

Exit plan is critical to a company's survival

The owner/chef of a lucrative and well-established restaurant was diagnosed with a terminal illness and suddenly was unable to work.

The business was highly dependent on the owner. While his bereaved wife struggled to run the business and hire a replacement chef, food quality, service, profitability and the reputation of the restaurant plummeted and never recovered. When the lease came up for renewal a year later, she shut the business down and walked away with nothing.

At the age of 66, the owner of a profitable construction company seeking to retire sold the business to his son, who also was an employee. His son had little money so was only able to make a small down payment, and the price was discounted significantly.

He also lacked the exceptional people skills and leadership qualities of his father. The son began clashing with a key, more senior executive, who subsequently left the company to start a competitor, taking several other employees with him. At the age of 70, the father began working full time again, seeking to salvage the business, as he was dependent on the sale proceeds for a comfortable retirement.

These two entrepreneurs had something in common with more than 85 percent of small-business owners — they never developed an exit plan.

Without an exit plan, a business could quickly be damaged by a sudden crisis, such as an illness, death, divorce, partnership dispute or rapid change in market or competitive environment. Or a business may deteriorate gradually as the owner burns out and neglects the business, or transfers the business to a weak leader.

Either way, the result is the same — greatly diminished business value. With tens of millions of baby boomers approaching retirement age and controlling



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trillions of dollars of private company wealth, the issue is becoming acute.

By contrast, private equity groups and venture capital firms, perhaps the world's most sophisticated owners and financiers of businesses, rarely fund or purchase a business without first having a formal exit plan in place.

So, what is an exit plan? It's actually a series of continually evolving and interrelated plans that will help you address at least the following critical questions:

■ What are your preferred options and timing for exiting the business? For example, sale to outsider, sale or gift to family or employees, merger with competitor, buyout by a partner, etc.

■ What family members are involved in the business and what are their objectives?

■ What are your financial objectives and retirement plans?

■ What is the value of your business now?

■ What key actions are necessary to increase business value and position it for sale at the optimum after-tax amount needed to achieve your financial objectives?

■ What actions are necessary to manage estate, trust and tax issues you will face through retirement and beyond?

■ What actions, programs and agreements are necessary to ensure continuity in the event of departure, death or incapacitation of any of the owners or key executives? Examples include training programs, system development, buy/sell

agreements, key man insurance, and non-compete agreements.

■ Who will replace you or other owners upon departure? Are any current executives and/or family members capable of doing so, and if so, what additional skills, training, licensing, etc., are needed? If not, what is the strategy for recruiting and developing a replacement?

Developing a comprehensive exit plan is a demanding task that generally takes three to six months to complete and as long as two to four years to implement, depending on the complexity of the business.

While a primary focus is meeting the owner's objectives, it should ideally reflect the desires and concerns of all important stakeholders, including family, business partners, other shareholders and employees, and in some cases customers, suppliers and the community. Input should be gathered from key advisers, including your CPA, wealth planner, estate planner, business consultant, insurance broker, appraisers and mergers and acquisitions adviser.

An exit plan is decidedly not a fancy written report that sits on a shelf gathering dust. To have any meaning, it must be regularly updated to reflect changes in your life and the business. It must be action-oriented and offer prescriptions that are implemented, not ivory tower theories. An ideal plan will take a long view, assess actual progress of implementation and take any necessary corrective action needed to keep it on track.

If an exit plan sounds like a lot of work, it is. But it can be the difference between leaving a legacy that endures for generations and a business that simply closes when you depart.

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