the ABA Service Center at 800-285-2221.

Institutions and individuals not eligible for ABA membership may subscribe to *GPSolo* for \$135 per year, \$145 for residents outside the U.S. and its possessions. Per copy price for members and nonmembers is \$20. Requests for subscriptions and back issues should be made to the ABA Service Center at 800-285-2221 or by mail at 321 N. Clark St., Chicago, IL 60654-7598.

## More Information

[Editorial Board](#)

- [Copyright information](#)
- [Reprint permission](#)
- [Advertise with us](#)
- [Writer's guidelines \[PDF\]](#)

## Contact Us

**Robert M. Salkin**

Staff Editor  
American Bar Association  
321 N. Clark St.

If a sale to a third party is not a realistic goal, there are other exit strategies available that can also ensure the survival of the business and enable the retiring owner to realize some value. Some owners may have a son or daughter who can be positioned to take over the reins. Other strategies include grooming a key employee to take over the business or bringing on a new partner. Notice that all these strategies involve transferring the business in one way or another. Therefore, the first criteria necessary for selling the company still applies. In order to ensure the future success of the business and maximize value to the retiring owner, the business must have value that is sustainable and transferable. Unfortunately, small businesses and practices are typically not readily transferable to a new owner. The value of the business is often closely tied to the individual owner. A sale or transfer of the firm to another person would likely result in a substantial loss of clients and revenues. There is no quick way to transform such a business into a highly saleable and easily transferable entity; this process will take time.

Implementing an effective exit strategy could take up to several years and require extensive work by people both inside and outside the company. The course of action involved in implementing an exit strategy is highly dependent on the specific company, the goals and objectives of the owner, and the time frame available. Considering the unique nature of businesses and the virtually boundless circumstances, it would be very difficult to spell out a general exit strategy and plan that would work in most or even many cases.

However, a guiding principle of an effective exit strategy should be to maximize the business value that can be sustained and transferred to the successor and maximize the monetary value realized by the retiring owner. With this in mind, there are some fairly basic steps that are probably relevant for any business owner looking to retire in the near future. These steps are geared toward making the company more easily transferable to a successor and more attractive to a potential buyer, while preparing the owner for retirement.

## **Take an Inventory**

Although it's easy to think of retirement as primarily a business and/or financial decision, the personal considerations can be equally as important for someone who has spent decades building a business, particularly a service business like a legal practice. Such an endeavor involves a personal, social, and even family commitment. With so much invested, it is very difficult, if not impossible, to simply walk out the door even if money is not an issue. In fact, choosing to retire can be a life-changing decision on

Chicago, IL 60654-7598  
Phone: 312-988-6076  
Fax: 312-988-6081

**Jeffrey Allen**

Editor-in-Chief

**Kimberly Kocian**

Director

ABA Solo, Small Firm,  
and General Practice  
Division

par with getting married or divorced. Therefore, a crucial step in crafting an appropriate exit strategy really involves some soul searching. There are many questions to consider, such as: Is a complete or partial retirement appropriate? What's next? What hobbies and interests will fill up the day? How does this decision impact family members? Does the timing fit with other aspects of life?

## **Work Less**

As previously mentioned, small companies and practices are largely dependent on the individual owner. This is usually the biggest obstacle to a smooth and successful exit. The owner often wears many hats and bears a huge amount of responsibility that has accumulated over a period of many years. Even when the company has grown and the owner has a large staff, owners often have a hard time delegating. For the owner planning to retire, delegating more and empowering others in the firm well before the proposed exit will make the company more attractive and ultimately facilitate the owner's transition into retirement. Obviously, sole practitioners with little or no staff face a very difficult challenge in this regard. However, if the planned exit strategy involves transferring the business to a new partner, much can be done in advance of the transition to expedite the process. Also, in the new virtual world, outsourcing certain parts of the business is always an option if in-house staff is not available.

## **Balance the Books**

Small firms and solo practices don't typically adhere to the most rigid accounting practices or even maintain a proper bookkeeping system. They are more likely to skimp on technology and staffing, modify accounting methods, and experience drastic changes in business volume or margins from year to year. As a result, the financial data available to a potential successor or acquirer of the business is often incomplete, poorly organized, and difficult to interpret. An owner looking to retire should take steps to clean up the company's financial records and prepare a budget for the current year, as well as projections for the next year or two. Larger firms may want to bring in an accounting team to prepare financial statements or perform an audit. Improving the financial records will provide a potential successor or acquirer with more confidence in the business and make any transaction much easier.

Aside from making the financials more presentable, the owner can take steps over time to clean up the income statement and balance sheet. For example, personal expenditures often get intermingled with company expenses through the years. Taking steps to eliminate such expenses from the company's financials will make

the income statement easier to interpret and compare to industry benchmarks. Also, there may be balance sheet items that can be cleaned up, such as very old accounts receivables or transactions involving related entities. Outstanding debt should be an area of particular focus. Through the years, the company might have switched lenders several times or simply added new ones on top of the old ones. Paying down debt or simply making it easier to evaluate will make the company's balance sheet much more attractive to another party.

### **Clean Up the Paperwork**

As with financial records, private companies often fail to maintain adequate records of legal documents such as those pertaining to corporate structure, environmental issues, intellectual property, customer and supplier contracts, licenses, permits, and insurance. Law firms are not immune to this type of poor record keeping; in fact, attorneys can be the worst offenders. Because these types of legal documents will be needed by a potential successor or acquirer, cleaning up the files well in advance of a transition will make the process go more smoothly.

### **Get Help**

There are a wide variety of professionals who could be helpful to those looking to retire, including people who specialize in exit and retirement planning. Depending on the nature and size of the business, scope and complexity of assets, goals and objectives, time frame, and other factors, the owner may want to enlist the help of one or more trusted advisors. If nothing else, it is always helpful to have at least one key advisor who can assist with the difficult decisions. Having an exit strategy specialist might be the right approach for many business owners, but other types of advisors, such as investment bankers, consultants, attorneys, and financial planners, can often play this role. This key advisor should be someone who is knowledgeable about the business and, most importantly, trustworthy.

### **Conclusion**

The impending retirement of the Baby Boom generation will pose significant challenges to millions of Americans—and possibly to the U.S. economy itself. But there are reasons for optimism. First, almost boundless resources are available in the business world today, and we seem to be living in a time when anything is possible. Over the last several years, new business models have transformed the way we live, industry behemoths have collapsed in the blink of an eye, and innovative start-ups have flipped entire

industries upside down. Second, Baby Boomers in general tend to be hard working, driven, and innovative, evidenced by the millions of business enterprises they have created. Finally, rising up in the face of challenges and overcoming obstacles are the hallmarks of the Baby Boom generation. If the Woodstock farm is available, there might be an exit planning festival in our future.