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WEALTH ADVISORS

Top 10 Exit Planning Mistakes

Here are the top 10 mistakes business owners might make when planning to retire.

"After running a business for many years, leaving it behind can be a frightening prospect."

Many business owners delay exit planning to manage their busy schedules or to avoid the negative emotions associated with retirement. Owners who don't plan properly often make the same common mistakes when they eventually exit their companies. Below are the top 10 mistakes business owners might make in exit planning.

1. Waiting to plan until you must sell

Many small- to mid-sized business owners fail to consider exit planning when things are going well for the company. Planning far in advance allows you to articulate your goals, prepare your business for sale, and seek the best possible liquidity event.

2. Waiting for a deal to come to you, rather than proactively seeking the deal you want

Waiting for the perfect deal is like trying to win the lottery. You might get lucky, but it's not likely. There is an exit opportunity out there that matches your objectives, but finding it will require a lot of time and effort. Unless you take the time to develop and implement an exit plan, it's unlikely you'll ever find that deal.

3. Failing to consider all liquidity options

Many business owners believe an outright sale of the company is their only exit option, but an ultimate liquidity event can take many forms, including:

- Management buyout
- Initial public offering
- Sale to a financial buyer
- Recapitalization
- Sale to a strategic buyer
- Intra-family sale
- Employee stock ownership plan (ESOP)
- Continue to generate dividends

4. Getting distracted from your goal

Running your company is a full-time job, but so is executing your exit plan. Successfully exiting your business will be one of the most significant events in your company, and in many ways, your life. To get both jobs done, you must use all available resources. Engage competent professionals so you can give both your exit plan and the growth of your company the attention they require.

5. Being unaware of what your company is worth

Before you can determine where you want your exit plan to take you, you must first know where you are. Begin by determining what your company is currently worth, and then decide if that value meets your exit objective. If it does, it may be the time to exit. If it doesn't, you'll need to figure out how to increase your company's value.

6. Failing to think about your goals post-exit

After running a business for many years, leaving it behind can be a frightening prospect. Don't avoid exit planning out of fear of the future. Instead, ask yourself, "What would I do if I didn't have the business?" Also be sure to ask, "How much money will it take to do what I want to do?" The exit planning process isn't complete without addressing these kinds of personal questions, and it is much easier to consider them well before you are ready to retire.

7. Not fully considering tax implications

Be sure to consider the tax ramifications of your exit strategy, including how to minimize both income taxes and potential estate taxes. However, don't let tax planning become your primary consideration. Tax minimization is important, but just one of many issues you should address in the exit planning process.

8. Not using qualified professionals properly

As a business owner, you face many time constraints; therefore, it's important to retain experienced professionals to help you with the exit planning process. Keep in mind that different professionals offer different perspectives and knowledge. You are the expert in running your business, and it would be unwise to delegate that role to an advisor. Similarly, it is unrealistic for you to attempt to become an expert in any number of areas related to M&A: accounting, taxation, deal structuring, valuation, exit options, the law, etc. Recruit the professional help you need and work to ensure those you hire are competent and ethical by checking references before allowing them to represent you in the marketplace.

9. Underestimating the time required to close a deal

You should expect results in your exit planning process, but you should also understand that closing a deal is a lengthy process. Even the smoothest transactions face unexpected challenges on the way to closing. Both you and your advisors must stay on top of all critical details and all parties to the transaction so that issues can be handled as they arise and the process can continue moving forward.

10. Making it too complicated

Don't blow exit planning out of proportion. It is challenging and multifaceted, but can be done in stages. Take the first step sooner rather than later so that you can be prepared with an effective exit strategy, rather than being forced into the first opportunity that presents itself.

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