Exits Are Inevitable. Failure Is Not. Plan a Successful Exit.

By Jeff Johnson and Tom Siders

New product launches, reducing expenses, finding and keeping top talent. These are just a few of things that take up mindshare for a business owner on any given day. If you look way, way down on the list, you'll see exit planning. Successful business owners know that moving exit planning up the list and having a plan will help in prioritizing the rest of the list. It's a bit like that old adage, "The best time to plant a tree is yesterday. The second best time is today." Why? You will leave your business one way or another. If you want to leave on the best possible terms, you need to start now.

The best possible terms usually include, 1) meeting financial goals and needs, and 2) choosing the person or entity that will receive or buy the business.

Crafting a comprehensive plan for leaving your business (one based on your exit objectives and that's flexible enough to adapt to changing economic, business, and personal circumstances) can be the difference between liquidating your company for whatever you can get, and selling/ transferring it for millions of dollars.

What Can Happen

Let's look at the characteristics of a good exit plan in light of a sad, but common story of two hypothetical business owners who failed to plan.

John and Don Malcolm are two brothers who owned a thriving manufacturing company in the midwest. As successful as they were, they were tired of navigating the labyrinth of government regulation and of paying ever-increasing taxes. Ultimately, the day-to-day grind of running a multi-million dollar company had taken its toll. They decided they wanted get out of the business and go on to the next chapter of their lives.

For the Malcolms, a sale to a third party was not feasible not only because neither brother was willing to remain with the company after a sale but also because they had failed to develop a strong management team. Few savvy buyers will purchase a company without a great management team committed to staying on board after the sale.

Transferring ownership to one or more key employees was also out of the question. None had been groomed to assume ownership responsibilities nor had the Malcolms taken action to fund this type of buyout. Transferring the company to children was impossible because the children of both owners were too young to be active in the company.

The Malcolms' only exit option was to liquidate because their highly profitable company had little worth beyond the value of its tangible assets. After the liquidation sale, dozens of employees lost jobs and John and Don left millions of dollars on the table.

How to Avoid the Malcolms' Fate

Plan Ahead. The issues the brothers ignored (among them grooming a management team and failing to plan) proved to be their downfall. But these and most other issues—if addressed in advance of your departure—can be resolved in a manner that: a) is cost efficient; b) enables your business to be transferred; and c) adds to the value of your business. In our experience, most owners with exit plans need five to ten years to implement all the strategies necessary to exit successfully. Owners without exit plans spend far longer than that waiting and hoping for a buyer.

Set Measurable Goals. Your exit plan must set goals, provide accountability, and measure results. This is especially important when one goal is to protect and grow value, and minimize taxes.

Incorporate Flexibility. Create a plan with the flexibility necessary to react quickly and effectively when the unexpected happens.

Use a Proven Process. We suggest following a seven-step process. One way to look at the exit planning process is to associate each step with a question. As you progress, you will be able to answer "Yes" to each one.

Step One - Setting Exit Objectives:
Do you know your retirement goals and what it will take—in cash—to reach them?

Step Two - Determining Business Value:
Do you know what your business is worth today, in cash?

Step Three - Increasing Business Value:
Have you identified the best ways to increase the value and cash flow of your company?

Step Four - The Third Party Sale:
Do you know how to sell your business to a third party without getting killed by taxes? (or)

Step Five - Transfer Your Business to Insiders:
Do you know how to transfer your business to insiders (family members, co-owners, or employees) for cash rather than give it away?

Step Six - Protect Your Business:
Do you have a continuity plan for your business should you die or become disabled?

Step Seven - Protect Your Family:
Do you have a plan to secure your family's financial security should you die or become disabled?

The thought and actions that go into answering these questions constitutes your unique exit plan.

If you'd like help getting started on your exit plan, we can help.

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

L.Harris Partners

Phone: 952.944.3303

jeff.johnson@lharrispartners.com

www.lharrispartners.com