EXODUS COMPLINK
Build Value ▸ Half Retire ▸ Exit with No Regrets

What is an Exit Plan?

Exit planning has become a new buzzword for those who consult to Baby Boomer business owners. Business brokers, wealth managers and other professionals are adding "exit planning" to their marketing messages. It's a logical reaction when over 2,000,000 Baby Boomers are preparing to leave their businesses.

Not surprisingly, when a business broker creates an "exit plan," it usually involves listing the business for sale to a third party. An attorney's planning focuses on the legal documents that allow the transition of the assets of a company to new ownership. An accountant or financial planner will look closely at tax and inheritance issues, and an insurance broker offers products that reduce the risk of interruption or disaster.

Exit planning is often influenced by the profession of the planner.

All these are important to the successful implementation of a plan, but each professional focuses on his or her specific skill set. If your shoulder hurts, you could go to an orthopedic surgeon, a neurologist, a general internist, a chiropractor or a physical therapist. Each will have a treatment approach for a painful shoulder. Each will be different, based upon his or her specialty. Each will reduce the pain at least somewhat, although some of them may or may not address the underlying cause.

Similarly, there are many professionals who claim competence in exit planning. Each has a different area of expertise, and what they term as exit planning tends to focus on those areas. A comprehensive exit strategy encompasses legal, tax and risk management issues, but it also examines operational issues of the company whose value is the underlying driver for everything else.

Before the first document is drafted or embarking on a plan for spending the money from a sale, the business must first realize the proceeds of a transaction. That means it must find a buyer who will pay for it. That buyer could be a third party, but it might also be an employee, an employee group, or family members.

Due diligence examines many factors in the business

Any third party considering the purchase of a business will do extensive due diligence. Their willingness to pay a premium for a company will depend on its track record of revenue growth, the stability of its margins, and how well-established its systems and customers are. If the company is larger than about twenty employees, they will look for supervisory and management talent who will stay after the sale.

Regardless of size, a business that is highly dependent on the owner for revenue or for making all key decisions will be deeply discounted or even impossible to sell. An exit plan should look at these factors and help to make the adjustments needed to realize full value.

An exit plan should encompass an overview of the owner's responsibilities.

Selling to employees or family is often an attractive option because it allows the owner to choose a retirement date, and price is less of an issue than financing terms. Unless you are willing to accept a promissory note for most of the price and feel secure that your successors can maintain payments over a long period, a plan for this kind of exit should begin at least three, and preferably five to eight years before the planned transfer date.

An exit plan needs legal, tax, risk and wealth management expertise to be successful, but it also requires a practical examination of the operational strengths of your business. Selecting one professional to manage the efforts of everyone, and to help keep you on track, is a wise investment.

In America, the average small business owner has nearly 75% of his or her net worth in the company. The single biggest financial transaction of your life deserves special attention. Call us to discuss your options.

Many business owners have up to 75% of their net worth in the company.

Take the 22-question ExitMap Assessment and see where you stand on your level of preparedness to exit or transition your business. The assessment and the 12-page Summary Report are FREE.

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