

## The Exit Strategies Newsletter

### The 3 P's of Exit Planning

Exit planning is a process whereby you, the business owner, are prepared to cash in on your business, take care of your personal goals, and do so in a manner and time period that is accommodative to you and other stakeholders, as well as at a time when you can optimize your exit value. So, there are three (3) areas of this type of planning. First, you need to prepare yourself for the exit. Next you need to prepare your company to grow and survive without you. Finally, it is critical that you develop an opinion of the market factors and timing that will most positively influence the success of your exit. These three (3) areas of planning are all critically important to a successful exit and if you are like most owners of privately-held businesses who have the majority of personal wealth tied to your business, then you can use these three areas of exit planning to assist you in being ready for that fateful day when you no longer own and run your business. Let's discuss Planning, Preparing, and Passing it on

#### **Stage #1: The Planning Phase**

Simply put, planning means looking ahead to the future to be prepared for what may come. The challenge is that most business owners do not think too far ahead in their running of their business. Therefore, this planning period requires a commitment and should be a focused

period of time where you are taking stock of what you most want to

achieve with your business and with your personal goals.

The questions that you are trying to answer in this time period include:

1. Will I have enough money after my exit to fund my retirement or my next phase of life?
2. What are my goals for my life after my exit – what do I want to do next?
3. Will my business be able to continue without me?
4. How can I grow the value of my business to make for a stronger company that I am passing on to others?
5. How will relationships change with my customers, vendors, employees and community?

The planning phase raises all of the important questions and issues that need to be addressed and that you can reasonably foresee today. An exit from the business is a large change and the

planning process is about developing answers to challenging questions that help you set the stage for making adjustments, both personally and professionally, to your business and your life.

## **Stage #2: The Preparation Phase**

The preparation phase is the period of time after the planning phase when an owner is addressing all of the items that were identified during the planning process. Owners who have been through our proprietary 6-step exit planning process have pursued a variety of activities years before their exit in order to help assure their success when it is time to pass the business on. Here are twelve (12) of these activities to give you a sample of what you too may need to do after your planning phase:

1. Focused their management teams on greater accountability for growth.
2. Redesigned their companies for growth to get a higher sale / transaction.
3. Forced savings plans for themselves so that they have greater leverage and flexibility with their future exit options and transactions.
4. Engaged their partners to resolve differences that had been building over many years and stood in the way of a successful exit for all parties.
5. Hired operations managers to run the day-to-day business while the owner set sights on further removing themselves from the sales role in the company.
6. Installed an Employee Stock Ownership Plan to achieve partial diversification today while remaining in control of the business and the majority of stock.
7. Updated their estate planning in order to transfer certain wealth to family members as a first step towards future transactions with the company.
8. Received an updated valuation to determine their selling price to an outside buyer.
9. Took meetings with M&A and private equity buyers to learn more about the selling process and prepare themselves for the day that they hire the firm and transact.
10. Focused on their bottom line profitability to drive and / or restore the value of their business.
11. Established management incentive plans to retain key employees who would be critical to the next owner(s) of the business.
12. Analyzed the future taxation of sale transactions in order to make changes to the corporate structure today to substantially reduce those taxes in the future.

As you can see, an exit planning process is a customized process that leads to different priorities for different owners. It may also strike you that without a comprehensive planning phase, it may be very difficult to know which of these initiatives to pursue and how and when you would like them to be prioritized for completion and/or resolution. Moreover, without a thorough planning process, it may be challenging to know whether or

not the activities and decisions that you are making today will, in fact, work in your favor for a successful exit. Finally, the preparation stage can last from any number of months to any number of years as adjustments to both your business and personal life are made.

### **Stage #3: Passing It On**

Beyond the planning and the preparation comes the time to pass the business on to the next owner. Whether that owner is an insider who currently works for and with you (which may or may not include family members), or that future owner is a competitor or an investment group, there will be a day that comes when you will pass on your business.

The stage at which you pass on your business is also known as the transaction or execution phase of your planning. This is when the deal is struck, the contracts and agreements are negotiated and signed, and/or the ownership of the business transfers hands to another. It is the proper planning and preparation that sets the stage for a successful transaction. And a commitment to planning and preparing puts you in control of your exit so that the transaction is on your terms and according to your plan.

### **Concluding Thoughts**

So we see that the three (3) P's of exit planning include Planning, Preparation and Passing it on. This newsletter was written to help you see that if you are not confidently moving through any one of these phases, then it may be time to seek the counsel of advisors and professionals who can assist with this activity. To that end, we welcome you to call our offices to get the planning process started today so

that you too can be prepared to exit successfully from your privately-held business.

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