Developing a Business Exit Strategy: Getting Started

In business terms, the transition out of the business for an owner is referred to as an “exit”, while the plan for a defined ending is called an “exit strategy”. Having a business exit strategy conveys that you’re in control of your business; that you’re aware and goal focused, and that you have a plan for an organized and profitable ending. Remember, all businesses ***must*** transition at some point; all owners ***must*** exit the business….

Business owners who don’t plan for ownership transition are often faced with the inability to receive enough money to fund a comfortable retirement. This occurs not because owners fail to create value in their business; rather, it’s because they <u>fail to do the planning that would have allowed them to ***retain*** that value</u>.

Given that the average Advisor age is 57 years old, many Advisors have been in business for multiple decades. But statistics show that the vast majority of Advisors have not developed an exit strategy. If this describes you, don’t despair – but do start your exit strategy planning today, keeping in mind that defining it is a process that requires careful thought. It is a continuous exercise that takes time, both now and in the future. Your exit strategy will require regular review as your business grows and changes.

To get you started, all strategic exit plans should address the following key areas:

- **Current valuation of the business** – Get a formal valuation done on your business. This sets a baseline and helps eliminate any surprises.
- **Factors that drive the value of the business** – These are your Key Performance Indicators (KPIs); the underlying metrics (non-financial and often, intangible) that influence your valuation. Make sure you understand why and how they affect your valuation the way they do.
- **Methods to increase your business value** – Once you have a solid understand of your KPIs, devise a strategy to improve those metrics, thus increasing your valuation.
- **The potential future value of the business** – A five-year projection is reflected in your Discounted Cash Flow valuation. Build a longer range pro forma around your future growth and other goals to provide added clarity.
- **Your options for ownership change** – Make a list of all your options, as well as the pros and cons for each. Then put the list in order from most to least attractive. Begin drafting a simple plan for the first 2-3 options (you should always have a Plan B).
- **Likely tax implications of ownership change** – Work with both your accountant and attorney on both this item and the next. Transition deal structure is just as important to retaining value as the actual valuation is.

- **Tax-saving methods specific to your business** – Again, your accountant and attorney can assist with the proper planning when it comes to taxes. Remember to focus on the net value and not the gross number.
- **The potential proceeds from a strategic ownership change** – This is important to consider so that you can properly fund and plan for your retirement, as well as for estate planning purposes.

By systematically working through this checklist you'll be able to identify the best way to create a smooth transition and make the business more valuable and desirable in the process. This type of planning cannot be left to chance – your business will lose a significant portion of its value without the proper planning. But with your strategy in hand, you'll be better able to work each day to make the decisions and moves that will position your business to reach your exit goal.

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