

What Does Exit Planning have to do With Value?

This is a story of two business owners I'll call Tom and Jerry. Both are in their 50s and have operated a profitable business for many years. Neither as family willing to continue in the business and both are feeling burnt out. Tom is a home heating oil distributor whose business is vital and growing but he has trouble delegating. Jerry's is a retail business dependent upon referrals from medical professionals. His company had been in a slow decline for years but he's been hanging on. Which one engaged my firm to plan an exit strategy? If you guessed Jerry, you would be wrong.

Unfortunately for Jerry, he began 2007 by losing his top salesperson to a main competitor. Jerry's sales have dropped precipitously and profits have plummeted even more. Jerry no longer has the energy or desire to fight back and is putting his business up for sale before he has to close the doors. In just one year, the value of Jerry's business has dropped by hundreds of thousands of dollars.

Tom on the other hand sought our counsel last year to determine the value of his business and plan for a sale down the road. After performing a market study, we suggested he increase his margins by five cents per gallon of oil, work to increase the percentage of customers on "automatic" delivery, and begin delegating more to his key employees. The result is that his profits are up over two hundred thousand dollars this year and his company has increased close to a million dollars in value.

How much difference did exit planning (or the lack thereof) make in the value of each of these businesses? Which owner will be retiring on his timetable and on his terms? Exit planning is neither mysterious nor time-consuming. It doesn't need to be complicated. It's simply a matter of planning to leave your business when you want to leave, selling or leaving it to whom you want, and meeting your financial objectives in the process.

Here are some questions to help you focus your Exit Planning efforts:

1. Have you resolved in your own mind and with those close to you the three most important issues:
 - a. In what direction is my business and my industry heading?
 - b. When do I want to leave?
 - c. How much money or income will I need to be secure?
 - d. Is there anyone to whom I want to leave the business?
2. In the area of business value:
 - a. Do I know how much my business is currently worth?
 - b. If I sold today how much would be left after state and federal taxes?
 - c. Do I know how those taxes can be minimized?
 - d. What are the drivers that will increase the value of my company?

Only thirty percent of family businesses make it to the third generation and only fifteen percent make it *through* the third generation. Armed with that information, if you intend to keep the business in the family, these questions are important:

- e. Have I identified a competent successor who has the respect of other family members and key employees?
- f. Is my successor being actively groomed to take my place?
- g. Have I set a date by which the transition will be completed and determined interim steps along the way?
- h. What are the different ways in which my business transferred so as to be fair to family members in and out of business and minimize taxes, while also decreasing or eliminating any risk to my retirement funds?

If you are like most business owners, you haven't given these questions much thought. And yet one of the biggest financial events of your life may be approaching quickly. Perhaps you owe it to yourself and your family to prepare for that event.

