Planning your business exit

Give enough time for exit planning or risk leaving money on the table

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For more information on Exit Planning, download *Exit Planning: Key Steps to a Successful and Profitable Exit* at skodaminotti.com/exitplan.

There are many misconceptions business owners have when it comes to exit planning. Some think they have an appropriate exit plan if they have a will or if their son or daughter is in line to take over. In truth, an exit plan is far more comprehensive.

"Many business owners wait too long to begin planning," says Michael Ella, CPA, a manager at Skoda Minotti. "They think that when they're ready to leave their business they can just sell it the next day. If they carry that mindset and wait too long to exit, they limit their options and reduce the selling price they could otherwise command had they started earlier."

Smart Business spoke with Ella about exit planning, and how holding to common misconceptions can drastically reduce the value of a business.

What's involved in exit planning?

There are several aspects to a full exit plan. There's the legal aspect, which includes wills, the buy/sell agreement and other documents that need to be put in order. There's insurance, such as life and key man; and financial records that should be in order and processes that should be properly documented. It's also important to analyze the risks of the business and mitigate them before exiting.

Personal financial planning should be part of an exit strategy to determine what income or savings an owner needs to retire. In that vein, estate planning should also get wrapped up into an exit plan because it can affect trusts and how assets are allocated.

> "Exit planning provides a management system for creating value that is separate from the business owner— this makes the business attractive to a potential buyer and more likely to survive a succession."

What are the more popular exit options?

There are typically two types of exits. There's a succession, which is typical for family run businesses, and there is a third-party sale.

Succession planning typically involves the business owner transferring the business to children. There are two types of third-party sales but the most common are a full sale of the company or a partial sale, otherwise known as recapitalization. A partial sale generally involves the sale to a private equity group where the business owner will retain 20 to 30 percent of the company.

How is exit planning unique for manufacturers?

For manufacturers, it's important to talk with key vendors about their exit plans. If a vendor that is essential to the business doesn't have an exit plan, it could jeopardize the manufacturer's business because vital materials or services may not be easily acquired elsewhere in the market if a key vendor were to go out of business. This would be a problem for the manufacturing company's new ownership, and could drive the value of the business down.

When should business owners begin constructing their exit plan?

From the time planning begins through the time the owner is completely out of the business is usually three to five years. Abbreviating this timeline often means compromising the value of the business.

For at least half of business owners, their exit of the business is unplanned because of death, disability or divorce, most commonly. That's why it's important for all business owners to have a contingency plan in place.

How can business owners maximize the value of their company prior to a sale?

With the eyes of a buyer, business owners should undertake a full risk assessment of their company. Analyze revenues, customers, assets and the management team, looking for possible weakness that could drive down company value, and remove them.

Document business processes and have accurate financial data available for potential buyers. It's the same for a successor situation. Business owners shouldn't want to transfer their business issues to a family member. Get them resolved before an exit.

What common regrets do owners have after a sale is completed?

It's tough to maximize a business's value if an exit is rushed, and that can leave owners feeling as if they left money on the table. That's why completing an exit plan is an exercise in understanding value and where improvements can be made to increase that value. It's a good exercise for owners to see the business through the eyes of a buyer and can improve the profitability of the company while you're still in it. ●

With each Insights, Skoda Minotti explores the most pressing problems that manufacturers, and other business, face throughout their lifecycle.

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