March, 2013

The Exit Strategies Newsletter

Comparing Business Exit Planning with Personal Financial Planning

This newsletter is written to and for the business owner who is considering an exit from their business one day but has not started the formal planning process. To help owners put the Business Exit Planning process in perspective, we want to introduce the manner in which many owners think about retirement planning in general. This is an important concept to understand because, as an owner who has most of their wealth tied to their privately-held business, how and when you decide to turn that ownership into cash (or gift it to others) is the first and most important perspective that you need to develop. Therefore, understanding the timing of your decision and how timing can and does impact your exit is critical to your goal setting process.

The Default Rules of Retirement

In America we are handed down many beliefs and customs that follow rituals by which the majority of folks adhere to. One of the most interesting of these beliefs is the 'standard retirement date'. A combination of social security payments as well as arbitrary and outdated rules around forced retirement from companies has locked in place the idea that individuals should be looking at, and executing on, their personal retirement from the workforce in their mid-sixties. As a result of this default setting, a majority of individuals, both business owners and non-business owners, meet and work with financial planners who use this default date to set an action plan and goals for their 'retirement'. These action plans and goals include tactics such as disciplined savings habits that are aligned with the overall plan and goals, helping to project the anticipated financial outcome for an individual when they reach, on average, their mid sixties.

Incremental Steps Lead to Substantial Outcomes

The basic tenet of 'planning' is that by forecasting a date and event into the future, one can begin to take action today to be prepared for that future event. In this case, retirement savings plans are established to take incremental amounts from each paycheck (and/or annual salaries, bonuses, etc. . .) and put it aside for the future. And, through what has been referred to as the 8th wonder of the world, the power of compounding interest, those investment dollars will appreciate in value to a projected number that is then matched up with where you need to be financially in your retirement forecast. In fact, incremental changes do lead to substantial outcomes.

Applying These Concepts to Business Value and Exit Planning

There is a disconnect, however, between the personal retirement planning process and the business exit planning process. While the industry of personal financial planning is very well developed, the emerging industry of exit planning is just coming into prominence now. Owners have been largely left to their own devices to formulate a plan that accomplishes the same basic components of a financial / retirement plan, but to do so with their business. For example, can you as a business owner answer the following questions – many of the same ones that you may have answered for your personal financial planner:

1. What is your anticipated 'exit date' from your business?
2. What actions in the business need to be taken to assure that you will have a profitable, sustainable and transferrable business on that date?
3. What can you do every week, month, quarter and year that will incrementally contribute to building your business around successfully accomplishing the goal of an exit that meets your objectives?
4. Who is helping you with this critical area of planning today? And
5. Given that your privately-held business is likely your largest asset, is your personal retirement plan even relevant to meeting your financial goals if you are not able to convert your business into cash at some point in the future?

The last question is the most compelling because it highlights the ultimate disconnect from personal, retirement planning. You see, if your business is your largest asset and you don't have an exit plan, then your entire personal financial planning process falls apart when the business asset is no longer performing for you.

What To Do Today to Build the Plan for the Future Exit

Just like personal savings habits, you need to first develop a discipline by which you will incrementally add to your overall personal and business planning to reach your goal. The logical conclusion of this first step is to include your business goals in your personal planning, the first of which is an exit plan from your business. There are three (3) phases of planning that you'll want to adhere to in order to help assure success.

The first part is writing down your plans and what you would like to achieve personally and within your business. We like to see these plans in writing as they are easier to review and adjust on a periodic basis if they are in writing.

The second part of the planning process is to prepare yourself and your company for the future transaction. This step can and should take many years as you need to make personal adjustments as well as changes in your business so that the company can grow in value and survive without you.

The third part is undertaking an exit transaction, which includes passing on the business to others.

The planning and preparation is what sets the stage for success in passing on the business. And, in order to assure that your exit transaction is successful, your planning and preparation will require consistent diligence, discipline and monitoring.

Concluding Thoughts

We hope that by comparing business exit planning to personal retirement planning, you are able to see the disconnect and the likely gap in your overall planning. This newsletter is written to encourage you to consider taking the first steps today towards developing a solid plan to protect your largest asset, your privately-held business.