

HIGH POINTS

For Business Owners: What You Need To Know... Now.

The Avoidable Failure to Act

"I never worry about action, but only about inaction." Winston Churchill

"When a man does not know which harbor he is heading for, no wind is the right wind," said Seneca almost 2,000 years ago. Today, speaking to business owners he would likely say, *"Exit Planning for business owners must start with knowing your exit goals and objectives; otherwise, failure is most likely inevitable."* Why is Seneca's wise counsel so true today? In the first and most indispensable of The Seven Exit Planning Steps™, advisors help business owners form their goals and objectives. But what should an owner's objectives be and why is it so vital to fix them before taking the next Step?

CASE STUDY

I recently met with Ben, the owner of a 45-employee plastic extrusion company. He had long thought of transferring his business to a son and a key employee, but had done little to prepare for that transfer. After years of procrastination, at age 58, he was finally ready to retire. Based on Ben's situation, I provided the following counsel.

"Ben, it's helpful that you've decided on two of the critical Exit Objectives all business owners must face and answer. You've determined how much longer you want to work in the business. It seems you want to leave sooner rather than later. And second, you have decided to whom you wish to transfer the business, in your case your son and a key employee. But you still need to determine a third critical Exit Objective – how much money do you want or need when you leave the business? And, does that money need to be in cash or would you accept a promissory note?"

Like many owners, Ben had two choices. First, he could retire now and sell the company for cash — but not to his son and key employee. They had no cash and no bank would lend an amount even close to the amount of money necessary to close the deal. If Ben wanted to sell now and achieve financial goals, he would have to sell to an outside third party with sufficient cash. His alternative was to sell the company to his son and key employee — knowing he would have to wait six to ten years to receive the entire purchase price.

"I haven't decided what I ultimately want to do with my business, or when I want to exit, or how much money I'll need, or whom to sell to, so how can I plan my exit? Besides, I don't want to exit right now."

If you've said this, or thought it, you are not alone. Many business owners are either overwhelmed with the thought of exiting or are so busy fighting daily business fires that *they assume* they cannot plan their exits. If you aren't sure about what you want, or when you want to leave, why is it so important to decide to act today?

First, recognize that when you take a passive attitude toward the irrefutable fact that you will—one way or another—leave your business, you are settling for less than the most profitable exit for yourself and for your family.

Second, understand that preparing and transferring a company for top dollar takes time—on average five to ten years. Most of those years will be spent preparing your business for the transfer and, if you decide to sell to employees or children (two groups who rarely have any money), giving them time to earn the money to pay you for your interest.



The more time you have to design and implement income tax-saving strategies, build value, strengthen your management team, and begin a gradual transfer of ownership (not the control) to key employees or children, the more likely you are to reach your goals.

Third, if you decide to sell to a third party, remember that the market does not operate on your schedule and may not be paying peak prices when you are ready to sell.

If the prospect of leaving your company with little to show for it is unacceptable to you, let's look at your three options.

Wait for a buyer: According to Deloitte's Entrepreneurship UK: 2008 survey, 35 percent of business owners said they will wait for a third-party offer for their businesses. Owners in this group believe that one day a buyer will contact them, negotiate a fair price, and that will be that. Well, this is a course of action—but one that flies in the face of reality. There is a pent up supply of businesses owned by Baby Boomers who, as soon as the M&A market recovers, will be clamoring to sell their companies. The simple law of Supply and Demand tells us what kind of market that will be for sellers.

In a Buyer's Market, only the best-prepared businesses sell for top dollar. And the owners of those well-prepared businesses will be those who made the decision to prepare their company years ahead of the actual sale.

Liquidate: Liquidation is a common exit path for owners of companies whose cash flow is declining and has little probability of improving—absent the design and execution of a business/exit plan. If this description fits your company, we recommend that you meet with your tax and other advisors to do the planning necessary to create the most tax-efficient liquidation possible.

Decide to exit and plan accordingly: Start today and take the following steps:

1. Fix a departure date.
2. Determine your financial needs.
3. Decide whom you want to succeed you.
4. Have your business valued to see if: a) you should sell today; and/or b) it has the value necessary to meet your financial and other exit objectives.
5. Based on your objectives and the realities of your business, use a skilled Exit Planning Professional to forge a plan with accountability/decision deadlines.

Acting *today* to create your best possible exit path is not difficult. Simply, pick up the phone and call the Exit Planning Advisor who wrote this article.

Your failure to act, however, can potentially be fatal to your successful exit. You and your family depend on the success of your business exit. Can you afford to fail to act?

CONTACT US

The Universal Truth is that every owner will exit their business.

The Question is on whose terms: Circumstance, Others,... or *Yours?*

We work with business owners who want to take action to grow and protect the value of their company:

- Exit Planning
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- Risk Management
- Investment in People

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