



# *Create Your Definition of Independence in the Exit Planning Process*

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## **Exit Planning is the Process of an Owner obtaining their definition of Business Independence. Business Independence will mean different things to different Owners.**

As with any long term strategic business planning, the Owner will need to spend time thinking about and establishing business & personal goals for the planning process.

Keeping in mind the ultimate goal of Exit Planning is for a Business to live without its owner and an Owner to live without their business. For the Owner, the ability to live without their business is both financial and emotional. For the Business, it is operational and financial. The Business cannot rely on the Owner's ability to operate the company and cannot rely on the Owner's guarantees of Debt and Loans to the Company.

**When thinking about setting goals keep in mind there are in essence only five ways you can leave your business:**

- 1. Sell to a Third Party**
- 2. Sell to a Family Member or Co-Owner**
- 3. Sell to Key Employee(s)/Employees**
- 4. Die Owning your Business**
- 5. Liquidate the Company**

The good news is you can plan for all of them!

Take a moment, and think about how you would answer 4 universal questions to set and plan for your personal life and business goals:

- How much longer do I want to work in the Business?
- Who would I like to sell/transfer my Business to?
- What is the annual after tax \$ I will need?
- What will I do with my life after Business Ownership?

An Owner needs to spend time thinking about who they are and what do they want to do with their lives if they are no longer a business owner. An Owner needs to evaluate how much of the Owner's identity is through their business? What personal relationships do they have through their business that might change or go away? What are they going to do in their post ownership life that will provide meaning and purpose?

Keep in mind the Owner has to be the CEO. The Chief Exit Officer. Create the vision of where the Owner wants to go with their business. The Owner has to be able to clearly describe that vision to everyone involved in the process.

That vision has to be so compelling that it motivates the Owner to act upon it and strive towards that Vision. If not, the Owner will never move forward in the planning process.

Once the Vision has been established, the Owner will need a team of Advisors to help them achieve that Vision. No single person has the training and ability to do all of the technical & professional services needed to create a successful exit plan. The Owner will continually have to ask and understand from their advisors: "How do your planning strategies achieve my Vision?"

During the Goal setting process, the Owner should also have their Company independently valued to determine how much their Company is worth if they were to sell it. Going through this process will also allow the Owner to estimate how much they will net from the sale of their business after taxes. With that information, the Owner can add that amount to their current savings and see if the annual income from that savings will cover the annual costs of their budgeted lifestyle.

If there is a gap between their savings and their budget, the Owner has to make a decision:

- Stay & work forever in the Business – but have a plan for the day when forever arrives
- Get what you can for the value you have in the Business & adjust your post-ownership lifestyle
- Save more of the current profits of the Business & build assets outside the Business
- Build the value of your Business to realize more \$ upon the sale of the Business

Remember that your Goals are about achieving your definition of Business Independence and living the life you have envisioned for yourself.

## CORNERSTONES

**Whichever course you are planning on taking, be prepared to build upon 4 important Cornerstones to secure a life path you are certain to immerse yourself with.**

A path which continues your journey, providing financial security and complete fulfillment. Begin to build your foundation, start to create a Plan and take a walk along the path which will lead to your business independence.

As one of the four cornerstones in the business exit planning process, **BUSINESS INDEPENDENCE PLANNING** emphasizes the steps that need to be taken in order for the business to become independent from its owner. So as the owner is working on personally becoming independent from their business, their business is doing the same.

Few companies are sold and the vast majority are rejected by Investment Bankers, Private Equity Investors and Business

Brokers because businesses are not prepared or have very little or no value without the current owner. Create a business bucket list involving steps and actions that need to be taken to preserve, protect and promote business value before you can leave. When a business can operate successfully without its owner's daily involvement, the business becomes something of value to its current owner (by providing freedom) and potential buyers of the business since the company's success is not dependent solely upon the owner's efforts and buyers see a strong, stable and independent business.

The long-term success of your business will be greatly impacted by your ability to recruit and retain the next generation of business managers/owners to your company. The majority of closely held business owners are baby boomers between the ages of 55 and 75. The total baby-boom generation represents approximately 79 million people. The next generation (Gen X) are those currently in the age group from 35 to 55 years old. That generation is only 58 million people. This significant difference in population between the Boomers and Gen X will have a great impact on future ownership and management of closely held businesses.

With a significant shortage of talent in the next generation due to the generation's small size, your current management will be the focus of your competitors' attention as companies look for leaders. Therefore, it is critical to have a **KEY EMPLOYEE PLAN** that demonstrates how your key people will share in the financial growth of the company they help manage.

**A BUSINESS CONTINGENCY PLAN asks how will your business successfully operate if you do not return to it tomorrow morning? What may your family encounter?**

**LOSS OF FINANCIAL RESOURCES:** Either by guarantees or loans made by the owner to the business.

**LOSS OF KEY TALENT:** Who will immediately fill the role of the owner? What jobs/tasks does someone need to fill?

**RELATIONSHIPS WITH CUSTOMERS AND VENDORS:** Who is going to immediately maintain the relationships you have with the customers & vendors?

**IMPACT ON KEY EMPLOYEES:** Will they stay or go to work for the competition immediately?

Create a business continuity plan and a living will for your business to document your knowledge of the business operations so that all of your experience and insight does not go away, even if you do.

As an Owner, by having a solid **OWNER'S LIFE PLAN**, you will know what to do with your life after business ownership. By asking who you are, and what you want to do with our life, you will begin to see a clear and exciting vision of what your life will be.

## EXECUTION

### What you envision, your ideas and concepts.

Be in control of your selling power and to whom and remember to stay true to yourself and the integrity and value of your business. You will need to prove to any buyer that your company has a successful business model, sustainable cash flow, growth potential and minimal risk.

## TRANSITION

**The Transaction is not the end of the plan, but living the life you have envisioned for yourself will be the completion of a successful journey.**

This is where your Life Plan comes into play. It's where you confront the reality of who are you and what you are going to do with your life. Learn and ask about post ownership and the three components of well-being; prosperity, health and happiness. You will need to look outside of your business to understand what creates happiness and which relationships that provide experiences, engagement and meaning.

Become aware of the steps you are taking now to live the life you have envisioned for yourself. Give yourself plenty of time (measured in years), to plan, prepare and execute and most importantly, get to know yourself. Remember, the journey starts somewhere...chart it today to secure your tomorrow.

## Exit Planning - General Timing

### 10 YEARS

- Take time to educate yourself on the Exit Planning Process and think about the possibilities for you & your Business. Think about what you want for yourself (a Life Plan) & your business based upon what you learn.
- Identify the areas to build Business Value in your Company and create a Business Plan that drives business value and creates Business Independence.
- Create a Business Contingency Plan for your Company.

### 5 YEARS

- Develop an Exit Strategy based on your Goals & Vision and put that Plan into writing
- Evaluate all aspects of your Exit Strategy & identify the steps that need to be taken to achieve your desired exit date.
- Put together an Exit Planning Advisor Team to help guide you through your Exit plan.
- Update your Business Plan to incorporate your desired Exit Date. Identify & work on the areas in your Business Plan that continue to build a Sustainable & Independent business.