Having a Transition Plan Puts You in the Driver's Seat

When we talk to business owners about the value of transition and succession planning, we're talking about orchestrating a business exit that fulfills their unique financial and personal goals. Tackling a task of this magnitude can be daunting, and owners sometimes ask whether devoting the necessary time and money to this process is really worthwhile.

When owners don't proactively plan their exit ahead of time, they can leave cash on the table - or worse, have an exit failure. They can fall short of what they need to transition successfully.

Exiting without a pre-established plan is a highly reactive approach. What usually happens that an owner will decide it's time sell and meet with an investment banker or valuation expert to get a sense of what the business is worth. Then, they take the company to market and, in the best case scenario, entertain offers. By this time, they are highly invested in the selling process and do whatever is necessary to make a transition happen, even at the expense of meeting their own needs and goals. Had they planned in well in advance, they would have been in the driver's seat instead of the back seat.

How to Get in the Driver's Seat

The four basic steps to exit planning are:

> Step 1: Determine your exit objectives by establishing your financial needs and goals.
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> Step 2: Determine the current value of your business.
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> Step 3: Uncover any gaps between what you need versus how much you can get.
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> Step 4: Implement a plan to build business value; work on closing the value gap.

Your exit plan will provide direction on building the value of your business; this gives you more options when it's time make your planned, or even unexpected, exit.

Techniques for Increasing the Value of Your Business

There are numerous ways to build up the value of your business, and your advisor will recommend those that are the best fit for your business' situation. Here are two that are commonly used:

1. Put Stay Bonuses in Place

One technique that exit planners use to motivate managers to remain with a company post-closing is the stay bonus. An effective stay bonus accomplishes three tasks: 1) it gives the key managers a reason to stay, 2) it is structured so that it increases the value of the company, and 3) it includes a penalty (usually in the form of a covenant not to compete) that prevents key managers from taking key clients, vendors, or trade secrets with them should they leave before or after the sale.

2. Clean Up Buy-Sell Agreements

One method of protecting business value is to clean up buy-sell agreements (again, well in advance of any contemplated sale or transfer). When a majority shareholder wants to sell, sometimes he or she can't because the buy-sell agreement fails to compel a minority shareholder to sell at the same time.

It would be a mistake to assume that all shareholders will want to exit at the same time, or that employees will want to stay with the business once there has been a change in ownership.

For these (and many other) reasons, exit planning is indeed well worth the time and money owners devote to it.

For more information or to learn how L. Harris Partners can help you plan your exit:

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