

Exit Planning – *Expand Your Practice by Leveraging a Unique Opportunity*

Exit Planning has become quite a catchphrase. Because business valuation and exit planning are such a natural and powerful combination, Gryphon is in a unique position to help business owners (our clients) do more than simply understand the value of their business *today*. This is a three-part series that focuses on looking beyond the numbers and diving deeper into the benefits that exit planning services can provide—both to our clients and our practices as financial and legal professionals.

The following was sourced from an article by Richard Jackim author of *The \$10 Trillion Opportunity: Designing Successful Exit Strategies for Middle Market Business Owners*, published by the Exit Planning Institute.

Part I – *Setting the Stage*

Within the next twenty years, more than 90 million people in the United States and Canada will be retiring. Due to this population influx, the particular needs of baby boomers have dictated the marketplace in respect to needs. For example, as baby boomers passed from birth through infancy, sales in the prepared baby food industry skyrocketed from 270 million jars per year to 1.5 billion jars. In early childhood years, toy companies made billions by providing tens of thousands of brand-new playthings to educate and entertain the boomers. As they hit their teenage years, companies such as McDonald's and Burger King became the leaders in a brand-new industry specifically designed to cater to the first generation to spend a good deal of its life in a car.

Entire communities were changed to address this generation's needs. Architects, engineers, and builders saw their businesses jump as roads, housing developments, and schools were built at breakneck speed to accommodate this unprecedented growth. Now, as the most affluent and influential population group in our economic history begins to approach retirement, their needs are creating another tremendous opportunity.

Economist and demographic expert Robert Avery (Cornell University) predict that baby boomers will transfer \$10 trillion to later generations – the largest generational transfer of personal wealth in history. Even more compelling is that the vast majority of this wealth is tied up in more than 12 million privately owned businesses. During the next ten to fifteen years, more than 70% of these companies are expected to change hands.¹

This unprecedented transfer of wealth presents a unique opportunity for financial and legal advisors to take their practices to the next level by addressing the compelling needs of these retiring baby boomers. If you want to ride this trend to build your practice, you must have an understanding of exit planning and the important role that you can play in the process.



¹ MassMutual & Raymond Institute, *American Family Business Survey*.

Part II – Defining an “Exit Plan”

Key Elements of a Successful Exit Strategy

The purpose of an *exit plan* is to develop a strategic blueprint that lays out a road map allowing business owners to successfully transition to the next phase of their lives. *An exit plan addresses all the business, personal, financial, legal, and tax questions involved in selling a privately-owned business*. Contingencies for illness, burnout, divorce, disability and even the owner's death should also be addressed. Its purpose is to maximize the value of the business at the time of exit while minimizing the amount of taxes paid and ensuring that the business owner is able to accomplish all of his or her personal and financial goals in the process.

A comprehensive exit planning strategy includes the following basic components:

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| 1. Owner's Goals and Objectives | 5. Exit Options Analysis |
| 2. Business Valuation | 6. Strategic Timing |
| 3. Value Driver Analysis | 7. Tax & Net Proceeds Calculation |
| 4. Value Enhancement Opportunities | 8. Recommendations |

By identifying this information, business owners can make informed decisions and are able to:

- ☞ Control how and when they exit
- ☞ Maximize company value in good times and bad
- ☞ Minimize, defer, or eliminate capital gains taxes
- ☞ Select the best exit options and the best timing
- ☞ Ensure they achieve all their business and personal goals
- ☞ Reduce their stress as well as the stress of their employees and families

Conversely, the failure to develop an exit strategy almost guarantees that business owners will:

- ☞ Exit their companies as a result of an unplanned event (i.e., one of the Four D's: death, disability, divorce or distress) instead of their own volition and terms
- ☞ Undervalue their companies and leave hard-earned wealth on the table
- ☞ Pay too much in taxes
- ☞ Lose control over the process by being reactive rather than proactive
- ☞ Fail to realize all their business and personal goals
- ☞ Suffer unnecessary stress and anxiety

*Lack of planning on the seller's part is the number one reason that private business sales fail or only partially succeed, according to a recent survey.*² Despite the importance of exit planning, however, most business owners spend more time planning a family vacation than when and how to exit their businesses.

Part III – Easing Our Clients’ Pain

Despite overwhelming evidence that exit planning is a vital part of business ownership, most business owners don't create an exit plan. There are a number of reasons why they avoid it, ranging from the deeply psychological to the purely practical.

² PriceWaterhouseCoopers, *Whose Business Is It Anyway? Smart Strategies for Ownership Succession*, and University of Connecticut Family Business Program, *Family Business Survey*.

First, just as most of us don't like to think about our own deaths, business owners don't want to think about their exit from their businesses. Even if the business goes on after they exit, many owners feel that they are losing a part of themselves—a part that has provided extraordinary value and meaning to their lives.

As a result, many business owners are afraid to talk about the subject, just as many of us put off making out a will or buying life insurance. Dealing with these subjects somehow makes them more real, which means we have to acknowledge the pain they might cause. It's basic human nature to avoid the unpleasant, and no matter how smart or successful a business owner is, he or she will almost always avoid painful situations even if they're necessary for future health.

Second, exit planning is time consuming. Most business owners are swamped with work on a day-to-day basis. It's no wonder they don't feel they have time to create a comprehensive exit plan.

Third, exit planning is complex and there are very few resources available to guide a business owner step-by-step through the process. Ignorance of the process, combined with the knowledge that it must be done sooner or later, can create a lot of stress. If a business owner lacks the means to attack the problem head-on, he or she will usually try to put it off for as long as possible.

Finally, studies show that most business owners do not understand the tremendous returns that investment exit planning can provide. A lack of understanding prevents them from weighing the benefits of doing something versus the costs of doing nothing. As a result, they favor the status quo and inertia.

The combination of an intense need for exit planning and an equally intense resistance to doing so creates a great deal of stress and anxiety for business owners. At first glance, these problems might suggest that you should run, not walk, away from an exit planning engagement. Why would anyone in his or her right mind want to tackle a task loaded with so much client resistance?

As financial and legal professionals, we probably know that many of the requests for our services come from business owners who are trying to wrestle with many of these exit planning issues on their own. As a result, we are in a unique position because our clients are already looking to us for answers and advice.

The important thing to remember is that whenever change is imminent and unavoidable—as it is now for retiring baby boomers—if we can help our clients make that change smoothly and painlessly, we become invaluable advisors. By calling attention to the need and helping our clients develop a comprehensive exit plan, we can relieve our clients' pain.

Business Valuation plays a key role in developing a comprehensive exit strategy. Because the valuation process is so broad and all-encompassing in scope, it provides an excellent tool for mining the information necessary for exit planning and allows for measuring progress along the way. Contact us today to find out how Gryphon can assist you in opening the exit planning dialog with your clients. Reach out to us at 702-870-8258, email us at Gryphon@BizVals.com or visit us on the web at www.BizVals.com. Let us help you increase business by establishing exit planning as a part of your practice.