Exit planning

Getting *out* *of* the game

Financial expert Bob O'Hara tells Exec Digital that long-term planning is crucial to a successful exit strategy

Written by Kevin Doyle

Bob O'Hara is quite certain of this: as a business owner, if you begin by envisioning the end, you will position yourself to have a much better chance of reaching your desired destination – a lucrative payday and worry-free retirement.

"If you own a business, then you're going to leave it some day. It could be your decision or not but, either way, you can plan for it and plan what you're going to do with the rest of your life," says Bob O'Hara CPA/PFS, MST, who founded O'Hara & Company PC in 1995.

O'Hara's firm, based in Chelmsford, MA, addresses the growing need for entrepreneurs to create a comprehensive exit strategy from their businesses. O'Hara primarily aids businesses with annual revenue ranging from $3-30 million that have between ten and 200 employees.

"It was very apparent to me in talking to executives over the years that very little information was available and that there was a huge need. Information that was being provided was all being done so haphazardly rather than comprehensively," says O'Hara, who holds a Bachelor's degree in Business Administration from New York University and a Masters in Taxation from Bentley College.

While acknowledging the uniqueness of each company, O'Hara says the process remains consistent whether you engage in the research and development of cutting edge technology or manufacture machinery parts.

"I run into a lot of owners who have a very clear thought of where they are going and what their exit strategy is but they never put any time into evaluating and validating that plan," says O'Hara. "Basically, what we do is take a business owner's personal financial plan and their exit plan and combine them into a single cohesive strategy. After all, the largest investment they're ever going to have in their life is their business."

O'Hara delivers his message in a non-specific one-hour presentation designed to summarize the process and identify issues likely to surface during planning. "This is an education-based process. I approach it in a logical, thought out way and say 'Here's how you can do that.'

It's something owners can clearly get their hands around. They get it," he says.

It takes time

By definition, an exit strategy or plan is a way to terminate one's ownership of a company or their operation of some part of a company. O'Hara says proper execution of that strategy takes far longer than most owners anticipate. "Most owners think this can be done a lot faster than it actually can. You need five to seven years to successfully plan a transition out," he says. "Less time means less flexibility in terms of what you're going to be able to do."

Ideally, O'Hara says, exit plans should evolve along with the business. He says that today's depressed economy is the time to make sure your company is well positioned and ready for sale when the economy rebounds.

THE SEVEN STEP EXIT PLANNING PROCESS ™

STEP 1: Setting Exit Objectives

STEP 2: Determining Value/Price

STEP 3: Preserving, Protecting and Promoting Value

STEP 4: Sale to a Third Party

STEP 5: Selling the Business to an Insider

STEP 6: Contingency Planning for the Business

STEP 7: Wealth Planning & Preservation

Source: O'Hara & Company

"As you establish your business, you should be aware of your issues. Where am I going with this? What are the goals? What's the value of putting in all this time and effort? I always recommend that owners be aware, that they build business value and that they build long-term strategies that will help them get to where they want to be," O'Hara says.

He says it is imperative that owners have a strong advisory team in place. "We emphasize that team approach. We only play one role. You need your CPA, your attorney, a business valuation expert and your banker. All types of different skill sets need to be brought to bear," O'Hara explains.

It is a lot of information to digest but, O'Hara says, worth the effort in order to make a seamless transition. "Some owners will say 'This is so much.' I recommend they pick off one issue that is a priority and then work from that point."

When the time comes to walk away, the transition should be seamless.

When you've gotta go…

Research shows the typical seller to be between 50 and 65 years of age and in control of all or most of the ownership interest. According to Small Business Administration statistics, "40 percent of all closely held businesses will transfer ownership within the next five to ten years and two-thirds of all business transfers are internal – either to an employee or member of the owner's family."

Asked about how you remove emotion from the sale process, O'Hara says "You don't. It's an emotional event and owners have to be able to detach themselves from the business. If they can't do that, then they're not ready to go."

While exit strategy is a matter of personal preference, O'Hara offers the following tips to optimize a potential sale:


Bob O'Hara Presentation

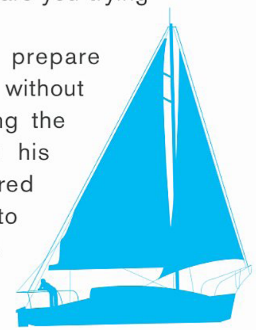
- Increase business value by designing incentive plans for your management team that reward long-term employment and provide short-term incentives to increase your bottom line. Get your key employees on the same page as you and have them help you build business value
- Acquire smaller, less adaptable, less capitalized or less well-managed competitors. This is a buyer's market and there are ways to help minimize your financial exposure
- The time to preserve the value of your most important asset – your company – is now. Look at how you can minimize tax exposure and how to protect your company
- Plan for how you will have your business positioned and ready for sale when it is growing and on the upside of the growth curve

He notes that, when you get right down to it, there are only five ways for owners to leave their companies – sell to a third party, sell to a family member, sell to key employees, die owning the business or liquidate the company.

"You have to start with the owner and what they envision – it really depends on what the owner's personal goal is for the business," O'Hara says. "The imperfect route is if you die suddenly. The vast majority of owners in this country don't have adequate plans in place if that happens.

"Then you're down to whoever inherits the company at that moment. Then key employees are gone to competitors, competitors are calling your customers and you're basically left with a business with hard assets that have to be sold off. It disappears more quickly than people think," O'Hara cautions.

Ultimately, the key question to be asked of any owner is: "What are you trying to do here?"



"We're trying to prepare the business to live on without its owner and preparing the owner to live without his business. They've poured everything they have into it and they have to be ready to take that step," O'Hara concludes. ■

*Bob O'Hara has an established website, **www.exitplanning-edu.com** dedicated solely to the topic of exit strategy planning.*