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Re-setting the Business Exit Plan in a Tough Economy

The unpredictability of the markets and the economy has reset plenty of retirement plans, and that's been especially true for business owners.

Business owners on the brink of retirement are facing potentially the worst conditions for selling or handing off a business in decades. But their circumstance should serve as a lesson to their younger counterparts. It's critical to build an exit plan that works under both sunny and stormy conditions.

Exit plans are essential in companies large and small, and not strictly for the purpose of letting the owner and founder retire. They certainly set in motion a series of triggering events for the owner to get his or her money out of the business at retirement, but they also incorporate succession and other strategic moves a company might make to assure its future in family hands or in the hands of a new owner.

That said, an exit plan isn't born in a day. In fact, many financial experts in investment, tax, valuation and estate planning disciplines think it's wise for business owners to come up with the first broad strokes of an exit plan when they start a company if possible, and if not, within 3-5 years of the date they'd like to exit. A Certified Financial Planner™ professional with specific business expertise can be a helpful liaison that works with other key professionals to help owners find answers to the broadest issues in any company's exit plan, including:

- The family's business legacy – should a business be passed on to family or associates, or should it simply be sold or closed?
- The owner's own career goals – does he or she want to do this for the rest of their life, or should they make way for other professional or personal directions?
- The company's overall creation of wealth – too many people think of a business as a job and a paycheck instead of a creator of wealth that can support one or more generations of a family. A paycheck supports short-term goals; wealth is accumulated money that can either be invested smartly in the business or outside the business to support philanthropy, or family and personal goals.
- The owner's retirement strategy that allows them to do everything they've dreamed after they leave.

Planners can help owners get to more specific questions based on the broader goals they've discussed with family members:

- How many more years does the owner want to run this business?



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- What's the optimal way to get rid of the business when I'm ready to go – sell it, transfer it to family or associates or just close it down?
- What's the value of the business now and how can it be made more valuable to potential buyers or for transition to the next generation?
- If the company is being transferred or sold to family members, is there a growth plan in place that they have contributed to and are therefore likely to follow?

- What happens if there's an unforeseen event or market downturn that threatens the business or the industry as a whole? Are there healthy relationships in place with potential acquirers?
- What if there was a great offer on the business tomorrow?
- If the business is sold, how do owners protect themselves from a personal and business tax standpoint?
- How does the owner communicate his or her ideas with spouses, children and other family members with a stake in the business?
- What about employees, clients and customers? How will they be protected if the owner dies or leaves the business?
- How much money does the owner want after leaving the business and how should it be handled?
- How should investors in the business be compensated if the owner leaves?
- Are there specific goals that should be met by the business before the owner leaves?

An exit plan allows an owner not only to move out of a business, but also to make a wholesale career change. No one has to stay in the same industry – or company – for life, and with an exit plan, owners leave open the possibility for an endpoint that will allow them to travel, become philanthropic or engage in any number of new activities in business or other walks of life.

And while the economy is struggling back from the brink, many smart exit planners realize that there are ways to manage delayed transitions without losing valuable employees. For instance, many owners may elect to take a sabbatical while allowing next-generation leadership to get behind the wheel before an official transition takes place. Such a move lets the next generation steer the boat on the schedule they hoped for instead of standing in place while the owner found her best opportunity to go. The owner, meanwhile, benefits from the chance to step away from the day-to-day operation to better plan their future and the company's.

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July 2009 — This column is produced by the Financial Planning Association (FPA), the membership organization for the financial planning community, and is provided by John Englin, CERTIFIED FINANCIAL PLANNER™. John is a local member of the FPA and is employed by Lincoln Savings Bank and LSB Financial.