3 STEPS TO EXIT PLANNING

The average business owner has between 50% - 80% of their net worth tied up in the business. (Biery, 2017) And in 2018, the number of small businesses sold hit record levels — and it's only expected to increase in the coming years. (Guta, 2019). These combined factors will create an increased need for a service called exit planning. But what exactly is exit planning?

Exit planning, in a nutshell, is everything that goes into the transfer or transition of a privately held business including business, personal, financial, legal and tax issues.

Running a business is extremely complex and has many moving parts. In many cases, owners are so busy meeting the day to day demands of their business, that they lack the time or space to thoughtfully plan for their exit. One common mistake is that business owners don't start planning early enough and sometimes compromise their economic return with a poorly planned, hastily implemented exit.

Here is where professional advisors might play a critical and beneficial role. A financial planner, CPA, attorney, business valuation (BV) specialist – or a combination of these advisors – can provide an objective view of the owner's situation. An extra set of experienced eyes can spot many issues that the owner can't see when they're consumed by the daily rigors of running a business. Furthermore, business owners almost always lack the technical expertise needed for the enormous task of exiting a business.

EXECUTING YOUR EXIT

Working together with professional advisors, here are 3 basic steps an owner can take to smoothly and advantageously exit a business:

1. **Decide how to exit:** There are various ways for an owner to exit or transfer a private business. One approach is to transfer to a family member who has experience or can be groomed for the role. A business can also be sold to a business partner, key employee or an outside buyer. Deciding how to exit is the first step. Ideally this decision is made early enough to allow for plenty of advance planning.

2. **Conduct a business valuation:** Knowing the value of your company is a critical aspect of any exit plan. Even if you are not selling your company, a formal business valuation has many benefits. It can help properly establish the value of future owners' shares. It informs insurance decisions and lending negotiations. And it can help attract investors and more. Your exit plan also impacts your personal retirement income planning. Which is why obtaining the help of a qualified business valuation specialist is an absolute must.

3. **Prepare for and execute your transition:** Once you have decided how to exit and have had your business professionally valued, it's time to prepare for and carry out your exit. The transition to new ownership is a critical and vulnerable time for your business. It's best not to rush. Work thoughtfully with your advisors or team of advisors to prepare both your successor and your business for a seamless hand-off.

It is estimated that baby boomers own about 2.3 million small businesses in the United States. (Peter Walsh, 2018) Many of these owners are thinking about what will come next. Some may hold on to their business indefinitely, while others will want to exit and perhaps move on to other endeavors. The emotions experienced around the sale of a business range from excitement, exhilaration and pride to fear and overwhelm. Following a well-thought-out exit plan crafted with the help of a trusted advisor will keep you on track and make your transition a smooth one.

REFERENCES

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