

EXIT PLANNING – FOR THE SMALL BUSINESS OWNER

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As an exit planner, I routinely discuss the history of small businesses with small business owners: how they got started, why did they want to own and operate their own business, and what did they expect from it.

Having owned and operated a small business for over 25 years, a lot of the things I learned and heard from small business owners mirrored what I've experienced myself. As the time approaches to start transitioning out of my business, the need to have a plan for doing so is vividly apparent. I have found that the number one reason business owners do not address exit planning from their business is because they simply do not know where to start.

Within the next 20 years, more than 90 million people in the United States and Canada will be retiring. Over the next 15 years, the U.S. economy will experience an unprecedented increase in the number of businesses for sale as baby boomer entrepreneurs begin to retire. The result will be a glut of available businesses and downward price pressure for most privately owned small companies.

During the last 30 years, over 5 million businesses with annual revenues ranging from \$1 million to \$75 million were founded. The owners of most of these businesses are now 50 years old or older and beginning to think about retirement. Recent studies by Price Waterhouse Coopers, Mass Mutual and Marquette University showed that one out of two businesses will change hands between 2006 and 2016.

Surveys show that approximately 30% of these entrepreneurs plan to sell their business to a third-party buyer, another 30% plan to sell to a family member or members, and another 18% plan to sell to current employees. The remaining percent plan to close their doors and liquidate their business.

If you intend to sell to a third-party, it's important that you successfully position your business to sell in an increasingly competitive market. Small business owners should focus on doing everything he or she can to increase the attractiveness, value, and salability of their businesses.

The Price Waterhouse Coopers study also showed that approximately 75% of private entrepreneurs have not developed a business transition plan and the remaining 25% have done little or no estate planning.

An exit plan is a comprehensive road map to successfully exit a privately held business. It is an integrated plan that asks and answers all of the personal, business, legal, financial, tax and estate issues that are involved in exiting from a privately owned business. Its purpose is to maximize the value of the business at the time of exit, minimize taxes, and ensure that the owners accomplish all of their personal, financial and business goals in the process.

Exit planning can be rewarding to business owners. It is not uncommon for companies that have invested the time and effort to prepare their business for sale to sell for a significant premium over companies that come to market unprepared. With good planning, business owners often reduce, or in some cases, eliminate capital gains taxes due on from the sale thus increasing after-tax net proceeds to the seller.

Perhaps the most often overlooked and important aspect of exit planning is the peace of mind that comes when a business owner knows that he or she has successfully developed a plan that will care for their heirs in the way they wanted rather than let the future take care of itself—after all, deciding how and when to exit a privately owned business is perhaps the single most important financial and personal decision in a business owner's lifetime.

It can take up to two years of focused activity to get your business ready to sell at a reasonable price and another 12 to 18 months to consummate the transaction. To get started with exit planning as well as the exit process, become informed. Seek information from the best independent and objective sources possible. One good place to start is to talk with trusted advisors like your attorney, accountant, financial advisor, or insurance professional, or an investment banker who focuses on privately held businesses.

To learn more about exit planning strategies and other services offered, please visit www.rukkilnegro.com.

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