

OK, Boomer:

With COVID-19, It's Time to
Dust Off That Resiliency Again

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With COVID-19, It's Time to Dust Off That Resiliency Again

By J. Christopher Cuneo

This article is directed to Baby Boomer business owners (BBBOs) who are feeling overwhelmed by the prospect of having to reset their transition plans. Many of us who are active in the business transition planning space have been saying for years that a market change is coming and that Baby Boomer owners of lower middle-market businesses (with annual revenues between \$5 million and \$100 million) need to get their businesses positioned accordingly. Of course, a global pandemic wasn't the change we had in mind. But that's what we got.

Some Baby Boomer owners had started the business transition planning process only to find that a shift in Market Readiness has severely affected the anticipated end result of their plans. Others put off the business transition planning process and are now looking at having to get started in a world with fewer resources to invest in the endeavor and, in all likelihood, a longer horizon before full return on the investment can be realized. That "new reality" leads to the underlying question: *Can disappointed Baby Boomer business owners muster the resilience required to create and implement a successful business transition plan and, if so, how?*

THE IMPACT OF THE PANDEMIC ON BUSINESS VALUATIONS

The full economic effects of the COVID-19 pandemic and response will play out over the long term. The short-term impact is being broadly felt. The critical question is how long it will take for the U.S. and global economies to rebound, as well as how many and what types of businesses may be lost along the way. We all hope that recovery will be rapid. Realistically, though, business owners are having to reset expectations during unprecedented worldwide uncertainty. The likelihood of a "V-shaped" economic performance curve is low. The likelihood of a quick return to the type of business valuations that were prevalent before this crisis is even lower. Those are the components of the new reality with which BBBOs are having to deal. The enterprise value of lower middle-market companies in some industries will stay relatively stable or may actually grow. *For most industries, however, current enterprise values will take a significant hit.* That will include reductions in the EBITDA multiples that companies have become used to seeing. Perhaps of greater importance is the likely effect on deal structure. One can reasonably expect to see buyers hedging their bets on enterprise value by insisting on allocating a greater portion of purchase price to earn-outs, seller financing, and other mechanisms that place greater economic risk on the owners of the businesses being sold.

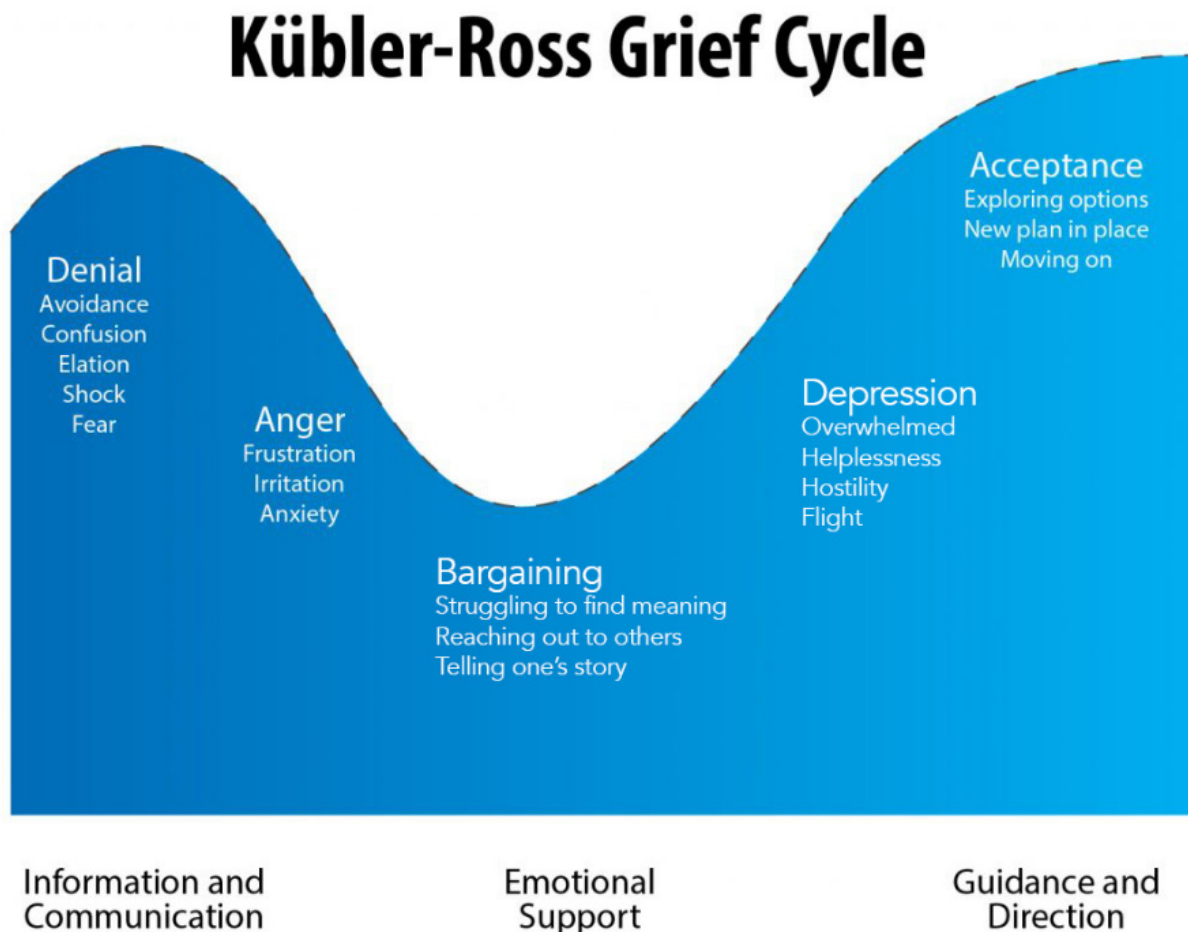
HOW WILL BBBOs REACT?

The manner in which BBBOs react to the news that their expectations have to be recalibrated may be a function of two things: (1) the effect of the reduction in value on their current plans, and (2) their ability to summon the resilience to develop and implement a longer-term exit plan. Some BBBOs will find themselves in a place where the economic downturn leaves them with limited or no ability to build meaningful enterprise value in their companies. Generally, those will be owners of smaller companies that lack the infrastructure or capital to survive in these

difficult times, including “lifestyle” businesses that support employment of the owner. Other BBBOs will be disappointed in the situation but have built sufficient independent net worth so that they have limited or no need for proceeds from the sale of their businesses in order to support their current lifestyles. *A third category consists of BBBOs who need to be able to sell their businesses in order to make up the difference between what’s needed to support their retirement expectations and what they have in investments other than their business. Studies indicate that a high percentage of Baby Boomer owners of lower middle market businesses fall into this category, i.e. people who have more than 70% of their net worth tied up in their businesses. This is the group whose resilience will be most severely tested.*

EXPERIENCING A LOSS

All BBBOs whose “baby” has been battered by the COVID-19 pandemic will experience an impactful loss. The Kubler-Ross “five stages of grief” analysis identifies what those BBBOs will likely feel as they process what has happened to their businesses:



The challenge for many BBBOs, at this stage of their lives, will be to work their way through all five stages and successfully implement a transition plan that meets their personal and financial needs. There is a significant threat that frustration and a sense of being overwhelmed will swamp the ship before that can happen.

STEP ONE IN MEETING THE CHALLENGE

Now, more than ever, BBBOs will need the support of trusted advisers, family, and friends to achieve their goals. Providing effective support requires an understanding of the unique characteristics of the BBBO, along with the characteristics of his or her business. The reasons why a 60-plus-year-old business owner has delayed pulling the trigger on moving on to the next stage of his or her life likely provides useful insight.

One likely reason for deferral choices was the good economy. BBBOs have enjoyed good returns over the past several years from their investments in their businesses. Those returns were generated from an enterprise that the owner knows and controls. By contrast, selling or otherwise transitioning ownership of their businesses would force BBBOs to depend on financial advisers, or on their separate skills as passive investors, to produce the levels of income that support their current lifestyle.

Another likely reason that BBBOs have hesitated to transition out of their businesses is relatively good health. Statistically, we're living longer and better. As a result, the percentage of BBBOs being forced by health considerations to get out of the saddle is lower than what could be anticipated when the timing of the "Silver Tsunami" was first predicted.

Finally, a reason that Baby Boomers have, as a group, stayed active in their companies beyond what was predicted is the nature of who they are. As a group, Baby Boomers tend to be optimistic, hard-working, driven people who take satisfaction in what they create. A great deal of the *persona* of BBBOs is tied up in their companies and in their role in those companies. *It's often difficult for Baby Boomers to see how they would maintain their relevance, sense of self-worth, and feelings of autonomy if they weren't running a company. As a result, they hesitate to let go.*

Now, abruptly, many BBBOs are faced with loss of the control they value. That control has been done in by an external factor over which the owners had no power.

APPLICATION OF SELF-DETERMINATION THEORY PRINCIPLES

The issue is how BBBOs can successfully respond to "need thwarting." A caveat here, that this article is by a lawyer, not a psychologist. However, every good adviser who works with lower middle-market businesses has to be able to view problem-solving in a holistic manner. This situation is no different. Therefore, to explore how BBBOs can summon the resilience and resolve to implement a successful transition of their businesses despite a radical, unforeseen change in how long and how hard that effort will be, I looked at research in applicable areas. Specifically, I familiarized myself with the Self-Determination Theory, also known as SBT or the Basic Psychological Needs Theory, originally developed by psychologists Edward L. Deci and Richard M. Ryan.

SBT can be helpful in understanding the relationship between the contextual environment in which a BBBO has been placed and the determinants of whether that BBBO can recover his or her well-being. The fundamental premise of SBT is that humans have fundamental psychological needs for competence, relatedness, and autonomy. Competence is the feeling that a person is good at what he or she does; that the BBBO can successfully complete challenging tasks. Relatedness is the sense that a person "matters." It includes the connections with others that one develops when running a business. Autonomy is the perception of control over one's own destiny. The more that these key psychological needs are fulfilled, the greater the sense of psychological well-being. By contrast, the more the needs are thwarted, the greater the likelihood of bad outcomes.

As can be discerned from comparison of the reasons BBBOs chose to defer transition away from running their businesses to the identified key psychological needs, *any efforts to bolster a BBBO's resilience and resolve in these tough times must address the BBBO's feelings of competence, relevance and autonomy*. An inability to restore good feelings about each of these attributes runs a high risk that the BBBO will succumb to feelings of helplessness, anxiety and frustration.

START BY IDENTIFYING AND AFFIRMATIVELY ACKNOWLEDGING WHAT'S GOOD

For BBBOs who have begun the Transition Planning process, the road to recovery should be shorter. There are three components to Transition Planning: Owner Readiness, Business Readiness, and Market Readiness. The first two components are internal to the business and its owner. The third component is external. Obviously, it's the Market Readiness component that has triggered the current concerns. The abrupt downturn in enterprise values strikes directly at a BBBO's sense of autonomy and control. It can also affect a BBBO's feelings of competency and, at least indirectly, his or her sense of relatedness.

Those BBBOs who have been working on Owner Readiness are more likely to have a clear vision of what would meet the owner's key psychological needs after transition, very much including the BBBO's feelings of relatedness. Furthermore, work on Owner Readiness has hopefully enabled the BBBO to initiate some financial diversification so that the "delta" between current enterprise value and what is needed to support the BBBO's post-business financial expectations is lower than what would otherwise have been the case. In those cases, the results of the pandemic are troublesome but the BBBO should be encouraged to begin the new journey by celebrating what has been achieved.

Those BBBOs who have been working on Business Readiness are similarly in a much better place than would be the case had that process not have been undertaken. Business Readiness includes initiatives to develop more transferrable value in companies, *i.e.* developing people and processes that heighten the predictability of continued financial success under new ownership. The greater the development of transferrable value, the greater the likelihood that the company will optimize its performance during trying times. For similar reasons, development of transferrable value should shorten the timeframe needed to enable the BBBO to transition out of the business in a manner that enables the BBBO to meet his or her financial needs. Again, those who are supporting the BBBO on his or her new journey should stop to celebrate the benefits of pre-pandemic investments in positioning the BBBO's company for transition.

The celebrations of what has been done right are more than "feel good" exercises. They are intended to address perceptions of competency, which are prone to be "thwarted" by the effects of the current disaster. Successful business outcomes depend in significant part of BBBO's ability to regain their mojo. The same drive, ego, and energy that characterized BBBO leadership prior to the pandemic will be needed to get the business back on track toward eventual successful transitions to new ownership. Thwarting is an active process driven by external circumstances. It is capable of being addressed and feelings of competency restored.

Perhaps the biggest obstacle to maintaining the requisite resiliency and resolve is autonomy thwarting. That's true even for the BBBOs who made Owner Readiness and/or Business Readiness progress before the economic downturn. Autonomy thwarting is exterior forces that cause a BBBO to lose the sense of ability to influence what will happen to his or her business. It's the "beyond my control" sense of frustration that is antithetical to the

historical nature of Baby Boomer business owners. If a BBBO's sense of destiny control is not restored, its absence will produce self-fulfilling bad results. Therefore it is critical that BBBOs be willing to reach out to others to be able to put in proper context the cards that he or she has been dealt.

THREE SECRETS OF RESILIENT PEOPLE

Dr. Lucy Hone is the Director of the New Zealand Institute of Wellbeing and Resilience. She is both an internationally known researcher on resilience and a person with first-hand experience on the subject. Dr. Hone's TedX talk on ["Three Secrets of Resilient People"](#) examines those "secrets" and helps advise on what can be done to summon the power to control what happens with one's business.

Secret number one is to acknowledge that, "Shit Happens." Adversity doesn't discriminate; that's certainly the case here. *What really matters is how the BBBO responds to that adversity.* Good times have been the norm in recent years. They'll be the norm again. In the interim, though, expectations have changed. BBBOs have to figure out how to deal with the new normal, face forward, and take deserved pride in being able to overcome the adversity foisted upon them.

Secret number two, which ties to the first secret, is that resilient people are able to *focus on things that they can change.* In general, business owners are programmed to pay most attention to negative information because that information contains the threats that must be addressed to ensure success of the enterprise. Positive information isn't afforded the same attention.

In a time of rebuilding, though, more significance needs to be afforded to the positive. That statement should not be interpreted to mean that threats and risk should be disregarded. Instead, it means that an intentional, deliberate effort be made to recognize and build on the good.

The evolving landscape may well offer new opportunities for businesses that invest in looking for growth. Ironically, the economic downturn may provide to management teams the ability to engage in the strategic planning and infrastructure building that is historically pushed off when times are busy. *For many BBBOs, this can be a time to cause their businesses to develop and harvest information that will be leveraged in future endeavors. It can also be a time to document processes, develop business content, and otherwise build the intangible assets that drive enterprise value in companies.*

The coming months will challenge the discipline of BBBOs, many of whom have an element of stubbornness in their personal toolboxes for success. It is more important than ever to objectively appraise calls for their companies' time, talents, and money. The instinct to "give in" must be curtailed. Resources will need to be invested in what can be changed for the better—not in what you'd like to change (or even what you've historically done) where the likelihood of success is low.

The third secret of resilient people, which is also related to the first two, is the ability to evaluate each contemplated action by the simple rule: *Will the action help or harm progress toward the ultimate objective?* Not only is this principle consistent with successful operation of businesses in a time of crisis, it ties directly to the effort to restore the BBBO's sense of competency, relatability and autonomy. Resiliency is enhanced by "baby steps" that put the BBBO firmly back in the driver's seat with a sense of control over his or her destiny and a drive to overcome the set-backs created by external forces.

CONCLUSION

The speed and breadth of the pandemic-driven changes have been so all-encompassing that they likely consume all the focus BBBOs can muster just to address unique operational issues as they crop up. As the immediate crises wane, though, BBBOs will be forced to examine what the new world means to them as business owners. They won't have the luxury of being able to spend long periods of time grieving or feeling overwhelmed. Their time and energy horizons simply won't allow it.

As a consequence, BBBOs are being asked to summon back the resilience, initiative, and drive that help them build successful businesses. Doing so is not only important to them and their families, it is important to the employees, communities, vendors, customers, and other stakeholders of their companies.

Finding that resilience at the end of long careers is not an easy task. It isn't where they wanted to be. However understanding the obstacles to achieving that resilience and resolve is the first stage of a purposeful plan for recovery. The task isn't easy and there's no "one size fits all" solution. The good news is that BBBOs have done it before. Here's betting that they can do it again.

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