Top Excuses Owners Use to Avoid Exit Planning

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Like every owner, you will one day exit your business—voluntarily or involuntarily. On that day you will want to attain certain business and personal objectives: the first (and usually prerequisite to all others) is financial security.

Believe it or not, most owners do absolutely nothing to consciously plan and systematically move toward that all-important goal. Anecdotally, the four most common excuses owners use to justify delaying and eventually ignoring Exit Planning are:

1. The business isn't worth enough to meet my financial needs. When it is, that's when I'll think about leaving.
2. I will be required to work years for a new owner.
3. I don't need to plan. When the business is ready a buyer will find me.
4. This business is my life! I can't imagine my life without it!

Today, let's look at the first hurdle that prevents most owners from making the necessary plans to cash out of their businesses and move on to the next stage of their lives.

Excuse #1: It makes no sense to start planning when my business isn't worth enough to meet my financial needs. When it is, that's when I'll think about leaving.

This is a common, and not unreasonable, assumption: Why spend time, effort and money to plan to leave your business when, today, you can't? Why not wait until it is at least theoretically possible to leave to begin the exiting process?

At age 45, Jerome Rowling was dreaming of the day he could leave his company. The past five years that Jerry had spent trimming fat, watching every dime and developing new marketing strategies on a shoestring had taken their toll. Like the trooper he was, Jerry kept his nose to the grindstone fully confident that if he worked hard enough, the exit he dreamed of would take care of itself.

Fast forward five more years and we find Jerry pretty much where we left him—dreaming more frequently, but doing nothing, about the day he will walk out the door. What had changed was that Jerry had reached his 50th birthday—a benchmark he had set years earlier—for the day he'd leave the business behind.

During the five years Jerry spent working in (rather than on) his business, he missed the opportunity to:

- Clearly establish his personal exit goals and objectives.
- Create an exit plan (based on his goals) that would identify the most productive actions he could take to create and protect value, and to do so in the most tax-efficient way possible.
- Drive up business value to the point where he could sell, pay taxes and exit with the amount of cash necessary to achieve financial security.

What owners know to be true, but often fail to act upon, is that growing value usually does not occur unless owners focus their efforts on deliberate actions that move the company measurably toward their goals. In failing to act on what they know, owners don't create or implement exit plans and so are never are able to exit on their terms.

Do you have a plan?

To avoid planning not only puts your future financial security at risk, it overlooks your company's need to grow in value—efficiently and quickly—in carefully targeted areas. Growing and protecting value is at the core of Exit Planning. To identify where and how to spend precious company resources (your time and money) to make the greatest impact is a key exit planning task. It is just as important as identifying and implementing strategies to minimize current taxes and the tax bill when you transfer your company.

It makes sense to start planning for your eventual exit because you have to plan (and consistently take purposeful actions to implement your plan) if you ever want to exit in today's (and likely tomorrow's) economy. The simple reality is that most owners don't plan and therefore most owners are never able to leave their businesses in style.

Excuse #2: I Will Be Required To Work Years For A New Owner

If one of your Exit Objectives is to leave your business as soon as possible, tell your Exit Planning Advisor to make that a prerequisite of any sale. Some buyers require sellers to stay on after closing, but, *if the management team is strong*, most require the former owner to remain only for short transition period--usually no more than a few months.

If your management team consists only of you, and you want to leave as soon as possible, plan on working for the new owner for a couple of years. If your exit is still several years away, you've got work to do. We'll talk about how to create and motivate a management team that will stay beyond your departure in future issues of this newsletter.

The best way to be sure that you don't become an employee of a new owner is to make yourself an unnecessary expense. You do that by creating a management team that has proven its ability to make the company profitable, and is motivated to do so.

Excuse #3: I don't need to plan. When the business is ready a buyer will find me.

According to a 2010 Deloitte study, 18 percent of owners share this "exit plan" (Deloitte, "Entrepreneurship UK: 2009/10: On Your Marks," page 21). One of the hard lessons of The Great Recession of 2008-2011, however, is that the timing of an exit depends on a vibrant economy with an active M&A market and a company with strong cash flow and an owner ready to sell. These factors seldom exist in equal measure at the same time.

We suspect that some owners believe that waiting for a future economic tide to bring back well-financed buyers involves little to no risk. But this type of passivity is fraught with danger:

- What if a qualified buyer doesn't show up?
- What happens if, when you are ready to sell:
    - the M&A market is dormant; or
    - your industry niche has fallen out of favor;

    - a national competitor moves into your territory; or
    - your business and/or the economy is in decline or worse?
    - Your health (or personal circumstances) unexpectedly deteriorates?
- What happens if the economic tide doesn't return at all, or at least not for many years?

Excuse #4: This Business Is My Life! I Can't Imagine My Life Without It.

We all know business owners whose belly fires are long cold and whose animating goals have grown stale. Yet, they hang on in their businesses because they can't imagine their post-exit lives. We also know owners who remain energized and involved with their companies. *Both types* will leave their businesses.

If you are still passionately engaged with your business and happily making a difference in your life and the lives of others, don't exit just to exit. But if the passion that once burned brightly has turned to cold ash, it's time to act while you have time.

To start exit planning only when the end is near fails to exploit the majority of its benefits. Exit planning involves building business value, its cash flow, and its resiliency so that it prospers regardless of who owns it or what that owner's exit objectives are. Exit Planning involves protecting value and minimizing taxes--both valuable endeavors regardless of an owner's specific exit objectives. When departure day dawns, owners who have planned their exits are better positioned to achieve all their business and financial objectives.

Final Thoughts

Certainly, the decision to sell the business you created and nurtured is an intensely personal one. No one can tell you when to exit your business or what to do with the rest of your life. Having worked with other owners, we can help guide you through the process of preparing for the biggest financial event of your life. We can help you consider all of the factors associated with exiting your business and help you to reach your exit objectives.