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PLANNING  
GROUP

WEALTH IS A JOURNEY

# EXIT PLANNING FOR BUSINESS OWNERS

6 Critical Steps to Exit Your Business on Your Terms

If you're like many business owners, you've spent years or even decades building your business in hopes it can create lasting wealth for you and your family. You're certainly not alone....according to a 2015 study, 78 percent of small business owners surveyed planned to sell their businesses to fund their retirement.<sup>i</sup>

However, turning a closely-held business into cold, hard cash is not as easy as it sounds. Many business owners assume that it's possible to find buyers any time they are ready to sell their business.

Unfortunately, statistics paint a much grimmer picture:

- According to a US Chamber of Commerce study, only one in five businesses that try to sell do so successfully.
- Other sources show only a 5% success rate for business sales<sup>ii</sup>

In other words, the average business owner faces a staggering 95% failure rate when attempting to sell his or her business.

Even if you're among the few business owners who find a willing buyer, selling your business is no short or easy process. Most transactions can take a year or even more and sometimes transactions can fall apart after months of work, distractions and expensive professional fees.

As financial advisors to business owners for over three decades, we've helped many business owners navigate the complex and often frustrating process of selling their business. More importantly, we also help business owners prepare in advance so they have the best chance of maximizing the value of their small business. But we know that not everyone has access to that level of professional help.

That's why we wrote this guide. We want to help you increase the probability you'll succeed meeting both your personal and business goals.

We hope you find this guide useful. Please feel free to contact our team if you have any questions or if we can be of assistance.

To your success,

**THE RASKIN PLANNING GROUP**



## Introduction

As a business owner, you will eventually, one way or another, exit your business. Will this transition be on your terms or not?

Advance planning is crucial. Otherwise you and your family may find your exit is fraught with challenges:

- The exit may be unplanned due to a health concern or other life change.
- Business might not be strong when the transition occurs, which can dramatically handicap any potential financial outcome.
- There might not be a management team or processes in place to ensure the consistent operation of the company, which can further reduce the value and attractiveness of your business.

These challenges can mean a less than positive outcome.

Worst case, it could mean no buyers or orderly transition, leaving you, your family, employees and customers in potentially difficult circumstances.

Fortunately, by preparing properly in advance, you'll have much more control over your ability to successfully transition your business.

When should you start? The sooner, the better.

Even if you're a couple decades away from retirement or exiting, preparing your business now will only make it stronger. You'll also have more time to get your own personal finances in order, so you'll be in better shape to get a positive outcome, no matter what happens.

We wrote this guide to help you get started.

## Challenges for Today's Business Owners

A big part of getting prepared is knowing what you are up against.

### Industry Metrics

It's natural for you as a business owner to inherently understand the strengths of your business. But when you go to sell, you may quickly realize that discerning buyers look with a far more objective eye. And they will likely bring in accountants and attorneys who will view your business based on cold, hard data and metrics. Each industry will normally have its own set of metrics that your business will be judged by. It's vital to get familiar with those early in the process, so you know what to expect.

### Demographics

Demographics can be another aspect that not everyone considers. Today, we have record numbers of baby boomers retiring every day. As boomers transition into retirement, there may be a larger number of businesses for sale, which may create downward pressure on pricing.

## **Market Timing**

Another consideration is your timing. Depending upon when you want to transition, your timing can either be a tailwind or a harsh obstacle.

Exiting during a weak time in your industry can make your efforts much more difficult. Conversely, if you can sell during a boom time, you'll have positive recent results and probably many more buyers interested.

Of course, there's also the bigger economic climate to take into consideration. Interest rates, recessions, supply and demand and other macro-economic forces affect the economy, which can make selling easier...or more difficult.

On top of that, there are other factors no one can foresee. The recent 2020 Covid-19 pandemic is a perfect example. Events such as these, or even normal cyclical recessions, could delay your ability to sell, sometimes for a decade or more.

## **Inherent Risk**

For most business owners, their business is their biggest and most valuable asset. However, there is inherent risk in concentrating so much wealth in this one asset. Again, the 2020 COVID-19 experience highlights this risk.

Good economies conceal risk. Poor economies highlight risk. Many business owners don't see the risk in their business. They are used to it. They accept it. But potential buyers and their professional advisors will look at the numbers and make their own assessment of risk, which may result in a marked discount (or non-interest).

These factors point to the value of controlling the process and actively preparing for your exit well in advance. Don't wait until you think you're ready.

**Exit planning and preparation dramatically increase the chances of transition success.**

By knowing the criteria by which your business will be evaluated, you can start to improve your business, so it shows up as an attractive acquisition target when the time is right.

Enough about the challenges. Next, we'll provide our six steps to prepare your company for a transition.

A man with a beard and glasses, wearing a white dress shirt and a dark tie, is sitting at a desk. He is holding a pen and writing in a notebook. The background is a bright, out-of-focus office setting. A large blue vertical bar is on the left side of the image, containing the number 6.

6

# Steps to Prepare

For a Future Business Sale or Exit

# Step 1

## Define Your Exit Goals

Exit planning is a significant process. Like most big undertakings, it's smart to first define your destination, in detail. Then, you can determine the best way to get there.

The first step is to define your ideal exit strategy. Consider both your business and personal goals and visualize what life will be like after the transition.

What are your goals?

- Work less?
- Reduce stress?
- Fund your retirement?
- Travel?
- Play golf?
- Cash out of your business, in whole or in part?
- Transfer the business to your children or to employees?
- Reduce risk and protect your wealth?
- Focus on new challenges?
- Leave a legacy?

Take the time to dream how your life will be different. Write down your goals. By doing this, you will gain an understanding of the significance of a transition from your current situation to a post-exit lifestyle.

Don't underestimate this part. Even if you do exit successfully, it can be an awkward transition to move from business owner to retired owner. You may exit and then realize retaining partial ownership and a part time role would have been better. The abrupt change from high pressure to no pressure is nice at first, but boredom and a lack of identity may frustrate and disappoint you.

Regardless, it will help your transition to honestly prepare for your post-exit life. Doing this well in advance of your exit can help avoid any regrets or awkwardness.

# Step 2

## Start Preparing As Soon As Possible

Once your goals are clearly defined, take action.

There are specific steps that will increase the likelihood of a successful exit, but most require time to implement. Don't start preparing the year you want to sell. Instead, prepare now for an exit 5, 10 or even 20 years before you're ready.

A big part of preparing your business for sale is preparing your own mindset. Work on your business, not just in it. Why? Because your business will be an investment for a potential buyer. Like any product or investment, you can make it more...or less...attractive and valuable.

Think about it. If you were going to buy a business, what would you want?

- A business with clean, clear financials showing strong financial performance
- A business where the departure of the owner will have minimum impact
- A business with established, clear and documented operational systems and procedures not tied to specific employees (who may leave)

Perhaps you're planning on transitioning the business to your kids, a trusted employee or the existing management team. Regardless of the specific form it takes, a successful transition should benefit the new owners, employees and customers.

Part of your compensation may be tied to ongoing performance of the business. You want to insure the highest chance of success and minimize the loss of business that might occur during the transition.

In all of these situations, you, the business and the eventual buyers will benefit from your efforts working on the business.

### **Are you ready to transition?**

Many business owners' wealth is tied up in their business, with much less in liquid investments like stocks, bonds and cash. This works well when business is good, but it can leave you extremely vulnerable especially when recessions or unexpected events like COVID-19 occur.

Successful owners are extremely focused on their business. They are totally committed and it's their passion. Unfortunately, they may not have a similar laser focus on their personal finances and planning.

Have you determined what you need to meet your personal and family objectives now and in the future? What kind of legacy do you want to pass on to children or to your community? Are you at or approaching that stage in life when you want to diversify your holdings and reduce risk? Is your 10, 20 or 30-year personal financial plan independent from your business?

Eventually, most business owners want financial independence. We recommend strengthening and diversifying assets and income sources so you and your family aren't totally reliant on income from the business. Along with dramatically increasing your financial resilience, this diversification can help you sleep much better at night.

Also, a financially independent business owner who has successfully prepared to exit will likely have more transition options.

### **Is the company prepared for a transition?**

Many small businesses are not prepared for a transition of ownership. Instead, many are dependent on the day to day involvement of the business owner(s) and a few key team members.

As you might imagine, the prospect of buying such a firm is not very attractive to an outsider.

Instead, you want to work on your business, so your business becomes more systems-dependent, not people-dependent. Every critical role should be documented (and automated, when possible) so if a key person just left and never came back, the business would continue to thrive. And yes, that means your role, too.

Valuable businesses have committed, talented and professional management teams. They have the training, resources and perspective to run the business without you.

### **Are your business financial systems prepared for a transition?**

Are financial controls and systems in place so new management, new owners, and new banking relationships feel comfortable with financial projections and accounting?

Transparent business accounting means less risk for new owners.

And, uncomfortable as it may be, when you go to sell, buyers and their professionals will scrutinize your financials.

A company that is prepared for a future transition will likely be a top performer, increasing business revenue and profitability for you, the current owner. Your banker will also appreciate clear and organized financials.

On the other hand, messy or incomplete financials can increase the perception of risk.

Getting the right systems and professionals in place may take time and resources, so the sooner you start the better.

Preparation is vital when the unexpected occurs. Market conditions may become optimal for a transaction. Consistent, transparent financials over multiple years can enhance the business value. If business becomes challenging (e.g. COVID-19) this same consistency may give bankers some additional confidence and favourable banking considerations. Either way, preparation is a good investment.

# Step 3

## Increase Your Readiness to Exit



Selling or transitioning a business may seem straightforward in theory, but in reality it can be an intense experience.

Why? For most business owners, your business is your 'creation.' It's very personal. It may be a second or third-generation business. And being the owner (and maybe the founder) is likely a big part of your self-image. Your social life may be dominated by socializing with clients, employees and industry contacts.

If you're considering an exit, things will likely change. Maybe not initially, but once you successfully transition, there may be a void to fill. Be ready and understand what you're likely to feel and experience, so you don't have regrets.

Your financial readiness is another important factor. Is 75% of your net worth tied up in your business or are you financially independent from your business?

We use a custom tool to help you evaluate your overall readiness, the Business Exit Readiness Index (BERI). This brief assessment asks you questions about your personal and financial life to determine your readiness to exit. The results of this report can show you where you are and the biggest challenges and opportunities you are likely to face. It can also introduce some of the exit options that might be most applicable. There might be options you haven't considered.

Based on our experience with this tool and with working with many business owners, we find that owners fall into one of four general categories:

High Financial Readiness/High Mental Readiness  
"Rich and Ready to Go"

High Financial Readiness/Low Mental Readiness  
"Well-off but choose to Work"

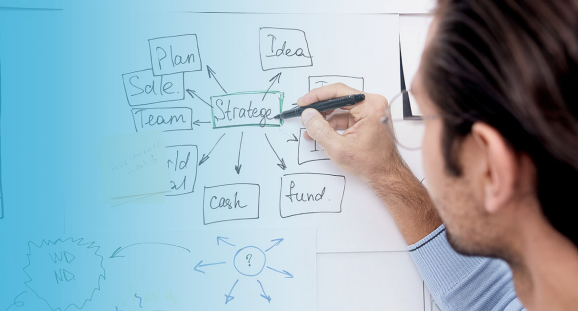
Low Financial Readiness/High Mental Readiness  
"Get me out at Highest Price"

Low Financial Readiness/Low Mental Readiness  
"Stay & Grow"

Each category may have a different action plan and solution to help you meet your goals.

# Step 4

## Identify Your Preferred Exit Strategy



As noted, advance planning will likely increase and enhance your exit options. Starting the process now gives you the necessary time to determine your preferred exit option, maximizing your results, whichever path you choose.

Here's a list of the five major exit options for small business owners:

- External Transfer: Outright Sale of the Business
- External Transfer: Private Equity Group Recapitalization
- Internal Transfer: Employee Stock Ownership Plans (ESOPs)
- Internal Transfer: Management Buyouts
- Internal Transfer: Gifting Programs (Family)

An objective, experienced professional can take you through a process (like our 6-steps), helping you navigate the different options, letting you choose the one that best facilitates the achievement of your personal goals.

It's vital that you consider the tax consequences of each exit option before making a final choice. Your advisor team, which should include a tax professional, will compare the tax impacts of each option. Your focus should be on the net after-tax consequences of a transaction.

Don't skip this step. Remember, it's what you keep, not what you earn. Structuring a deal to minimize your tax liability may put more money in your pocket. Once again, advance planning can make a big difference.

# Step 5

## Understand the Dynamics of the Option You Choose

Your exit option can determine the way your business is valued. It can also instruct you on the steps to take that might have the most impact on your future outcome.

Broadly speaking:

- An Internal Transfer (to employees or your children) may not have the highest value.
- An External Transfer (outright sale to a third party or private equity transaction) may have a higher value.

What else impacts value?

Future income and business risk are the primary determinants of business value. You and a prospective purchaser will then negotiate based on your respective objectives. Considerations include:

- Internal Transfers might use "fair market value" as a starting point and discounts might apply.
- External Transfers might use "market value" as a starting point.
- The purchaser might utilize an "investment value" approach or a "synergy value" approach.
- External "synergistic" purchasers are more likely to pay a premium.

Synergistic purchases might be a competitor or a firm in a similar, but not the same, line of business.

Your advisor team, which might include a professional appraiser or private equity professional, can help in this process.

# Step 6

## Executing Your Exit Strategy - Find the Right Team to Help You Achieve your Goals

Preparation will enhance the value of your business. Increasing revenue, improving systems, upgrading the management team or reducing business risk may make your business more attractive. As we've discussed, this process takes commitment and time.

Exiting your business isn't simply about a transaction. It's likely that you haven't been through this before. Since there is so much at stake, you'll want to carefully choose an advisory team that has the relevant experience and expertise to guide you along the way. You will need to remain focused "in" the business while you work "on" the business. The advisory team will keep the process on track, helping you stay focused on running the business and achieving your business and personal goals.

Here are our recommendations for finding a qualified advisor who can help you make the most of your business and protect what you've built:

- 1 Find a quarterback** who is focused on process, not a transaction. A professional who fully understands your objectives can then guide you through the many transition and exit options. As you move through the process, you will likely have specialist professionals on your team as well. Prioritize discovery, especially during the first couple of steps. This will help you narrow the focus of your options and fine tune your plan. During this process, you'll build a team of specialists that are relevant to your situation. Invest the time up front with your quarterback advisor and this may save you significant time and money down the road.
- 2 Prioritize experience.** Exit planning is a complex and specialized practice and you will want an "A" team of advisors (attorney, accountant, appraiser, investment banker, etc.) on your side of the table. Just like selecting a surgeon, you'll want professionals who have been involved in exit planning transitions many times, not just a few. Look for individuals who have helped people through multiple economic cycles, too.
- 3 Insist on a fiduciary.** If you're going to work with a financial advisor, it's vital to understand that not all advisors are alike. Some have to put your interests first, but others do not. To tell the difference, look for a firm that is willing to act as your fiduciary, meaning they are legally responsible to put your interests first. Then ask them to put that in writing. If they hesitate, you're getting a valuable red flag...look elsewhere.
- 4 Look for deal structure expertise.** With a business sale, it's not what you make, it's what you keep that is important. Make sure the firm can research and identify deal structures that can help you make the most of your sales proceeds. This should be a priority.

Finally, once you've hired your team, hold that team accountable. This is an extremely important role. Your "A" team should be at your side and see you through both the exit planning and the actual transition successfully. Don't be afraid to speak up if you're not getting the service or attention you need to feel confident about the process.

## Putting It All Together

We've had a look at six steps you can take to begin preparing for a successful business exit. One key takeaway is that it's critical to act now, not later. Those who assume there's plenty of time to prepare often come to regret that decision.

If you already have an advisor helping you with this process, we recommend meeting with them and using this book to guide your conversation.

If you don't have an advisor, or if you're not sure you are working with one who has the necessary experience, please feel free to schedule a no-obligation consultation to see if we can help you achieve your goals.

## No-Strings-Attached Complimentary Consultation

Wondering if we can help? At Raskin Planning Group, we offer a complimentary consultation, so you can see if we're a good fit. If so, that's great. If not, there's no obligation at all. Either way, you'll leave the meeting with some solid feedback on what you can do to prepare for your business exit.

Peter Raskin is a registered representative of **Osaic FA, Inc.**

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## Request a Complimentary Consultation

### What happens after the Complimentary Consultation?

There are no strings attached, so we won't spam you or put you on a call list. We'll only call you if you want us to. We may send you an occasional email, but you may opt out at any time.

## About Raskin Planning Group

Raskin Planning Group has over three decades of experience helping business owners build sustainable wealth and achieve financial security. Our full-service approach helps you create a road map to your best financial future, then our ongoing support helps you stay on track, so you can achieve your goals.

<sup>i</sup> <https://www.cnn.com/2015/04/13/ew-small-biz-have-an-exit-plan.html>

<sup>ii</sup> Leonetti, J. (2008). *Exiting your business, protecting your wealth*. Hoboken, N.J.: John Wiley & Sons.



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