Take Time to Protect Your Business with Succession and Exit Planning

Entrepreneurs often risk everything in pursuit of a dream and those who succeed are an inspiration for future generations. As business grows and owners deal with the daily aspects of running a business, personal financial planning (including the most important aspects of succession and exit planning) may take a backseat due to “hotter fires burning.” Not only does it consume their hearts and souls, but typically a significant amount of their personal net worth may be wrapped up in the business. For this reason, proper exit and succession planning should be viewed as one of the most important tasks a business owner will ever undertake.

Exit planning is the overall process that explores all strategic options available to a business owner and includes succession planning and sales strategies. If done successfully, it is an orderly process by which the ownership and management of a business are transferred to the next generation in a tax effective manner.

A well-designed exit plan enables business owners to:

- Control the process and timing of their exit
- Achieve their personal financial goals
- Maximize their company’s value
- Facilitate their retirement
- Explore all available options for exit
- Promote long term growth and survival of their business
- Minimize taxes on the transfer or sale of their business

Failure to have an exit plan typically results in:

- Not achieving the highest value for their business
- Not being in control of timing or strategy of the exit plan
- Creating family fairness issues
- Paying additional income and estate taxes
- Not providing an atmosphere for longevity of key employees
- Creating uncertainly for all stakeholders

How do you begin the process and make it a priority? The first step should be to schedule an offsite meeting with a facilitator to discuss exit and succession planning in depth.

- Are family members or key employees capable of running the business?
- Are you relying on the value and cash flow from the business in your retirement planning?
- Is selling to an unrelated third party the right long term solution?
    - Who are the company's likely buyers?
    - What valuation models are used in the industry for past sales transactions?
    - Should a sales process start with advise from professional sell-side advisors such as an investment banking firm, business broker, or an experienced M&A attorney? (Yes, it almost always should.)

For instance, consider this all too common example.

Mr. Jones, the founder of a highly successful business, is approximately 60 years old. For more than 30 years, he worked tirelessly in his business, but has not developed a succession or exit plan. His dream is to turn the reins over to his son who would take the business to the next level. Mr. Jones is looking forward to spending more time at the beach and on the golf course.

A substantial amount of his personal net worth is in the business; therefore, he could not just gift it to his son and continue to live his current lifestyle. His son does not have the financial ability to outright buy the business from him, and the bank would require his personal guarantee on an acquisition loan to his son. With a guarantee, even after an outright sale of the business to his son, he would rely on the future success of the business for his personal financial security. His high net worth causes concerns about future estate taxes and he worries his business may have to be sold to pay estate taxes at a time that would not maximize the businesses value.

If the family business ends up with his one son, how can he be fair to his other children's inheritance? There are key long term employees who are expressing concern over whether the business has a succession plan.

If this sounds familiar, consider the succession planning process.

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