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FAMILY BUSINESS FORUM

12 Steps for Successful Exit Planning

By Donald Levitt

The Issue
As an owner of a family business, there is one absolute certainty – at some point you *will* transfer your business interest. Planning for this eventuality can be complicated, and even a little intimidating, because this is far more than just a business and financial event. Family members, employees, other owners, and your own future are all at-risk. Your professional advisors – accountant, attorneys, financial planner, insurance agent – may each be great, but they may actually be adding to the confusion and cost because they are not working in a coordinated manner.

In response to this need, the professional niche of "exit planning" has developed. Exit planners serve as the "quarterback" for the exit planning process, helping to sort through priorities and coordinate professional services so that you successfully reach your goals in an efficient and cost-effective manner.

The Expert
Jeffrey F.L. Smith is President of the Exit Management Institute (www.myemi.com) in Troy, Michigan. While Smith's "profession of origin" is financial planning, the Exit Management Institute works with the owner's existing professional advisors to coordinate and guide the exit planning process.

"Family business owners who come to us already have their professional advisors in-place, but their 'gut' is telling them that there is still something missing – that they are still not sure how the exit planning process will help them reach all of their goals. They know this is the biggest transaction of their life, and they don't want to mess it up," says Smith. "Successful leaders like to get ahead of problems, and call somebody who has been there before."

The Twelve Steps
Smith's approach to exit planning follows 12 steps – many of which can be addressed concurrently.
Part One: Plan and Prepare
1. Exit planning is not just about money. Knowing what is most important to the family business owner – family, employees, community, reputation – allows the process to be structured for the owner's maximum satisfaction.

2. Collect hard data: balance sheet, cash flow, tax returns, employee benefits, insurance, buy-sell agreements, business plan, etc.

3. Smith uses a structured assessment to determine current business, management, ownership and family readiness. The results, based on input from owners, advisors and key employees, provide objective data for targeted planning, structured communication and conflict resolution.

4. Determine who is on the "exit planning team" (e.g., owners, key advisors, purchasers if selling to insiders), what role each will plan, and how they will communicate and work together.

5. Obtain a business valuation. The specificity and comprehensiveness of the valuation depends on whether it is early or late in the exit planning process, and the specific purpose of the valuation.

6. Review employee benefits with a focus on retaining key employees.

7. Wealth planning, focusing on: lifetime personal financial needs; resources to support new entrepreneurial ventures; and managing wealth surplus to create opportunities for family members and community, and to address estate tax issues.

8. Develop the "playbook" for the exit process, including strategies for voluntary or involuntary (e.g., death, disability) exit. Developing a plan does not mean the owner has to start implementing the plan. Having a plan increases the owner's confidence – and can be a trigger for addressing issues which may become problems in the future (e.g., relationships and communication with family and partners).

Part Two: Begin Transition

9. Start implementing the strategy – often in ways that have nothing to do with selling stock. Early steps might include: key players start talking together and working together regarding the exit process; moving from an authority role to a teaching and mentoring role; updating wills and trusts; starting a deferred compensation plan; developing interests outside of work; etc.

10. Communicate with family, key employees, clients, suppliers, and banks regarding the exit planning process. They are already suspecting or wondering about it, so this provides some certainty and demonstrates that the business is planning for a successful future.

11. Plan for the sale of the business. This includes increasing the value of the business by strategically planning for sales, financial, operational, and management growth.

Part Three: Start Living Your "Perfect Days"

12. Like graduating from college, selling a business opens up a new phase in life with new opportunities. These might include: spending more time with grandchildren; helping and mentoring others; travel; or even starting a new business.

The Tip
Successful exit planning is not a matter of how many professional advisors you have. It's a matter of how many professional advisors you have *working together* in a coordinated manner – along with partners, family members and key employees, to help you reach your goals.

Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month's topic, and other family business issues, can be found at LevittConsulting.com