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## Exit Planning 101 - Exit Your Business on Your Own Terms

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While most entrepreneurs understand the importance of having business plans to guide their companies' beginnings, they often neglect the other bookend that will help shape successful careers — exit plans. It is estimated that most business owners hold between 50 to 70 percent of their personal net worth in their companies. In addition, according to economist and demographic expert Robert Avery at The Federal Reserve Board, approximately two-thirds of businesses will change ownership between 2005 and 2020. This means that an estimated \$10 trillion of personal wealth will be transferred during this period.

According to one source, only 15 percent of all business owners have developed exit plans. This means that the other 85 percent are vulnerable to involuntary crises, something we refer to as the Dismals D's - Death, Disability, Divorce, Declining market and Debt overload. These events will likely trigger a business sale or a transfer of ownership where, without a plan, the company could lose a significant portion of its potential value.

Exit plans are one of the most important tools not only for you as the owner, but also for your family and your employees. They anticipate the emotional, legal and financial consequences of a transition so they are best managed by all parties involved.

### Identify the goals

First, exit plans need goals. Not only does the plan consider the "who," "what," "when" and "how" of the eventual transaction, it should also

consider the emotional impact exiting the business will have on you and your family. Take time to consider what your needs and wants are post-closing. How will you feel surrendering the keys of the operation? Will you want to start a new career, stay on as a consultant or completely walk away? These factors can have a dramatic impact on your motivations in carrying out the plan.

### Know where the company stands

Because financial consideration is often the biggest concern in an exit plan, the first step is to determine the value of your business today. Accredited business appraisers will not only value the company by looking at its past performance and future potential, they will often suggest strategies to increase the value of the business. By performing a valuation at least three to five years ahead of your desired exit, you allow yourself sufficient time to implement changes that will make the most out of your most valuable asset.

### Strategizing the plan

The owner's personal and financial goals will be the key determinants in deciding how the exit will happen. There are six options you should consider when making an exit plan:

- **Third-party sale:** A sale of a business to an outside party can maximize the price, especially under a controlled process where multiple buyers compete for the company. Experienced M&A advisers have techniques

and the right contacts to create a competitive arena for your business.

- **Family:** If your company is a family legacy that you want to see continued, a sale or gift of ownership to the next generation may be the prudent choice. You should plan for this by making lifetime gifts of minority ownership interests to your successor.
- **Management:** As a reward for years of service, you may consider selling the company to one or more members of the management team. However, because lack of capital is usually a deterrent in these situations, you may need to stage a buy-in by selling minority shares over a course of time.
- **Other owners:** If your business is co-owned, the other partners may wish to buy your shares. All parties should agree to a buy/sell agreement that carefully details the terms and conditions for such an event.
- **Employee stock ownership plan (ESOPs):** Some owners choose to sell their ownership to an ESOP as a way to motivate and retain employees. Plan for this early as the company will need to pre-fund an ESOP over two to five years and borrow the remaining money from a bank.
- **Voluntary liquidation:** In certain circumstances, an orderly liquidation is the most practical option. Work with a professional auction company to organize and liquidate the company's assets for maximum value.

## Reaching the goals

The complexity of exiting a business is difficult enough without the added confusion of being caught off-guard. Successful exit plans meet your goals and avoid the chance of being forced to sell due to a "Dismal D." Remain in control of the process and culminate the end of a successful career by exiting on your own terms.