



# Exit Planning

## WHAT EVERY BUSINESS OWNER SHOULD KNOW

**B**usiness owners frequently ask me the same questions about Exit Planning:

### Q. WHAT IS EXIT PLANNING?

A. Exit Planning is the process of creating a customized plan that describes how a business owner will achieve their goals and objectives relating to the sale of their business. Developing a comprehensive Exit Plan requires the coordination of many professionals, collectively referred to as an Exit Planning Team. The team will help the business owner focus on all of the important questions and issues involved in exiting their business.

### Q. WHY DO I NEED AN EXIT PLAN?

A. You need to develop an exit plan to make sure your “business plan” is in line with your “personal plan.” For example, how much money do you want to receive from the sale of your business? At what age do you want to exit the business? What type of management team, sales/revenue volumes, and policies, procedures and controls need to be in place at closing? It’s not about “getting out” of the business as much as it is about meeting your personal goals and objectives whenever you plan on getting out. An Exit Plan will also help you prepare for any unexpected events, like partner buy-outs, death, divorce and lawsuits.

### Q. WHEN SHOULD I DEVELOP AN EXIT PLAN?

A. Your exit plan should be in place five to 10 years prior to when you want to sell, but ideally it should be prepared when you start the business. Developing the plan early-on will ensure that your personal and financial goals are prioritized as the business evolves.

Below, are eight important points every business owner should know about Exit Planning.

#### 1. *Select and engage an Exit Planning Advisor.*

The most important action item when developing an Exit Plan is picking the right Advisor. The Advisor must be knowledgeable about all aspects of the Exit Plan in order to develop a complete and customized plan, and to effectively assemble and lead the team. It is important for a business owner to select an Exit Planning Advisor with this generalist type of experience and background, as many professionals are only skilled in one specific line of work.

#### 2. *The Exit Planning Advisor should be able to assemble a customized team of qualified professionals.*

The Exit Planning Advisor should have established relationships with all of the professional advisors needed to develop and implement the Exit Plan. The team can include: lawyers, accountants, M&A advisors, tax experts, valuers, insurance agents, estate and financial planners, general and specialty business consultants (HR, Finance, Sales, Marketing, etc.). The Exit Planning Team will also be looking at your business through the eyes of a prospective purchaser as they develop their strategy.

#### 3. *The Exit Planning Team needs to be experienced in selling businesses.*

The team should be able to develop an Exit Plan, implement the plan, and be experienced in the overall transfer of ownership process. It is important for business owners to understand that a key quality of a good team is that they have experience in the actual selling of businesses. There are many professional advisors that can create exit plans, but few that actually help with their execution.

#### 4. *The business owner’s goals and objectives must be in writing.*

The key steps to achieving the business owner’s goals and objectives are:

- identifying the specific goals and objectives to be achieved
- writing them down formally in a published document
- creating a process and system for monitoring progress; and
- refining (add, delete, clarify) the goals periodically

In addition, all good Exit Plans should identify possible negative events that could affect the business, such as losing a key employee, burnout, illness, or death; and contingency plans should they arise.

#### 5. *Conduct annual meetings with the Exit Planning Team.*

In addition to the initial planning engagement, annual meetings with the team of advisors should be organized in order to review results, share feedback and advice, and for goal re-alignment. In order for the Plan to work, you need to “work the Plan.”

#### 6. *The earlier you engage an Exit Planning Advisor the better.*

The earlier a business owner engages an Advisor the greater the opportunity to increase the value of the business. Ideally, you want to engage an Exit Planning Advisor when the business first gets started. This allows the team to add value to the business throughout its life cycle, and not just when it’s time to sell.

#### 7. *Exit Planning can have a large return on investment.*

If you select the right Exit Planning Advisor, and work together as a team, you can exceed your goals by effectively planning and implementing your Exit Plan. It is not uncommon for a business owner to recognize a large return on investment for their Exit Planning fee. For example, a good Exit Planning Team may take a business worth \$10M and turn it into a \$20M business. The team can further add value for the business owner by helping to minimize taxes when the business is sold. In some cases, proper Exit Planning can reduce the tax liability by more than 50 percent.

#### 8. *Having a dedicated team of advisors makes good business sense.*

Once the team has developed the Exit Plan, they will be knowledgeable about your business, and therefore, capable of providing advice on any subject, risk or opportunity your business may experience. The team can also provide support with strategic planning, marketing and sales programs, and overall administration issues, so that the business owner can spend more of his/her time running the business.

In the end, virtually every business owner dreams of benefiting from the hard work that has gone into running their business. No matter what your time horizon might be, taking steps now to plan for your eventual exit from your business could be the most important business decision you ever make.

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The information in this article provides an overview of matter of interest concerning financial and business issues. This article should not be used as a substitute for financial and business advice.



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