Why You Need Exit and Succession Planning

Most business owners have not planned for their future because they are too busy working <u>in</u> their business, instead of <u>on</u> their business.

Critical decisions are not being made, leaving unaddressed important issues such as transferring business ownership to their children, selling the business or maintaining passive ownership when they near retirement age. Succession planning (also known as exit or transition planning) for boomer business owners is one of the most important professional services you can retain.

Even the most harried, time-challenged business owners need to avail themselves of the value of working with a financial professional who can help them create customized plans that address expected or unexpected occurrences, such as an inside sale or sudden death. The end result is peace of mind and financial security for many years to come.

Succession planning is based on a simple premise: At some point, you *will* leave your business "voluntarily" or otherwise. That is why it is so important for you to start thinking and planning your "life after work." An exit strategy helps protect you the business owner, your family, your employees and your company when expected or unexpected situations surface.

If an exit plan is not created before it is needed, it will be done during a crisis, with potentially disastrous results. But what exactly is an exit plan?

It is a "blueprint," so to speak, that can be developed and implemented for the following scenarios:

- Sale of business
- Wealth accumulation and asset protection
- Key employee retention
- Legacy planning
- Orderly estate distribution
- Prevention of misspent life insurance dollars

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Some business owners need just one or several plans to address these scenarios. A credible, time-tested program from highly respected sources can provide you with a step-by-step process for developing customized plans through a series of structured planning sessions with your financial professional.

The following examples illustrate real-world successful outcomes achieved when a financial advisor develops plans to help business owners plan their transition strategies:

Inside sales transaction

Selling a business is an important financial transaction that requires a well-developed exit strategy. Many owners view their business as more than an asset. They have poured their hearts and souls into it. If they sell the business to an insider, they typically will receive 4 times the cash flow based on the profits for the past 5 years, compared to 5 to 6 times the cash flow from selling to an outside buyer. An inside transaction, however, usually ensures continuation of the company culture that the owner struggled to build.

The owner of a construction company was relieved that his financial professional helped him develop a plan for an inside sales transaction. His partner became sick, then disabled, and ultimately died. Because the owner had planned for the future, he was able to make an internal transition to 3 key employees and sell his stock in the company. Now he spends time with his grandchildren and plays golf, while his company did not miss a beat during the transition.

Locking in key employees to maximize value

Many times business owners don't consider the financial repercussions of losing key employees. Getting professional help with assessing the financial impact can lay the groundwork for establishing effective employee retention programs. Such plans automatically lower turnover and keep the business operating at peak performance. Locking in key management and putting the business into growth mode will attract potential buyers and maximize the amount of cash from the sale.

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For example, when a hands-on engineering firm had an unfunded buy-sell agreement and a problem keeping employees, the financial professional suggested a plan for funding the agreement and locking in key personnel. A buy-sell agreement creates an opportunity for an owner to sell his interest upon a triggering event, such as death, retirement, sale of the business or termination of the owner's employment with the business.

For a family-owned business, the buy-sell agreement can be a vital component of the family's estate plan. In particular, the agreement provides for the fair distribution of a parent's estate assets when there are children who are active in the business and other children who are not active in the business. The strategies recommended by the financial professional enabled the principals to work less and increased the value of the company because they were no longer the indispensable rainmakers.

In another instance, a financial professional recommended that his client, who was plagued with high turnover, develop a bonus plan to give key employees an incentive to stay. Now they are locked in and turnover is almost nonexistent. The owner no longer worries about key employees leaving the company. Best of all, the business is more profitable because it runs more smoothly and consistently.

By helping business owners create contingency plans for dealing with expected and unforeseen events, we are helping them achieve peace of mind, increased clarity and greater confidence, knowing they are doing everything possible to protect themselves and their businesses using the most accurate, up-to-date information from the most respected and trustworthy sources.

Helping business owners protect, preserve and pursue more value from their business, more tax efficiently! ®

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