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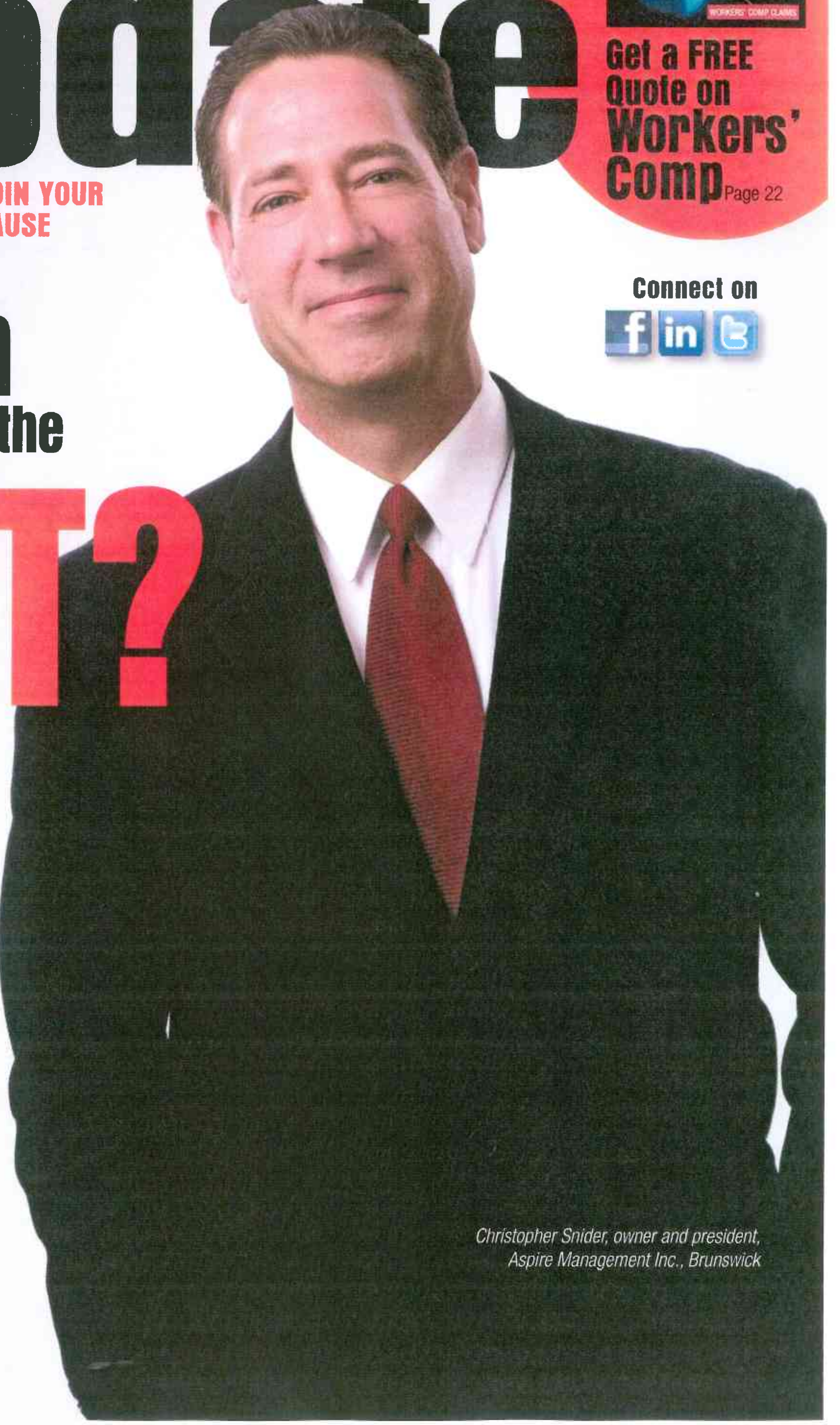
# which way to the EXIT?

**How will you get out of the business when it's time?**
Plan your exit now so you don't leave money on the table.



*Christopher Snider, owner and president, Aspire Management Inc., Brunswick*

→ **Four "thinks" you should think about your business this summer.**
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# which way to the EXIT?

## How will you get out of the business when it's time?

Plan your exit now so you don't leave money on the table.

What would you do if tomorrow you could not work in your business? Say, you suffer a heart attack, or you are injured and cannot fulfill your duties. What if health problems prevent you from continuing to steer the company forward? What if you die—or simply want to take it easy, or retire? What if you're 35...or 82?

What will happen to your business, your family, your lifestyle, your life's work?

If you're like most business owners—to be exact, 75 percent of privately held businesses, according to a study by PricewaterhouseCoopers—these what-ifs might have crossed your mind but you have no formal exit plan in place.

"Most owners are not thinking about it and it's not because they don't think exit planning is important. But they work under a lot of pressure every day, they have their hot list and this is not one of those things that is urgent in their mind, so they keep putting it off," says Christopher Snider, owner and president, Aspire Management Inc.

Thinking about how to start such a process is daunting. Plus, who wants to focus on the exit when there's so much going on in the present? "Exit is a nega-

## 4 Ways to Exit

Essentially, there are four ways to exit a business.

1. Transfer ownership to family.
2. Sell the business to an employee or manager.
3. Sell the business to an outsider.
4. Liquidate the business (usually a last resort).

*Source: Aspire Management*

tive word in their minds," Snider says, addressing the sensitivity of the subject.

But what business owners—and that means you!—must recognize is that the real mission of an exit strategy is to realize the value of your hard work and time, says Frank Fantozzi, president, Planned Financial Services.

"Everyone looks at an exit strategy as something way out in the future, and they think, 'I'm not planning on going anywhere,'" Fantozzi says. "I try to counsel my clients, 'Listen, it's about realizing your value. Your business might be worth $1 million, but if you've done nothing [to protect your investment], you could lose that $1 million in a blink. How does that make you feel?'"

Exit planning is all about addressing risk and creating a strategy for ensuring that the value you worked tirelessly to create in your business can be preserved and enjoyed by you, your family and other stakeholders. And that business value could be all you've got. Snider says typically owners have 80 to 90 percent of their wealth tied up in the business. Your business, in a way, is your 401(k). "Imagine if you worked for 30 years saving up money in that 401(k) and then couldn't access the money when the time came to [exit]," he says.

How are you protecting your most valuable asset? Regardless of whether you started the business this year or a relative founded the company generations ago, it's never too soon to begin thinking about what's next after you leave the business, willingly or otherwise.

"The sooner you plan and protect your business and family, the better," says Kay AuWerter, a financial adviser with Edward Jones. "Planning today helps protect you from the unexpected occurrences that can happen in the future."

### Build an Exit Team

You can't do this alone. An exit plan involves a multidisciplinary team who works together to help you create a plan that will address personal, business, legal, financial, tax and estate issues associated with exiting the business. And remember, exit doesn't necessarily mean retire. So assemble this team as soon as possible and begin engaging its members so you can work together on this process, Snider says.

At the very least, your team should include an exit planner, a financial adviser who can address estate planning, a tax attorney, an accountant and an insurance professional.

"This team will provide you with advice and work better with you to get your plans in order," says Snider, noting that it is often beneficial to form a family business council with the help of an exit planner who can serve as an unbiased, third-party facilitator.

No single professional has the expertise to address every aspect of the exit plan (see Six Solid Pieces to Your Plan on page 16).

By drafting a team to help you with this process, you'll better ensure that you do not leave money on the table come time to exit the business. Plus, you need outside perspective because as an owner, you live and breathe the business.

And while you're in the team-building process, be sure to set aside adequate time to work through an exit plan. Snider says on average, the process from valuation to completely "getting out" of the business can take seven years. "Selling a business can take up to a year, or longer, and if you want to drive value to prepare yourself personally and financially before the sale, you can spend a couple of years doing that," he says. "Oftentimes in small markets, and especially in today's environment, owners have to finance part of the deal [if selling the business]. Those terms can go four or five years. So, it could be seven years before you are really done."

Of course, life happens, and time isn't always a luxury afforded to an owner who must exit under duress. (That's why you must create a contingency plan—read on.) But Snider says you can take this exit planning process and break it down into a more palatable time commitment. He relates it to golf: If you play a couple of rounds each week, give up a game per month and dedicate that four to six hours to planning your exit. "You'll be amazed at how much progress you can make," he says, suggesting that owners consider this: "Is the value of your business and your responsibilities to family, employees and customers worth four to six hours a month?" Sure it is.

## Why We Exit

Owners exit their businesses for a number of reasons, and often, retirement isn't the key driver. In fact, according to Aspire Management, the No. 1 reason for selling the business is burnout. Here are the most common reasons why owners sell or otherwise discontinue their businesses:

- Burnout
- Health issues
- Personal diversification
- Retirement/semi-retirement
- Death
- Divorce/partner disputes
- Business growing too fast
- Second generation not up to the task
- Loss of market share

### Check Your Status

As you assemble your team, you'll get a real handle on the value of your business. Because, as Snider points out, "Being in business is all about driving value—that is really the end game. Regardless of your age, you should always be thinking about driving value."

But first things first. You need to do some homework to find out what comparable businesses in your industry are worth, and get a formal valuation from a professional. Technically, a valuation is an estimated economic value of an owner's interest in a business, and it is used by financial market participants to determine the price they are willing to pay or receive to close the deal.

But more practically, value is defined by those aspects of your business that make it attractive to buy. "Value, at the end of the day, is what a willing buyer and seller can agree to," Fantozzi sums up, noting that as a financial planner, the value in his business comes from his goodwill and client list. For a manufacturer, value is found in a process, the bricks and mortar, equipment. A technology firm's value is in its ideas. "One of the things you need to figure out is, what are people really buying?" Fantozzi asks. "What they are really buying is cash flow—you're always buying money," he says. But what else are they getting? In Fantozzi's case, there is value in a team of professionals who work at his firm, and in the company's reputation for the way they handle clients. Value is different for every industry.

Once value is identified, you can improve and polish those features of your business to improve the monetary value. For instance, if a company's value is between $1 million and $2 million, the work you do improving a client list, developing a strong management staff, building your reputation—those things that drive value to your business—will push your company up toward the higher value.

"Two businesses with the same cash flow can sell at very different prices because of intangible value factors, which we iden-

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## Your Exit File

Organize all exit-planning information into a file that you can access and update regularly. Christopher Snider, owner and president, Aspire Management Inc., suggests including this key information in the file:

- Your personal plan
- Business succession instructions
- List of team members (on the exit planning team)
- Articles of interest
- Contact information for anyone who has asked you about buying your business over the years, or anyone you think might be a prospective buyer

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tify in an Exit Planning Readiness Assessment," Snider says, describing a detailed questionnaire owners fill out to determine how prepared they are to exit the business. Questions covering 25 categories of value (personal, financial, business goals) are scored on a scale of 1 to 6. The higher the score, the more prepared an owner is to execute the plan.

A valuation and this assessment provide an analysis of your company from a buyer's perspective, Snider says. "It will identify the business value factors and their positive or negative effect on value. It will also identify the weak links from a personal and financial standpoint."

By going through the assessment process and getting a formal business valuation, you will have a better grasp of the areas of your business that need attention if you want to extract the most you can from your business upon exiting it. "Once you know where you stand, you can go back to your team and tell them about what needs to happen," Snider says. "Maybe you have to plan for your retirement so you need to work with a financial planner; maybe you need to get your legal documents in place: your will, your estate plan. Get those plans together."

And keep in mind, the value of your business is dependent on the economy and whether you are a niche operation, AuWerter says. For instance, a friend of hers who is an attorney and doctor, and practices both through the same business, will require a buyer with both specialties unless he splits the business. "When you have a very unique business, it will be harder to find someone to take over, she says.

And businesses that sold quickly yesterday could be tough to turn over today. AuWerter's family owned a rental center. They sold the business without a terrible amount of pre-planning, but she is skeptical about what the outcome might have been in today's market. "I'd be concerned," she says.

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## 6 Pieces to a Solid Plan

An effective exit plan will include these six components:

**1. Goals statement:** A concise statement of business, personal and family/estate goals. These goals must align. (Don't forget to plan for what you'll do with your personal time once you exit the business.)

**2. Business valuation:** This establishes a baseline value for the business.

**3. Value drivers:** How will you enhance the value of your business before you exit?

**4. Exit analysis:** Work out the pros and cons of various ways to exit the business (see Four Ways to Exit on page 11).

**5. Tax plan:** How will you minimize any capital gains, ordinary income and estate taxes related to the exit?

**6. Next steps:** What personal and business steps must you take to prepare for the exit?

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In fact, there will be more businesses for today because the entrepreneurial baby boomer generation is beginning to think about retirement, or at least semi-retirement. According to studies by PricewaterhouseCoopers, MassMutual and Marquette University, one in two businesses will change hands between 2006 and 2016.

### Set and Align Goals

So, what do you want to accomplish when you leave the business? What lifestyle do you hope to lead—what cash flow do you need to support your family? Who will take over the business? And what will you do with your time once you're finished working in it?

Think seriously about these questions and set financial, business and personal goals. "Most owners focus on the business, and they neglect the personal and financial side," Snider says.

According to a study by the Connecticut Family Business Program, more than 70 percent of former business owners regret selling their companies less than a year after the sale. The main reason, according to PricewaterhouseCoopers, is lack of preparation on the part of the business owner. "Most of the time, it's because they are bored," Snider says. "They have lost their identity. They are used to working 12 hours a day and they've probably spent more time with their business than their families, and now the business is gone."

And there just aren't enough games of golf to fill the void. "They get bored with that and lose their sense of fulfillment," Snider says. "That's why we emphasize that you have to align personal, financial and business goals."

Snider says over the years in his practice, he has built tremendous value for owners so they could cash out handsomely—but so many of the owners ended up unhappy. "We were concerned about driving maximum value for the sale of the business, but we weren't fully satisfying the client." That's when Snider got certified by the Exit Planning Institute (EPI) and got deeply involved with the national association as a member on its board of governors and, now, chair of the planning committee for the group's annual conference.

Business is personal for entrepreneurs. There's much more to planning an exit than getting a valuation and organizing legal documents, Snider emphasizes.

### Write a Contingency Plan

Your formal exit plan is a long-term process that you'll continually tweak, but in the meantime you need a contingency plan that explains your wishes and any directions for running the daily business should your exit be sudden and unexpected. In other words, if you are in a car crash tomorrow, will anyone at your business know what to do next?

So many business owners answer no to this question, Snider says. And the burden of not having a simple, straightforward contingency plan in place falls on family or valued employees. A husband/owner dies, his wife doesn't know the business, but she's in charge. She calls her son, who

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**"An exit plan will make it much easier to reach your goals rather than worrying about who will buy the business and will you find someone to buy it."**

— KAY AUWERTER, EDWARD JONES

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is in an entirely different career and must decide whether to "save" dad's business by stepping in or sell it off.

The good news is, you can write a contingency plan in a weekend and it doesn't have to be complicated to be effective, Snider says. It's a two- to four-page document—a letter to your family and managers/employees. It addresses these areas: management, compensation, disposition of the business (will the company be sold, and if so, to whom?), advisers, possible buyers and goals.

The contingency plan can serve as a base for your exit plan. Meanwhile, it's not enough to get this information on paper. You must talk about it—with your clients. Consider the bread-and-butter of your business. They want to know if something happens to you, they'll be taken care of and business will carry on as usual.

Fantozzi suggests starting the conversation with key clients like this: "You never asked me this, but I want to let you know that you can have peace of mind knowing that I have a plan in place. Because I value your business, I don't want you to have any concern about what would happen to your operation if something happened to me. This is how it's going to work..."

## Take Action

Now for the part that takes time: fine-tuning and implementing a plan. Bite off this project in smaller chunks by setting priorities: take a risk management approach, Fantozzi suggests. If something happens to you today, what part of your business must be in order for successors to realize full value of the business?

Your action steps will depend on where you are in the life cycle of your business, Fantozzi says. But ultimately, think of the exit plan as a form of insurance. Like auto insurance, you can handle paying the cost of your deductible if an accident happens. But if another driver sues your insurance company for $1 million, imagine having to pay that bill out of pocket. That likely would wipe out your nest egg.

"You have to focus on the high-risk points that threaten the value of your practice," Fantozzi says. "Then, you can focus on some of those other details that aren't as pressing and you have more time to work through."

Your action plan should include descriptions, timetables and responsibilities, Snider says. And the peace of mind that comes with working that plan is fulfilling. Snider lists the benefits of planning your exit, which include: gaining control over your future, preserving your lifestyle, maximizing tax benefits and company net value, achieving employee and management stability and infusing the organization with motivation and energy.

"An exit plan will make it much easier to reach your goals rather than worrying about who will buy the business and will you find someone to buy it," AuWerter says. ●