LIVING LEGACY
FINANCIAL & INSURANCE SERVICES

Business Owner Newsletter

WHAT DOES YOUR EXIT MAP LOOK LIKE?

Most business owners have never exited their businesses before. Just like taking a big trip to a new place requires good planning to truly enjoy it, so too does a successful business exit.

While the details will certainly differ based on your unique situation, there is a way to map what a successful business exit looks like for you.

Here is a step-by-step overview of what many successful business exit maps look like.

1. Financial Confidence Above All

The most important checkpoint on any business exit map is financial confidence. Financial confidence means having enough money after you exit your business to never have to work again if you so choose.

Without achieving financial confidence, the rest of your business exit map is irrelevant. If you do not properly plan to achieve financial independence, it's like getting to the shore of the Atlantic Ocean, wanting to go overseas, and trying to dog paddle your way over.

While achieving financial confidence may seem straightforward, business owners often run into two major obstacles in achieving it:

1. They believe their businesses are worth more than they actually are.
2. They believe that they will spend less money after leaving the business than they actually will.

Many business owners falsely believe that their business is worth more than it is based on rules of thumb, personal opinions, or an incomplete comparison to other companies. There's often an emotional factor at play: Because the business is a big part of the business owner's identity, they put extra weight into how much they think it's worth.

On the other hand, business owners often underestimate how much money they will need after they leave their business. The causes of this error include thinking they won't live as long as they actually will, believing that they will simply spend less in retirement, and a failure to foresee common but unexpected events such as a sudden illness.

2. Get an Objective Valuation of Your Business From a Professional

Work with your Advisor Team to help ensure that you know how much money you will need after you leave your business to thrive.

Knowing what your business is worth compared to how much money you will need after you leave it can help you close any asset gaps that could prevent you from achieving financial confidence.

3. Identify and Install Value Drivers

Value Drivers are elements of your business that help increase its value to a potential buyer. There are numerous Value Drivers, such as having a diverse customer base, operating systems that improve cash flows, and a proven growth strategy, but some are more important than others.

For example, the most important value driver is a next-level management team. As the name implies, these are managers who can help take your business to the next level.

More crucially, your next-level management team is the team that will run the business after you leave it. It is essential that your business can thrive without you at the helm, because if your business requires your presence to thrive, then you can never really leave it.

A next-level management team is essential even if you never intend to exit your business during your lifetime.

Eventually and unfortunately, everyone dies. Though it may seem morbid to state it as such, it's an important realization that many business owners must confront before it's too late. Here's why:

Even if you never intend to leave your business, it's likely that people outside of you—including family, children, employees, and even your local community—rely on your business' success to maintain their lifestyles. If you die and you have no one who can adequately run the business after you're dead, it can create a shockwave of negative events that turns your life's work into nothing.

On the other hand, a next-level management team can continue to run the business without you there and install other Value Drivers at the same time. Regardless of when or how you intend to leave your business, Value Drivers are a key element of leaving your business on your terms.

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4. Put Everything in Writing

Business exits are complex and could take years to execute. Keeping written records of your goals, milestones, and strategies could help you stay on target, adjust to the unexpected, and build confidence in your plans.

Without a written plan, it's hard to pursue anything with regularity. This is especially true if your business relies on you for its success.

Creating a written plan could help you delegate responsibilities to other employees and make you more dispensable to your business. Though it may seem counterintuitive on its surface, when your business doesn't need you for its survival, it becomes more valuable to potential buyers.

A written Exit Plan allows you to hold everyone, including yourself and your Advisor Team, accountable. Writing things down can also help you uncover new ideas and unseen obstacles.

5. Evaluate Potential Buyers

This step can sometimes be shocking to business owners because the facts that surround their business may not align with their initial hopes for selling the business.

For example, you may intend to keep the business in the family at the outset of your Exit Planning. But as you prepare a written plan, you may find that the family members you wanted to sell to simply are not capable of positioning the business to allow your financial confidence.

It bears repeating: Financial confidence is the most important aspect of a successful business exit. If the person or people you want to sell to cannot position you for financial confidence, then you should not sell to those people.

This doesn't necessarily mean that the only option is to sell to a third-party buyer. On the contrary, it means that if you have a buyer that you are committed to selling to, selling to that buyer must fit within the context of a successful business exit.

Consider another example: a deep pocketed third-party buyer who can guarantee your financial confidence but has plans to upend your company culture. As a thought exercise, ask yourself: Would I be willing to sell my company to someone whose ownership style is completely at odds with mine?

Regardless of how you answered, putting your business exit in the context of what you must do versus what you would like to do can go a long way in your evaluation of a potential buyer. While there are ways to both achieve financial confidence and sell to a buyer who will help you fulfill your aspirational goals, doing so often requires clear sight of what you want and a written strategy for how you plan to pursue it.

6. Create Contingencies

Lots of things can happen between the time you start planning your exit and executing your actual exit. As such, it's extremely important that you dedicate time to creating an estate plan and a business continuity plan to complement your Exit Plan.

An estate plan can help you settle any questions about your personal assets and what to do with them in the event of your unexpected death, incapacitation, or other life-altering event.

A business continuity plan plays a similar role if your unexpected death, incapacitation, or other event prevented you from running the business prior to your exit.

Fortunately, the Exit Planning Process includes these two important steps. This can help you keep your personal, business, and post-exit goals aligned.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

MEET OUR TEAM

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