Throwing in the Towel

Prepare When It's Time to Close Up Shop

By Rollene Saal

Business misfortune, waning enthusiasm, illness, retirement: There are a host of reasons why company owners can be faced with the decision to let their enterprises go. Sometimes owners duck the issue and try to hang on as long as possible, making the inevitable more difficult. In other cases, they welcome the relief that comes from shedding a burdensome and unwanted business, and then turn to new possibilities for the future.

Even when the motivation for change and the eventual outcome are positive, the process can be a painful one. "No matter how you look at it, once you're out of business, you're out of things," says Phillip Sidwell, a family-business consultant in Atlanta. "You have to face your peers in the community, but you're not part of the club anymore. It's tough, and self-esteem can take a tremendous hit."

To James Connolly, business success came in a rush. He and a partner started Book of the Road in the early 1980s to publish and distribute audiotaped books through truck stops. At the time, audiotape rights could be bought cheaply—$250 a book—and mass-market publishers were ignoring the audio-book business. The company grew rapidly, from six California locations to outlets at more than 800 truck stops coast to coast. "We were doing great," recalls Connolly. "Sales were terrific, and we felt like pioneers opening a new market."

Book of the Road had a hold on its niche, but not for long. Major publishers caught on to the potential of audio books, and the cost of rights went up to $10,000 or more for a hot title. Big companies like Bantam and Simon & Schuster began to flood the shelves of truck stops with their own audio books. For Book of the Road, the exhilaration of success was replaced by the wrenching reality of failure. "We just couldn't keep up," says Connolly. "By the end of 1988, we made the decision to wrap up the business and move on."

Sounds straightforward, doesn't it? The reasonable thing to do when the odds are against you is cut your losses, salvage whatever capital remains and try something different. Yet letting go of a business is a difficult, emotion-laden experience. Connolly confesses to feelings of sadness and anger at seeing his promising venture collapse. He lost money, including salary foregone to help keep the business afloat. Now the associate publisher of a small publishing company in California, he looks back on the Book of the Road experience as a valuable lesson, not a personal failure. "I got to see the shape of the whole elephant," says Connolly. "I learned everything about how a business works."

Enough Is Enough

Small-business consultants stress the importance of entrepreneurs not identifying too closely with their companies. William Roiter, director of employee assistance and services for American PsychManagement, a Boston managed-care company, often sees clients who can't separate themselves from their firms. "If their businesses are in decline, they feel that way about themselves. Their decision making often has an air of desperation about it. They start reinvesting in their companies when it's no longer prudent: taking out equity loans on their homes, borrowing from friends and family. They don't know when enough is enough. When the business finally ends, there's a real sense of failure." (See Warning Signs in "Is It Time to Go?" page 14.)

A businesswoman in the Northeast didn't know when it was time to call it quits. She wanted to expand her sagging shoe-store business and sought a bank loan, which could only be obtained with the co-signature of her 87-year-old uncle. The uncle agreed to co-sign, and she borrowed $100,000, promptly moving to enlarged quarters in a small mall. Business didn't improve, so she looked for ways—expensive ways—to improve the operation: She bought new fixtures, leased a large computer and added lines of clothing. Sales still languished.

When people suggested she close up the store and work for someone else, she was appalled. She had always had her own business. So she borrowed an additional $80,000, again using her uncle's name. This sad tale ended after the businesswoman fell behind on the payments, and the bank called in the loan. She didn't have the money, so her aged uncle was forced to repay the $180,000.

"It's a familiar story," says Howard Neiman, a certified public accountant in Atlanta, who works with family businesses. "That's what happens when people aren't willing to cut their losses. They throw good money after bad, always thinking they can recoup."

As the preceding example illustrates, family members can complicate the process of letting go. Everyone would have been better off if the uncle had been as cold-eyed and objective as the bank and refused to co-sign the loan. If the shoe-store owner had folded the business early on and gone to work for another retailer (which she was eventually forced to do), the family would have been spared the high financial and emotional cost of a business failure.

Sometimes owners fear that letting go of a company will endanger the family's financial future. Neiman tells of one client, the aging founder of a 40-year-old grocery store, who five years ago refused to sell out even though the business faced mounting losses. His reason? The firm employed a number of family members, and the founder believed they would be unable to find other jobs if the store closed. The founder died recently, and the nephew who took over has decided that the business, indeed, must be sold; however, the price he'll get will be substantially lower than it would have been five years ago.

In other cases, the owner may be ready to let go, but family members resist, fearing loss of income or status. Roiter, of American PsychManagement, says a spouse, child or other "stakeholder," such as a friend who has invested in the company, may be fearful of change. One client, burdened by a stressful business situation, said to Roiter, "I don't want to live this way, but my spouse does."

Roiter's advice when family members or friends are involved: "They should stop looking at what they're losing and start looking ahead to the problems that will be solved and the opportunities that can open up after leaving the business behind." To help your associates support your decision, Roiter suggests giving them the kind of information they'll need to understand why you feel it's the end of the line for this particular enterprise.

The Big Picture

Business owners who aren't sure whether or not to continue with their ventures need to reach out and get some help. "Admit you need advice, and then seek some wise counsel," says consultant Sidwell. "The adviser doesn't have to be a therapist, but he or she does have to be an individual with whom you can ventilate your feelings and deal with anxieties about the future, as well as someone who can reassure you that you're doing the right thing from a business point of view."

Often, that reassurance can be crucial. One Chicago-area printing company is now headed by a man in his forties whose father started the company 30 years ago. After toiling in the business most of his life, the son now feels burned out. Rapid technological changes in the industry, the stress of competition and the burden of company leadership have overwhelmed him. For a while now, he and his wife have wanted to sell the business. But they weren't sure it was the right thing to do, so they approached consultant Merv Singer for advice. "What they asked was, 'Are we wrong to feel this way?'" recalls Singer, who heads M.H. Singer & Associates, a business-consulting firm in Glenview, Ill. "What they needed was validation, someone to say that it was OK for them to want something other than a demanding business in the center of their lives."

Though delay often complicates such a situation, mistakes can also be made by trying to act too quickly. Many small-business owners are accustomed to making decisions quickly and with finality, So, says Singer, once such businesspeople have decided to rid themselves of a company, they may be tempted to rush the process.

That turned out to be the case with the Chicago printer. Once he decided to sell, he wanted to move immediately, but Singer counseled to delay for a year or more so the business could be tidied up and thus bring the highest possible sale price. (See Sprucing Up in "Is It Time to Go?" above.) "There are difficult things to be accomplished," says Singer. "It takes time to sell a company or its assets."

The owners who do best when faced with a deteriorating business situation are those who can face reality, make a decision and move on. Says Sidwell: "These people keep their armor on and move forward in the face of difficulty."

That was the case with Karl and Marianne Lipsky. In 1943, Lipsky and his first wife, Jenifer, now deceased, started Jenifer House, a pioneer mail-order operation in Great Barrington, Mass. that sold replicas of early-American household items. In 1955, Lipsky added a retail complex by buying 4½ acres of land and some old farm buildings. By the 1970s, Jenifer House was a \$10 million business, with \$8 million generated by a homespun catalog and \$2 million from the retail outlets.

Then came the onslaught of dynamic catalog marketers like L.L. Bean, which had the resources to turn the mail-order business from a mom-and-pop environment into a major segment of the retail industry. "We were overwhelmed," recalls Lipsky. "Their catalogs were putting us out of business."

The Lipskys recognized they were in trouble and found buyers who had confidence the business could be turned around. The couple held onto the real estate, though, and rented the buildings to the buyer; they also negotiated consultant contracts for themselves. Unfortunately, the new buyers bit off more than they could handle, were quickly overextended and soon went bust.

"It was terrible: the end of a business I had given my all, that had taken me around the world to trade fairs and enabled us to make great friends everywhere," recalls Lipsky. "But I tried to think positive and figure out what to do."

Though he had realized little in the way of proceeds from the business, Lipsky soon moved to maximize the value of the real estate, converting the former quarters of Jenifer House into separate retail spaces. The property

Is It Time to Go?

Warning Signs

Merv Singer, owner of M.H. Singer & Associates, a business consultancy in Glenview, Ill., offers the following as signals that it's time to review your situation.

- Running the company is no longer a challenge for you.
- The activities of the business aren't fun anymore.
- Sales are stagnant, and new customers are few.
- Business problems affect your health or family life.
- You feel relief at the thought of doing something else.

Sprucing Up

Getting rid of a business is like selling a house. If it looks good, it will be more desirable to buyers, says Singer, who suggests the following steps for tidying up an enterprise:

- The company should look good on paper. Update your business plan and clean up the balance sheet.
- Prune unprofitable accounts from the customer list.
- Cut unnecessary expenses. A lean and efficient operation will be more attractive to potential buyers.
- Have a deadline in mind for liquidating the business if it cannot be sold within a reasonable period of time.

Saying Goodbye

An owner who's closing the door of a company and walking away for the last time can be worn down by an inevitable cycle of emotions. Shock, anger, denial and ultimately guilt will reign before he or she finally comes to accept the change. Leslie Dashew Isaacs, a psychotherapist and a partner with the Family Business Institute in Atlanta, offers the following counsel.

- Acknowledge and grieve for the loss.
- Look at the business in the larger context of a lifelong career. Keep in mind the successes and achievements you've had.
- Find lessons in your experience and apply them to your next job or venture. For example, you may decide to limit yourself to creative or technical tasks and leave management to someone else.
- Keep in touch with your previous associates. Avoiding colleagues, clients and suppliers will isolate you emotionally and limit your ability to network in the future.

now houses several successful tenants, including two antique centers, a restaurant, a fine arts gallery and a feather-and-down company. "It was a bad time," says Lipsky, still vigorous at 79. "But I knew I had to move ahead."

What's Next?

To figure out your next step, start by evaluating your own skills and strengths and seeing how they can best be utilized. "We try to get people to see *themselves* as a business," says consultant Roiter.

Identify the "products" you have to offer. Then take a look at the assets that will be available to you during the transition period. After the business is sold or liquidated, is there still some money left? Is there a team of advisers (an accountant, a lawyer, former colleagues or clients) who can help you start over?

Finally, do what you must to avoid being pulled under emotionally by the process of letting go. You can ease the passage out of ownership by spending time on outside interests, counsels Dr. Wendy Handler, a family-business expert and professor at Babson College in Wellesley, Mass. "Look to the other aspects of your life that give you a sense of self-esteem," says Handler. "That may be hobbies, children or grandchildren—anything ensuring that the business is not the one and only love."

That approach proved helpful for Karl Lipsky when Jenifer House collapsed. "I rode my horse and did some skiing," he says. "Marianne and I drew a lot of strength from the support of family and friends and did what we had to do to survive."

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