

Successful Business Exits Begin by Focusing on Five Essential Elements

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The majority of successful business owners are baby boomers and most want to exit their businesses within a decade. However, surprisingly, the vast majority of business owners fund retirement with the proceeds from the sale of their business according to Deloitte & Touche LLP – Canada. Opportunity is knocking. Can you hear it?

Less than a few dozen of the thousands of clients I represented during my 30-year law career had a written exit, transition or succession plan beyond a buy-sell agreement. Worse yet, the buy-sell agreements were often outdated. A successful exit plan should contain five elements. Let's explore these one at a time.

1. Written Exit Plan

At the start, my track record in achieving my clients' exit objectives was hit or miss. Soon, I realized the necessity to create an exit planning process, including a written plan and an action item checklist that created accountability for the client and advisors involved with the deal. Without a written roadmap, the likelihood of a plan being created, let alone implemented, is remote. This fact should be brought to the attention of your owner clients. Perhaps, most importantly, owners need to realize that *they do not need to design, create or implement the roadmap themselves. You will.* By leading the exit planning process, you will not only open doors to additional product and service solutions but you also will have the opportunity to collect a planning fee (typically \$15,000-\$40,000) as you facilitate the process.

2. Experienced Advisor Team

Exit plans are seldom finalized, let alone implemented, without the guidance of an advisor who possesses comprehensive exit planning and training experience. In addition to creating the initial draft of the roadmap, this advisor coordinates the efforts of the other advisors including the client's CPA, valuation expert, business attorney and estate planning attorney. Most advisors lack comprehensive, multidisciplinary-based exit planning training and experience. This provides a golden opportunity to establish you and your firm as fee-based planning experts not just in the mind of your client, but also within the professional community-at-large.

3. Cash Flow

When companies lack cash flow, owners lack an exit. Owners wishing to sell to an outside party agree with investment bankers everywhere that, "cash is king." Slightly simplifying the issue, a multiple of cash flow (or EBITDA) is the principal value determinant. Without cash flow there is usually little business value and interest from would-be buyers to pursue an acquisition. Likewise, owners wishing to sell to an insider, such as a child or employee, learn that typically the sole source of money the insider will use to purchase the company is that very company's cash flow. Your role in helping owners establish consistent and increasing cash flow can include discussing, designing and

implementing incentive plans for management, including non-qualified deferred compensation plans, which can be informally funded with life insurance and investments.

4. Capable Management Team

When your clients decide to sell their companies, what can you do to help them get top dollar for *their* businesses? The number one value driver for companies is the management team. For many closely-held businesses, this team consists of one person, generally the president/CEO of the company. To build a championship organization, however, the management team should include people with a variety of skills who can successfully run the business after the owner's departure and collectively do all that the owner does today. The role of a financial/insurance advisor can include designing key employee incentive plans to maintain strong management during a business transition and recommending appropriate funding vehicles for these plans, which also provide key person insurance.

5. Time

For owners who have failed to plan, it's discouraging that it can take five years or more to accomplish all of the four elements outlined above, especially establishing consistent cash flow and preparing the management team. The best counsel for your clients is to begin planning for their departures today. After all, there are no disadvantages to increasing cash flow, strengthening the management team, coordinating the cost-effective use of all advisors and concentrating on meeting the owner's goals.

All business owners eventually depart their businesses. You can accompany and guide them on the final leg of their journey. At its end, both you and your clients stand to benefit greatly.

About the Author



John H. Brown, is the president of Business Enterprise Institute, the only single source provider of exit planning education, marketing support and plan design for business owner advisors. He is the author of, *How To Run Your Business So You Can Leave It In Style* and the newly released book, *Cash Out Move On: Get Top Dollar – And More – Selling Your Business*. For more

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