FINANCE

Exit Plan! What Exit Plan?

Early Start Needed for Successful Succession

By Peter G. Christman

Every business owner should have an exit plan, but according to studies only 25% of privately held companies have such a strategy in place.

WHY? Because business owners are human!

Business owners fall into two main generational categories: the older generation (fifties and older) "lives to work" and the younger generation (fifties and younger) "works to live." Regardless of the philosophy, both generations have to balance responsibilities in their personal and business lives.

On the personal side, they are responsible for satisfying their life goals, objectives, spouse, children, friends, hobbies and personal wealth. In business, they have the responsibility for their goals, objectives, products/ services, employees, customers, vendors, facilities and business investment. They need to realize they must take a "holistic" responsibility toward their two worlds.

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Business owners' objectives tend to change as they and their businesses mature. Initially, their business motivations might have been survival, growth, personal fulfillment, new opportunities, success and making money. Exit planning didn't exist as a motivation. Now their objectives may be more "lifestyle" related, including retirement, financial security, more family/personal time, another career, hobbies, travel or charitable work.

Because owners are human, issues such as health, motivation, divorce or even death can occur at any time. This is why they must analyze just where they stand in both of their worlds. They cannot abandon either personal or professional responsibility and must plan for any eventuality.

Problems arise

Having no exit or succession plan leads to chaos, family disputes, lack of business continuity, employee turnover, loss of company value and loss of personal estate value. Failure to plan is the reason 70% of family businesses don't survive the second generation. Without exit planning, business owners are just working a job and missing the opportunity to create and preserve wealth for themselves and their family.

Conditions could change overnight that may be beyond their control. Business owners have had to sell their companies at the wrong time because of:

- Health reasons
- Decreased demand for products/services
- Market downturns
- New competition
- Sudden loss of large customers
- Sudden loss of key employees
- New technology

Company graveyards are full of companies whose owners didn't plan for their futures. Business owners should never assume the risks that are created by the failure to exit plan.

How to begin

The first step for business owners is to step outside of their business and personal worlds and realistically analyze their current status against their lifetime goals. Are they truly happy with their two worlds? What would they like to change? Once this step is taken, it should be documented in writing. This is a disciplined step that cannot be ignored.

The next step should be assembling an exit planning team. We recommend a basic team of a succession planning coach, an estate planning attorney, a financial advisor, a tax expert and an insurance professional. Others may be needed as the process expands, but this team possesses expertise in the initial, basic functions that are necessary.

The owner and team should be focused on two main objectives: maximization of company value and optimization of estate planning to retain most of the company value once the exit plan is implemented. This process results in the richest harvest of a lifetime of work for the business owner.

Additional steps

- A current market valuation of the business for the enterprise value starting point
- A personal planning analysis to indicate estate-planning gaps and alternatives to preserve wealth
- An evaluation of the company's strengths and weaknesses to provide the focus for a business plan
- Enlisting trusted sources to assist with the implementation of focused, business value improvement initiatives
- A thorough analysis of exit alternatives such as third party sale, ESOP, management buyout, family succession, merger possibilities or liquidation

After the above analyses are completed, both business and personal action plans should be developed. The action steps in both of these plans should be prioritized by maximum impact on enterprise value and personal impact on preserving wealth.

To provide a sense of urgency and ensure consistent progress, quarterly follow-up sessions should be held with the owner and his or her team. Plans should be formally updated annually to identify progress and any necessary changes.

Benefits of a good plan

- It is a team approach and the owner is not left alone to plan the future

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- Attitudes toward expenses and costs are changed. Now the business owner considers them to be investments toward his/her "harvest"
- Exit planning provides a starting point and an ending point
- Business continuity is assured with family and employee security achieved
- Control of the specific time to exit is directly in the hands of the business owner so that market conditions can be optimized
- Personal and business financial objectives are met
- Personal pride and fulfillment are maximized

Business owners cannot predict the future, but they can plan for it!

INFORMATION LINK

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