How to Create Your Perfect Business Exit Strategy

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Failing to plan for the orderly, systematic transfer of a business to the next generation can have huge consequences for owners.

Not having a business succession plan ready to deploy often results in monetary loss and sometimes even the loss of the business itself.

That's why, regardless of the size of your successful company, you need to take steps now to ensure that when the time to leave your business is at hand you won't make mistakes that could cost you lots of money.

Questions You Need to Ask Yourself When Creating Your Exit Plan

1. Who do I think will be running my business five years after I leave?

The real world has a way of laying waste to our beliefs, however optimistic they may be. A common belief among the owners of small to mid-sized businesses is that their businesses will continue to exist after they leave, controlled and managed by family members.

Unfortunately, statistics don't bear out this wishful thinking.

Only about 30% of businesses survive into the next generation. At the third generation, less than 12% continue to be viable. Beyond that point, only a dismal 3% continue to operate.

I, along with other business acquisition experts, believe that many of these failures have a common root cause- the lack of a proper business succession plan.

2. Will my clients stay with my business after I am gone?

It's great to think your business will continue under the direction of a loved one who will preserve its' integrity and everything that made it prosperous. However, in reality, there is a tendency for clients and customers to leave when the business owner leaves, especially in smaller, community-based businesses. If you intend to keep your business in the family, have you set aside enough money to see the new owners through a potentially tough transitional period?

Also, if you know your child or other family member will be taking over the business, why not start introducing him or her to your clients ahead of time?

Instead of waiting until your last day, start getting your valuable customers used to the idea of doing business with the future owner or owners.

Create a client dossier with personal notes and observations that can shorten the learning curve for your chosen successor and get them into the client's good graces faster.

Allow the prospective owner to "shadow" you in the business as often as possible and interact with employees and customers. This will help both employees and customers become comfortable that the level of service and commitment will not change with the new owner.

Transferring customer loyalty and the goodwill of the business as soon as you know you want to leave is a great way to avoid cash flow problems in the future and ensure a much less stressful exit.

3. **Will unforeseen expenses force me into debt?**

Obviously, passing on a debt load is not a good succession strategy, and most business owners realize this. Many of them work diligently to avoid debt or to ensure that all debts are paid off completely before they decide to retire or sell.

In the case of the **death** of an owner, though, estate taxes can take an 18-55% bite out of a taxable estate. This situation often results in family members being forced to liquidate all or part of the business to pay the taxes. Good estate planning, then, needs to be part of any successful exit strategy.

If your business has partners, you will also need to make sure you have enough cash to buy out those partners, should that be necessary.

Many financial vehicles exist that can help you create pools of capital from which your family can draw in order to pay both anticipated and unanticipated expenses. Some of these include: specially designed whole life policies (which have some very unique advantages over traditional life insurance) and annuities, including secondary market annuities that often have higher rates of return.

4. **Will the people impacted know about my plan?**

Amazingly, the minority of business owners who do have succession plans often forget to discuss those plans with those most impacted such as: spouses, children and other close relatives, employees, and partners. It is important to have meetings at regular intervals to discuss what would happen if you died or otherwise left the business, to talk about personal goals, and to gather valuable insights and feedback from those most affected.

Doing so ensures there are fewer surprises and less resentment when the day arrives.

5**. Is the person I have chosen really qualified to run my business?**

This is a tough one, especially if you are dead set on leaving your business to a relative. You simply cannot afford to put the wrong person in charge for the sake of being "fair."

Perhaps you've decided that your eldest son, who hasn't really shown that much interest in the business, should become the new owner for no other reason than that he is the oldest.

What if, though, one of your other children is more qualified and more emotionally mature and would make a better boss?

This is an instance when you have to set aside tradition and focus on selecting the very best candidate if you want your business to live on after you leave.

The same things should be considered if you decide to sell the business. You want to do whatever will attract the best-qualified potential owners. You have a lot invested in your business, both financially and emotionally. Finding a great person to take over for you will go a long way toward giving you more piece of mind once you've moved on.

6. **Do I know how much my business is really worth?**

It is more than vital that you know the answer to the question:

"How much is the business worth?"

When you decide it's time to cash out (or death decides for you), you need to determine a set dollar value for your company, or your share of it.

This can be done via appraisal from a CPA or by an experienced acquisition team such as Delta Business Services that thoroughly understands the business valuation process.

Business owners are often unrealistic in their own appraisal of how much their company is worth. Having a qualified third party make that determination for you is essential if you don't want to wind up with your business on the market for years.

<u>What you must do in order to avoid making mistakes in planning your business succession</u>

I recommend that you find qualified, experienced professionals to help you write a plan that is comprehensive and workable. Having a team of experts working on your behalf will ensure you don't overlook important issues that could impact the sale.

For instance, taxes can sink the ship before it has even left the dock. Always seek the advice of qualified accountants and estate planners to more fully understand the tax ramifications of a variety of exit scenarios, including death.

If you already have an estate plan, have it reviewed periodically to ensure that it will accomplish your goals.

You'll also want to talk to a business law attorney to get his or her input on your ideas for exiting. A competent attorney can help you understand the process of selling/willing a business, how to conduct the transfer of various licenses and permits, and other legal matters pertaining to a change in ownership.

Don’t take anything for granted and you’ll have fewer unpleasant surprises when you start the exit process.

Enlist the guidance of an insurance or retirement planning specialist to help you look at ways to create a steady stream of income for you in retirement. You might also want to take a look at planning for disability, which could force you to retire much sooner than you anticipated.

If you have employees, you might also want to consult with your workers’ compensation carrier to see what kind of experience rating and classification you’ve been given. There are many occasions when errors in classification and reporting go undetected, costing owners thousands in additional premium. There can also be errors in reporting accidents and injuries that could cause your company’s experience rating to be incorrectly calculated which could cost you lots of money.

Getting together with a group of professionals who have actually bought and sold businesses is another thing you can do that will prove invaluable in the business exit process.

My company, Delta Business Services, is much different than the typical business brokerages from whom business owners often seek advice.

For example, Delta Business Services provides a 30 minute free consultation with business owners who are looking to leave their businesses. During this meeting we discuss all the options for exiting and give owners an idea of how to start the process.

Unlike business brokers, the consultants at Delta are business acquisition professionals who do not work on commission, and thus devote more time to the seller’s needs.

In my years buying and selling businesses I learned that most business brokers do a poor job in the crucial area of business valuation which can greatly impede the sale.

Delta Business Services knows how to properly valuate your business so that you get the fairest price in the least amount of time.

This is the kind of consultant you need; not someone who is motivated purely by how much money they are going to get from the sale.

While I am on the topic of business brokers, I want to tell you that if you do decide to sell your company, **you should avoid using business brokers at all costs.**

My colleagues and I at Delta Business Services have personally examined over 300 deals in which brokers were involved. What we found was that, with few exceptions, brokers added little value to the process, especially considering the high fees they typically get.

I know it goes against all logic that someone who positions himself as an expert in the field would perform so poorly when it comes to helping you sell, but it is something I have seen time and again.

Statistics bear this out as well: over 200,000 businesses go up for sale in the United States each year and only around 24,000 actually close. The vast majority of these deals involve business brokers. Most business brokers, in fact, are lucky if they close 1-2 deals a year.

Having a solid business exit plan that is regularly reviewed and updated will help you avoid the temptation to hire a business broker should life circumstances force you to sell ahead of schedule.

Summary:

It’s never too early in your business life cycle to start thinking about the day when you will leave. Waiting until the last minute can cause you to make mistakes in planning that will cost you time, money, and stress. If you wait, important options may be closed and you may not have enough time to make the transition smoother.

Developing a plan as soon as your business is profitable will give you more flexibility. It will allow you to do things such as invest time developing relationships with family members, hire and train the best management, and develop key employees so they can learn more about the business, make more decisions, and exercise authority.

Start making connections right now to professionals who can help you form the most comprehensive plan possible, anticipating every contingency. Get referrals from others you know who have successfully sold businesses so that you can avoid ever having to enlist the services of a business broker.

With a bit of knowledge and foresight, you can have a successful and profitable business transition that will ensure that what you have built endures for many generations to come.

PS: If your business is located in Central Texas and you would like Delta Business Services to help you devise an exit plan, please call me directly.

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