EXIT PLANNING – WHAT SHOULD MY PLAN INCLUDE

Over 70% of former business owners regret selling their companies less than a year after the sale. What accounts for this seller's remorse? Primarily, lack of preparation on the part of the business owner.

A recent survey showed that the number one reason business exits fail is due to a lack of planning on the part of the owner.[1] A separate study showed that most business owners spend more time planning their family vacations than they do planning how and when to exit their business. Rather than being proactive, most business owners are reactive. They are then "forced" to sell due to burnout, health issues, marital problems, or business conditions. These business owners discover that they did not take the time to correctly prepare for the sale of their business. Developing an exit plan is the most important thing you can do to protect the value of your business.

What is an exit plan? An exit plan is a comprehensive road map that addresses all of the business, personal, financial, legal, and tax issues involved in selling a privately owned business. A good exit plan includes contingencies for illness, burnout, divorce, and even your death. Its purpose is to ensure the survival of the business, to provide continuity to your employees, customers, vendors, and to preserve wealth for your family.

Without a predetermined exit plan, there is a strong likelihood that you will:

- Undervalue your company and leave hard earned wealth on the table
- Pay too much in taxes
- Lose control over the exit process by being reactive, rather than proactive

On the other hand, a well designed and implemented exit plan enables you to:

- Control how and when you exit
- Maximize company value in good times and bad
- Minimize taxes
- Ensure you achieve your business and personal goals
- Have strategic options from which to choose
- Reduce uncertainty for your family and employees

To be effective, your exit plan must adhere to these six essential components:

1) It should include a concise statement of your business, personal, and family/estate goals. This step is essential to ensure that all of the goals are consistent and set the direction for the rest of the analysis.

2) An exit plan should contain a detailed business valuation to establish a baseline value for the business.

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[1] PriceWaterhouseCoopers, *Whose Business Is It Anyway?* University of Connecticut Family Business Program, *Family Business Survey*

3) The plan should help you identify specific ways to enhance the value of the business prior to your exit.

4) A good plan should contain an analysis of the pros and cons of your different exit alternatives, such as a third party sale, management buyout, family succession, or liquidation.

5) A good plan should provide suggestions to minimize any capital gains, ordinary income, and estate taxes related to the exit.

6) The analysis should contain an action plan that details the specific personal and business steps you must take in order to prepare for your exit.

Perhaps the most important thing to remember is that developing a good exit plan is a multidisciplinary endeavor. No single professional advisor has all of the expertise needed to design a comprehensive, integrated exit plan. The best exit plans incorporate input from a team of advisors that generally includes:

- A business attorney with Merger & Acquisition experience
- A financial advisor or wealth management professional who does planning work
- A tax specialist
- An insurance professional
- A banker familiar with your business

Sticking to your exit plan is just as important as having one. You should meet with your advisors on a regular basis to ensure that crucial steps are being completed on schedule. Nobody likes to pay unnecessary fees, but the cost of developing a good exit plan is usually quite small when compared to the potential increased value you could receive at the time of sale. To most small business owners, exiting your business is probably going to be the most important deal of your life time. Don't shoot from the hip.

Your exit plan should be focused on two main objectives:

1) Maximizing your company's value prior to your exit
2) Ensuring that you accomplish all of your business and personal objectives as part of the exit

It is never too early to create your exit plan – act now!

To learn more about exit planning strategies and other services offered by our firm, please visit www.rukkilanegro.com.

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