Scott Jones, CFP®, CLU, ChFC

scott@sjonesfin.com

Scott Jones Financial
5950 Fairview Road, Suite 402
Charlotte, NC 28210
www.sjonesfin.com
(704) 817-7324

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7 Steps to Exit Planning Success

All business owners eventually exit their businesses, by choice, death, or otherwise—no matter how successful, powerful, or high growth they are. And like building a successful business, a successful business exit is often the result of a strong plan, not wishful thinking or assuming things will fall into place. But what does that plan typically look like?

What More Do I Need?

Samir Rahman's logistics company brought his family wealth, his community a reliable source of jobs, and various charities a strong ally for their causes. With Samir in his mid-60s, the 16-hour days that had sustained his business and been a part of his identity were beginning to wear on him.
He had purchased life insurance and intended to transfer the business to his son, who had always been a decent middle manager. But he wanted more confidence that the business he had spent his entire life building would thrive as he sought to move into retirement.
"What else do I need to do?" Samir asked a trusted advisor.

The Seven-Step Process

Samir's advisor, who was also a Certified Exit Planner, was familiar with the Seven-Step Exit Planning Process. He laid out the process for Samir to help him determine gaps in his planning.

1. Identify Objectives, Starting With Financial Security

Samir felt that he was ready to retire, but he hadn't established any tangible goals. His Exit Planner recommended that he focus on three big goals to guide his planning.
First was his financial security goal, which would allow him to transfer his business for enough money to never have to work again. This was his "I need" financial goal, which was the most important goal to achieve.
Second was his "I want" financial goal, which would position him to transfer his business and receive enough money to fulfill his post-career desires, such as traveling.

Third were his values-based goals, such as protecting his legacy and continuing his charitable contributions.

2. Determine Personal and Business Resources

Once Samir determined what he'd need to achieve financial security and fulfill other goals, he had to figure out whether he had the resources to do it.

This determination is called assessing the Asset Gap. The Asset Gap is the difference between the resources you have and the resources you'll need to achieve your goals.

Your assets will include personal and business assets, such as investments and business value.

In Samir's case, he had a handle on his personal assets, but he was less sure about his business value. And he knew that if he stopped working, he wouldn't have enough to retire on his investments alone.

3. Maximize and Protect Business Value

To maximize and protect business value, you'll first need to know what the value of your business is.

Some pitfalls to avoid are using rules of thumb, comparisons to competitors, or your own estimate. These methods can provide incomplete or inaccurate targets, which can have negative effects that resonate throughout your entire plan.

A professional valuation often yields strong results. Professional valuations are more objective than your personal estimate, which may be clouded by your emotional attachment to the business. They can also help you find areas of your business that need strengthening.

Though professional valuations cost money, think of it as an investment in strengthening your business.

Samir found that his business was valuable, but only if he remained after he sold it, since he was the driving force behind its success. This encouraged him to hire next-level managers to take over his responsibilities so he could exit completely when he was ready.

4. Transfer to a Third Party

Though Samir intended to transfer ownership to his son, his Advisor Team encouraged him to consider what a third-party sale would look like. This would help him understand how much money an unrelated party would pay for his business, which could help him set expectations for himself and his son.

Additionally, preparing for a third-party sale could give Samir two advantages.

First, it would help him strengthen his business. Valuable businesses tend to have common elements, like a strong management team and scalable processes. Installing or enhancing these elements in his business could both improve the business per se and signal to outside buyers that the business was worth top dollar, since it could run well without Samir at the helm.

Second, it would act as a safety net if transferring to his son were not doable. For instance, if his son couldn't run the business well or simply didn't want to run it, preparing for a third-party sale would allow Samir to continue moving forward without scuttling his plans.

5. Transfer to an Insider

Insider transfers can be profoundly fulfilling when executed well. The challenge, though, is in execution.

Insiders rarely have the upfront funds to allow owners to achieve their financial goals. This often means that transfers rely on strong long-term performance, loans, and other variables.

Just because you know and trust an insider doesn't mean you should leave your future entirely in their hands. Strong planning can help you uncover common blind spots.

Here are a few blind spots planning can help you uncover:

- Transferring to a family member for less money than you must obtain to achieve financial security
- An insider who can't run the business well in your absence
- An insider who doesn't want to run the business

It's tempting to give successors a financial break, but doing so could put your future in peril. Likewise, it's easy to assume that your chosen successor wants to be a business owner and will do a good job, which isn’t always the case.

It’s better to know early in the process whether the insider you intend to transfer your business to is willing and able to lead.

Samir's son did want to own the business. But he was a much better people manager than an operations manager. This meant that Samir needed to fill the gaps by hiring next-level operations managers who would agree to stay with the company as it transitioned to his son's leadership.

6. Plan for Business Continuity

Many successful businesses rely on the owner to function well. This reliance can be catastrophic if the owner is suddenly unable to run the business.

Death, incapacitation, divorce, and many other unexpected events can affect an owner's ability to run the business. To counter these threats, Exit Plans implement business continuity planning.

Business continuity plans provide written instructions for how the business should react to a business owner's sudden absence. From determining who should run the business to establishing processes to transfer ownership, business continuity planning hedges against unexpected issues that could otherwise derail an owner's Exit Plan. This could allow the business to survive and even thrive in the owner's absence.

7. Create an Estate Plan

An estate plan creates a strategy for what happens to your wealth, which may include your business, upon your death or permanent incapacitation. This is especially important to family members who may not be business active but whom you want to take care of.

Personal insurance, like the insurance Samir purchased for himself, is just part of a strong estate plan.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

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