



Business Exit Planning Series – Article 2

EXITING YOUR BUSINESS IN STYLE – THE IMPORTANCE OF USING A SYSTEMATIC PROCESS IN BUSINESS EXIT PLANNING

We left off in our prior article promising to discuss the Seven Step Business Exit Planning Process in greater detail. Remember, the goal is to help your business owner clients successfully leave their business, whether they plan to work for only few months or for the rest of their lives. This article series will allow you to proactively help your clients with this process, potentially leading to a more successful exit for your client, with a significant role for you as their attorney.

THE SEVEN STEP

EXIT PLANNING PROCESS:

Step 1: Owner Objectives

Step 2: Business and Personal Financial Resources

Step 3: Maximizing and Protecting Business Value

Step 4: Ownership Transfers to Third Parties

Step 5: Ownership Transfers to Insiders

Step 6: Business Continuity Planning

Step 7: Personal Wealth and Estate Planning

A comprehensive exit planning process should identify and organize owner-driven exit planning issues. Let's discuss...

STEP 1: IDENTIFY OWNER OBJECTIVES

This is an owner-driven process. However, determining a Business Owner's succession objectives is often the most difficult aspect of the entire exit planning process. Most Business Owners fail to appreciate all of the objectives they need to consider when leaving their business. Other owners encounter conflicts between various succession objectives. This is especially true if you are working with multiple owners who may not agree on exit objectives. Since

most Business Owners have not defined these goals and/or calculated their income needs, this is an excellent opportunity to engage the other professional members of the client's advisors.

Questions such as the following are discussed in Step 1:

- *How much longer does the business owner want to work in the business?*
- *What is the annual after-tax income the business owner wants during retirement?*
- *Who does the business owner want to transfer the business to?*
- *Family, Co-owner(s), Key Employee(s), or an Outside Party?*

Additional Owner Objectives Could Be:

- Shifting wealth to children
- Reward Employees
- Receive full value for business
- Take business to next level
- Maintain ownership indefinitely

For example, if a client indicates that they want to transfer their business internally to multiple key employees in their company, an initial succession objectives meeting would identify the individuals to whom they may wish to sell/transfer the business, and the key responsibilities and potential compensation arrangements for these key employees. These initial meetings would likely be held only with the Principal Owners as the primary focus is to clarify their personal objectives. The client(s) may wish to include other individuals in later meetings as the initial Succession Plan has been further developed.

The process of designing and implementing a Business Succession Plan tailored to meet specific goals begins with a meeting (and likely a series of several meetings) during which very specific financial information about the client's personal and business matters are obtained. The purpose of ob-

taining this detailed information is to allow clarification of the client's objectives based on the realities of the financials. A successful exit plan will ground the client by properly managing their expectations from the beginning of the process. Your role as attorney, the client's trusted advisor, is crucial as the clients often look towards the attorney for guidance at this stage.

In addition to financial information on the company, it is imperative to learn more about the key employees to whom the client(s) envision transferring more responsibility. A key advisory role in this area would be to help the client structure the team that would be most likely to assure continuity of the business in the future, and ensure that each member of the team is adequately compensated for their contributions. For example, in addition to basic information such as their age, their length of service with the company and their current compensation structures, it is crucial to assess the key employees' strengths and weaknesses within the current business structure.

As part of determining who will comprise the most successful transition team, more needs to be learned about the business in terms of their clientele, how clients are currently obtained and how (and which of) the key employees might be most effective at attracting new clients (and revenue) to the business in the future. The future value of a business is largely driven by future cash flows, an asset that often cannot necessarily be predicted from year-to-year. The task in this area is to help determine if there are means by which the business can stabilize and/or predict future cash flows more precisely and which of the key employees might be best-suited to focus on this value increasing goal.

Supplier and vendor arrangements are often an important asset to a business. Learning more about these relationships in order to best understand how the business operates will be crucial while transitioning into Step 2 of the Exit Planning Process addressing the valuation of the company. It is critical to help capitalize on the strength of long-term supplier and vendor relationships to assist in the successful transition of the business, as well as to preserve and/or increase the value of the business over time.

Finally, and perhaps most importantly, there is a need to explore in greater detail the tasks which the transitioning owner(s) enjoy performing (and would like to continue working on), as well as the

specific tasks that they would like to transfer to their successors. These tasks may include bringing in new business, project supervision and/or design, as well as managerial tasks associated with running and owning the business. It is important to fully understand these tasks in order to assist in designing a succession plan that has the highest likelihood of success. This directly helps the client accomplish the personal goals and objectives established in Step 1.

At the completion of Step 1 of our planning process, the client is provided with a draft of their Succession Planning Road Map, which will include an "Action Checklist" so that they will know:

- *What tasks are necessary to complete for each step;*
- *Who needs to accomplish each task; and*
- *By what date each task must be completed.*

IN CONCLUSION

This Succession Plan Road Map is the most effective tool for measuring progress through the process and of holding multiple individuals/professionals accountable for their contributions to the process. Once the client(s) has reviewed their Succession Planning Road Map, a meeting is scheduled with all of the Advisors present to discuss the Road Map, to listen and act upon any changes the client would like to make, and to answer any questions about going forward with the Plan's execution. Again, this process results in the most effective and efficient use of the attorney's skills and time.



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