Business Owner Exit Strategies

Connecting with the Client

Communicating that you recognize the implications of exit planning from a personal, family, and business perspective is important. Often you may be working with someone who deeply and exclusively identifies as a business owner/entrepreneur, and specifically as THE Owner of [insert business here]. Establishing an appreciation and reverence for that fact, along with setting the boundary and expectation necessary to get permission to be honest and objective for the sake of a set of shared desired outcomes for the business owner can earn you the type of trust and vulnerability necessary to be successful.

The business is someone's life work which is deeply rooted in the owner's identity. Pruning is painful.

Help them to define what life after work looks like (especially couples when only one spouse works in the business). Help the client define their "new" purpose so they have some direction or "road map" on what not going to the office looks like. As an advisor we need to be supportive and positive about their new journey. We should always be mindful of how owners may feel about their "after work" life because many owners identify their work with their useful life. It's sometimes more difficult because they have most likely "Built" the business and their ownership defines who they are.

Questions for Client

Business Plan Questions

1. Do you have a written succession plan in place in the event that you were forced to exit before you wanted to?
2. Do you have a succession plan in place at this time?
3. Why does the business owner want to sell?
4. Who is part of the business owner's team today? CPA, Attorney, Bookkeeper, Insurance etc. Are they aware of the pending sale?
5. How long do you have to stay on with the new business?
6. Would you like to sell your business, If so, to whom, merge with a competitor, or phase out of the business and eventually close?
7. What key employees could be successors of this business, or sale to employees?

Financial Questions

1. What percentage of your current income is derived from the business?
2. If you were assured financial security, would you exit your business today?
3. The business can generate an income for you that is sometimes more than the market can provide. We need to discuss this.

Business Valuation Questions

1. Have you obtained a recent business valuation?
2. What method did you use?
3. How does your current business value compare to the best in class for your industry and locale?
4. If there is a gap in potential value, how can we close it, and how long will that take?

Family Business Questions

1. Do you have family working in the business or co-own the business with family members?
2. Is maintaining ownership within the family a priority?
3. Are the remaining friendships sufficiently interested and capable of continuing to operate the business?
4. Does the spouse or business partner share the same sentiment?

Post-Exit Questions

1. How much money will you need to meet the lifestyle and legacy goals you have for yourself and your family post-exit?
2. Do you have a life plan for how you'll spend your time and energy post-exit?
3. What is next in their chapter after they leave the business?
4. Do you have an activity to retire to?
5. Do you have another project planned after you sell the business?

Red Flags

"Flip the switch" mentality. Thinking you can wake up one day and decide to sell, exit or retire without significant loss/undervalue

Value in the business is not transferable. Business is entirely dependent on the owner's presence, and lacks human, customer, structural and social value.

Planning in silos: Understanding tax and estate planning implications of business exit, and where protection and risk management overlap business planning

Lack of internal communication and written plan (mainly if an internal sale or transition is preferred): Assuming that the people you've designated as successors a) want to own/operate your business and b) are prepared to.

Warnings signs when the business owner doesn't want to share with the rest of team members or important people in their life.

Warning Sign of not wanting to pay for advice and feels like they don't need a team.

Make sure that the NET sale of the business is sufficient in providing the owner with sufficient liquidity to live their version of a reasonable lifestyle.

Make sure there is an operating agreement, post sale, that defines how the current owner will exit the business.

Be aware of the risk related to carrying out the sale terms of the business over multiple years.

Make sure there is a sound investment strategy that will support a possible windfall of money (ie. what is their legacy plan?).

Maximizing COI

1. Attorneys (business and estate)
2. CPA
3. Valuation professional
4. Insurance advisor
5. Business consultant(s)
6. Family Therapist/Counselor
7. An attorney who is familiar with M&A
8. An Estate Planning attorney, a Financial Advisor

9. A valuation is probably widely recommended, but not in all cases is it how value is determined. When selling a family business many families have some predetermined number and that could be too much or too little. There should be some valuation based on book value, industry multiples, or a hybrid combination thereof.