## Early Exit Planning: A Key to Business Owners' Personal Financial Security

Most business owners are too busy running their business to think about planning their exit from it. Their mindset is one of "there won't be a business to exit from if I don't take care of the daily tasks." However, developing and executing a transition plan early on is a critical part of running a business. In fact, failing to plan can create a competitive disadvantage.

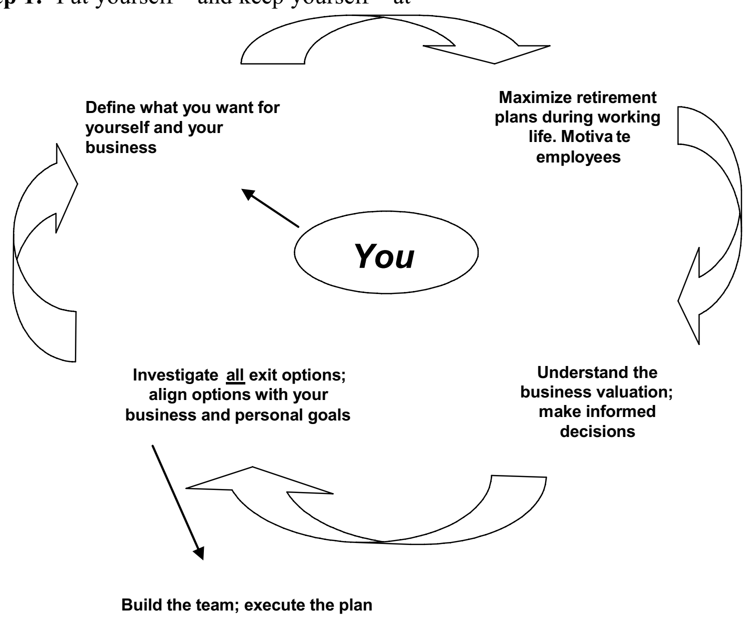
If you have not given enough thought to how the business will run without you, you are not alone.

- Approximately 65% of business owners do not have an exit plan, while at the same time, more than half of them are at least 50 years old and 60% will exit the business within the next 10 years.
- 90% of family-owned businesses want someone in the family to own it; greater than 70% of these businesses do not sur vive the transition from founder to sec ond generation.

Creating an effective exit strategy involves a five-step process, not a one-time event, and the strategy will evolve as the business and your needs change over time.

**The Exit Planning Process**

**Step 1:** Put yourself—and keep yourself—at




the center of the process.

Similar to a business plan, you need to outline your vision of what you want in retirement and for your firm after you are no longer involved in the day-to-day activities. For most of our clients, at the very least, they intend to maintain their standard of living. This process helps formulize the business decisions needed to get the business to that level.

Some questions to consider include:

-What do you need financially to accom plish your personal objectives in retire ment?

- When do you intend to exit the busi ness?

-Do you hope to leave your business to a family member? To other employees?

Getting specific about what you intend to achieve financially from your business should be the starting point—and the continual reference point—from which trade-offs can be evaluated and decisions made.

**Step 2:** Maximize qualified retirement plans during your working life.

This key step is often overlooked by business owners and is especially relevant for small- to medium-sized service organizations. In service businesses, typically, the owners are the firm; and when the owners exit, so does the business.

Taking advantage of retirement vehicles during the life of the business is the equivalent of selling the business to yourself over time. You should reap some reward for your role as owner and for keeping your salary low as an employee. Getting sound advice about which plan(s) are best for your particular situation is critical.

**Step 3:** Understand the current condition of the business and determine its value.

Just because you need a certain amount of money in retirement does not mean you are going to get it when you exit your business. A periodic valuation of your business will give you an informed snapshot of where you are and helps you understand the factors that may add value. This understanding helps you to balance the need to enhance its value (and your net worth) with simply getting that next contract.

**Step 4:** Explore exit options by understanding the advantages and disadvantages of all available exit strategies.

**Exit options include:**

-Sell to co-owners(s), key employee(s)
-Sell or gift to family member(s) or third party
-IPO
-Liquidate

This is where we refer back to the business owner in the process. What are you trying to achieve for each stakeholder? Do you understand the transaction costs, fees and tax implications of each option? Most business owners understand the need to get good advice on this topic. Understanding the advantages and disadvantages of the alternatives first, helps focus on the options most beneficial to the owner.

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**Step 5: Execute the plan.**

Execution of the plan may involve a variety of professionals, including:

- Financial advisor
- Business valuation expert
- CPA
- Estate planning attorney
- Insurance agent
- Business broker
- M&A firm

Your financial advisor should sit with you at the center of the process and make sure the team of professionals is coordinating efforts. Ideally, the advisor has intimate knowledge about your objectives, for yourself and your business, and has experience with all the special circumstances that business owners face.

Someone who has worked all his life in building a successful business owes it to himself to capitalize on his efforts. If not, choosing a job with a nice salary and a steady pension may have been the best decision the business owner never made.

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