Why Exit Planning?

By Ken Stiefler

Did you know the majority of closely-held and family-owned businesses will change hands within the next five years? Are you like many business owners who are simply too busy working to think about how you would transition the ownership of your company, think you're too young to consider exit planning or just do not know where to begin?

Consider the case of two brothers who were the owners of a multi-million-dollar office furniture dealership. Instead of planning ahead, the brothers grew tired of government regulations, changing tax codes and the day-to-day grind of running the dealership and decided to get out of the business.

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Sale to a third party was not an option because Tim and Jim were not willing to stay on after the sale—and they had failed to develop a strong management team, which any savvy purchaser would require as a condition of purchasing the company.

Transferring ownership to a group of key employees was also out of the question. None had been groomed to take on this type of responsibility and nothing had been done to fund this type of buy-out.

Both owners were too young to have business active-children, so their only option was to liquidate. Their highly profitable company, however, had little worth beyond the value of its tangible assets and with the sale of those assets, dozens of employees lost jobs, the business disappeared and the brothers left millions of dollars on the table.

Whether you've thought about transferring ownership to family, co-workers, a third-party or liquidating, your education about the exit planning process begins now and your knowledge and preparation can possibly mean millions of dollars to you when you ultimately leave your company.

I want to encourage you to work on—not in—your business. By engaging in an exit planning process that you control, you can help to avoid the sad but all too common fate of the dealers above.

An exit planning process begins by asking yourself the questions below. As you work through them, you'll see that it's never too early to start planning.

1. Do you know your retirement goals and what it will take—in cash—to reach them?

It is possible to determine what annual after-tax income you will want during retirement (in today's dollars), that takes into account expected longevity, inflation, medical and long-term care considerations, reasonable rates of return, as well as realistic costs for living the "good life" that you are envisioning.

2. Do you know how much your business is worth today, in cash?

Having your company properly valued to meet stringent IRS requirements will give you a true idea of where your company is and where it's going.

3. Do you know the best way to increase the income stream generated by your ownership interest?

Identify the drivers that will help you increase the value of your business and act as a guide to your continued effort to boost income.

4. Do you know how to sell your business to a third party and possibly lower your taxes?

If you are an S corporation and have been for a while, selling to a third party can substantially mitigate the tax burden by subjecting the sale proceeds to one level of taxation versus two levels of taxation as with a C corporation. That means more money in your pocket at the end of the day.

5. Do you know how to transfer your business to family members, co-owners or employees while lowering taxes and potentially enjoying financial gain?

Insiders rarely have the one thing you need to successfully exit your business—money! There are time-proven techniques that can make this type of transfer a successful reality and strategies that can mitigate the tax burden. This planning takes time, however, so start NOW!

6. Do you have a continuity plan for your business if the unexpected happens to you?

What will happen to your business should tragedy befall you? What would you want to happen with your business under those circumstances? Will the value you have built up in your business be lost or will your family be able to get that needed value out to maintain their current lifestyle? A well thought out business continuity plan is critical to being able to answer those questions in the affirmative!

7. Do you have a plan to help secure finances for your family if the unexpected happens to you?

If you don't, and if you are like most business owners, where your business represents 70% or more of your investible estate, you are probably looking at a serious problem. Your business may be the best investment you ever made, but it shouldn't be your only investment. Diversify and grow additional wealth outside of your business. In effect, estate planning becomes a part of your business planning.

Creating and implementing your exit plan may be the most important business and financial event of your life. Work with qualified professionals who can effectively and efficiently provide clarity in helping you define all of your objectives, who will organize all the planning steps and people involved including integrating your estate plan, personal financial plan, business development and transition plans, cash flow, projects, etc. The result: specific recommendations (a road map) to achieve your objectives!

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