Recession Generates Renewed Interest in Exit Planning

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The current recession is causing many business owners to begin thinking about their ownership transition strategy. While most business owners realize that now may not be a great time to sell, most want to understand their options so that they can take advantage of a market rebound in 2010.

All business owners intuitively know that they need to have an ownership transition strategy, but few know how to design and then implement a good one. A good ownership transition strategy needs to empower business owners so that they can answer "yes" to each of the following eight questions:

1. Have you spelled out your exact goals with regards to your retirement, family, finances and estate?

2. Do you know how much it will take (in cash) to achieve your goals?

3. Do you know how much your business is worth if you were to decide to sell it today?

4. Do you know the best way to maximize the value of your business when it's time to sell?

5. Do you know how to sell your business and pay the least possible taxes?

6. Do you have a continuity plan for your business if the unexpected happens to you?

7. Do you have a plan to ensure your family's financial independence if you are no longer in the picture?

8. Do you have a team of qualified advisors to help you with the process?

Before you do anything, first you must have a clearly defined set of goals and expectations about what you want to accomplish.

Next, you need to understand what your business is worth and why. A business valuation helps you to understand how much the worth of your business will be able to contribute to accomplishing your long-term goals. A good valuation should also help you understand where the "value drivers" are in your business so you can begin to enhance the value of the business prior to any ownership transition.

In the process of developing a good ownership transition strategy, you will need to weigh different ownership transition methods against each other (for example, a sale to a third party vs. a sale to key employees or family members). This also means weighing the financial implications of each against other considerations that may be important to you. Then, you can choose to pursue a particular transition strategy with a full understanding of the tradeoffs that come with each option.

A good ownership transition strategy can take between one and two years to design and implement. As a result, you should also have a contingency plan in place for your business and for your family in the event that something unexpected (disability, divorce or death) happens to you during the planning and implementation process. A contingency or continuity plan for business should include buy/sell agreements (if there are partners or shareholders) and stay bonuses (if there are key employees) in which employees are paid additional money to stay with the company after an owner has left.

Creating an ownership transition plan is vital if you hope to be in control of the process and to leave the business on your own terms. A recent PriceWaterhouseCoopers study showed that the number one reason why deals fail is a lack of planning on the part of the business owner.

Smart business owners work through these difficult questions with a team of good advisors to create unique plans that help them achieve their objectives on their terms and timetables.

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