

Plan in Advance When Exiting Your Business

By Terence J. Shepherd

Have you ever seen or heard something that left you just shaking your head in disbelief? Well, I have one for you. It has to do with business owners and their plans for exiting their business. It amazes me that after many years of hard work, sweat, tears and personal sacrifice, the vast majority of business



owners do NO, or very little, planning in this critical final stage of their tenure.

For those cashing out and trying to maximize value, this could well be the biggest financial transaction of their lives. For others, it may not be financially motivated, but is more about the transfer of the stewardship of the business to other members of the family to carry on a legacy. Despite the high stakes involved, a study reported in the Montreal Gazette on Jan. 19 shows that "the average entrepreneur spends something like 80,000 hours building his or her business, but only six hours planning the transfer of that business." And that is what has me shaking my head.

Yet it is just the tip of the iceberg. According to a survey conducted by the Canadian Federation of Independent Business in 2006, only 10 percent of small and medium-sized enterprise (SME) owners have a formal written succession plan. A similar survey currently being conducted across the United States and Canada by my firm, ROCG ~ Shepherd & Goldstein Consulting Group, supports this finding. Such results are astonishing, given that 80 percent of our initial survey-takers stated that the proceeds from the sale are "somewhat important" to "critical" for their retirement and legacy objectives. For more information or to take the five-minute survey, go to www.business-transition.com.

In addition, there are factors outside the business that threaten to make a bad situation even worse. Demographic trends, for example, will present a huge challenge to business owners looking to exit their business over the next 10 to 15 years. Within that time, two out of three SMEs will be looking to sell or transfer their business as their baby boomer owners reach their 60s. And as owners head to the exit, so does their boomer workforce.

Looming Obstacles

Who will be around to buy the businesses? Who will operate these businesses, both leading up to and after the sale? Will many businesses be forced to liquidate and close down? With more sellers and fewer buyers, what downward pressure will there be on selling prices? And how short will the proceeds be compared to what is needed to fund the lifestyle the owner initially envisioned?

Adding to the uncertainty are two other factors already confronting business owners: First, over the past century, life expectancy has increased 56 percent and it is expected to continue to increase in the future. Secondly, the cost of health care has been increasing at double-digit rates. What do these two trends alone say about the need for accumulating a sizeable cash hoard to ensure you don't outlive your available resources?

With these forces converging all at the same time, the stage is being set for "the perfect storm" that will leave great turbulence in its wake without adequate preventive measures. The impact on business owners, on local communities and on social services will be unparalleled. The downside of not planning is undeniable; the associated risk of inadequate retirement funds, business closure and loss of jobs can be the resulting legacy. Let this be a wake-up call!

I believe the major reason many business owners avoid planning stems from the view that transition is just about the sale of their ownership interest and that this can be done any time. Boy, is that wishful thinking. There is so much more to it than that. Spontaneous business sales typically result in lower prices or even an unsuccessful sale. Planning is paramount.

Transition planning is about getting the business ready for sale by showing its best face and identifying and eliminating skeletons before a buyer's preview. It also has as much to do with the management transfer as the ownership transfer. Buyers buy future cash flow and, as a result, all the pieces need to be in place to ensure that profitable operations are sustainable after you are gone.

Both personal and business objectives need to be detailed out; steps then need to be identified and acted on to meet those objectives. Differing issues will

arise, depending on whom you intend to transfer your business to: family, co-owners, employees or a third party. During this discovery process, it may be determined that the business' operation might need to be ramped up to increase its value in order to meet personal objectives or to meet the requirements of the longer life expectancy mentioned earlier. Perhaps there is some management coaching that needs to be considered for certain family members or key employees.

Maximize Return

The planning process is also about identifying potential buyer segments and sometimes very specific targets that best meet the stated objectives. Business sale readiness and specific improvement considerations based on this finding can then be laid out in advance to maximize business value return versus time and monies invested in getting things ready. This is also the time that planning should be done to maximize any tax advantages.

The scope of transition planning is broad and should involve a number of your professional advisors. One professional does not have all of the family and personal history and all of the expertise that is required to help you through this process successfully. Do not let them persuade you otherwise.

Whatever the exact circumstances, all of this takes time, patience and an organized game plan that takes both the personal and business elements into consideration. And in that regard, there is much to be said about working with someone who is experienced in business transition; who understands the complexities and appreciates the sensitivities and stresses that are involved when working through this process with family, employees and co-owners; and who has experience in collaborating with other professionals to maximize results.

There is no quick fix. And any canned, one-size-fits-all approach should be avoided at all costs. Your plan should be customized to meet your specific personal and business needs and situation, and should come from a collaborative best-practices approach.

The outcomes and benefits to business transition planning are:

- You can decide to transfer the business to whomever you choose;

Plan in Advance

continued from previous page

- You can control the timing of your transition and how you wish to ultimately exit the business yourself;
- You can achieve the transitional and transactional value you desire in accordance with your own wealth objectives;
- You can put in place a tax strategy that enables you to keep more of the business value for yourself and for your heirs;
- Your family can have peace of mind knowing there is a transition plan for the business that you are happy with and because they will know in advance how

your business transition might affect them;

- You can create the opportunity for a business legacy and can create certainty for key loyal employees and other important stakeholders;
- You can and will save money by having a single transition plan that all your trusted advisors have bought into – no duplicated services or costs; and
- Statistics indicate that by simply having a transition plan, the transactional value of your business will substantially increase as a result. Buyers generally are prepared to pay more for businesses that have used transition planning.

Now, more than ever, the quality of one's life subsequent to "cashing" out of the business

is going to depend on how well one planned leading up to the transition event. If you haven't formally planned your transition, let this article serve as your wake-up call. If you are planning to exit your business within the next five years, planning should have already begun. Get going immediately! If your current plans have you exiting your business in six or more years, now is the perfect time to start the planning process. ▲

Terence J. Shepherd (terences@sgllp.com), CPA, MST, is lead partner of ROCG ~ Shepherd & Goldstein Consulting Group, international consultants to small and medium-sized family-owned enterprises and specializing in business transition. He is also managing partner of Shepherd & Goldstein Business Consultants and Certified Public Accountants.