Exit Planning for Closely Held Businesses

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What is business exit planning?

Business exit planning is the process of gaining freedom from your business. Whether your intention is to transfer your business to your children, sell It to key employees, sell to a competitor, or just wind it down, having a plan in advance improves your opportunity for success. When the business owner fails to plan, even the most successful business can become a liability to the owner or to his or her heirs.

What are the benefits of having a plan?

A well designed plan can help the owner to achieve a variety of goals depending on his or her specific situation and objectives. For example, an exit plan may allow the business owner to:

- Monetize value that is locked inside the company
- Gain personal freedom from the day-to-day obligations of running the business
- Share the responsibility and rewards of ownership with key employees or family members
- Reduce gift, estate and income taxes related to any transfer of ownership
- Maintain family harmony
- Preserve a legacy via business continuity

The Exit Planning Process

Business owners need to ask themselves: "After all of the effort I've put into building my business, what will I ultimately be looking to get out of it?" Once this question is answered, factors like retirement age, family considerations and specific financial goals begin to take shape.

There are many tools to help individuals get into business, but few to help them get out. The exit planning process is a customized, comprehensive approach to designing a business owner's successful exit from the business and incorporating unique personal objectives into realizing his/her desired outcome. Without an exit plan or strategy, the likelihood of maximizing financial return, minimizing tax liability, preparing for contingencies and realizing a successful transition from the business are greatly diminished. To mitigate the risk of a negative outcome, owners need to allocate more of their time in developing a comprehensive business exit plan that takes into account retirement goals and objectives.

To begin the exit process, owners should comtemplate these key issues:

- Business valuations
- Buy/Sell agreements
- Grooming successors
- Identify retirement income needs/goals
- Golden handcuffs for key employees
- Initiating stock programs for key executives
- Implementing business growth strategies and cutting expenses
- Delegating owner responsibilities to management and employees
- Preparing audited financials for the business for prior years
- Getting pre-qualified for financing
- Writing a comprehensive summary of the business
- Consulting advisors on how to structure the deal and potential tax exposure
- Structuring buyouts from successor or partners
- Identifying the potential universe of buyers

When is the right time to begin planning?

Business owners are busy running day-to-day operations and for many, their identity is so closely tied to their business that it's difficult to imagine leaving. For those reasons, many haven't prepared for, or even contemplated, their exit. But not planning for their inevitable exit comes with many risks. To preserve your options and equity, remember that time is of the essence. Don't wait until you're ready to leave to start exit planning. No matter how long you've been running your business, the evidence is clear that owners should start the process earlier to map out their exit.

Engaging in the exit planning process early on, potentially 5 to 10 years before you are ready to exit, can help you to see your options, identify and resolve problems, get your business in order and ultimately maximize its value.

ERA Member David Ventura works with business owners to identify and achieve their financial goals. For additional information or to get our Complimentary Exit Planning Report of Closely Held Business Owners contact David today at 949. 223. 8362 – david.ventura@tfgroup.com

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