Multiple Dimensions of Exit, Succession Planning & Business Continuation Planning

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You have worked long and hard to make your business what it is today. You've made financial sacrifices by using most of the revenue and profits to continue to grow and build the business, instead of using the money for yourself and your family.

Your family has had to remain strong and supportive, and may have even made some sacrifices of their own while you concentrated your efforts on the business.

It hasn't been easy, but you're finally seeing the fruits of your labor. Your dreams for your business and your family are coming true. You can start seeing the day when you and your family will finally be rewarded for all of your hard work.

But wait… Have you taken all of the necessary steps to protect what you have already built, so that your business can continue to grow and your dream will actually be realized?

Decisions Made Today will Shape the Future

When the time comes to take a serious look at the future as a mature business owner, many more questions appear that need to be asked and explored than most individuals initially think. The common assumptions regarding retirement are more often than not wrong. Typically the focus is on money, but especially for business owners, other questions may be much more important.

What are your values?

Is keeping the business in the family for the next generation an important legacy?

What are the rules for governance?

What will you be doing with your life after the transition?

What will you want or need for income and for how long?

Is community involvement important to you?

What is truly important about your legacy to you?

Can you successfully transition from running a business to not running a business, given your aptitude, personality and personal values?

These are not always common questions and all too often, assumptions regarding money, needs and wants are underestimated or misplaced. Questions regarding legacy and community are taken for granted until separation has been completed—and sometimes that is too late.

Unlocking the Value from Your Business

It is not uncommon for the business owner to find that the vast majority of his or her wealth is represented by the business.

Well-ahead of reaching an actual point of separation from the business, a comprehensive financial analysis, both of the business and personal family assets, needs to be compiled.

A comprehensive Business Valuation Plan is always good to update and keep relatively current. Doing a comprehensive personal financial evaluation, identifying financial needs, financial gaps and relevant family issues can be revealing and help clarify the path of successive actions along the way. The needs of senior business owners should be well-integrated with the business plan going forward, and the eventual exit or succession plan.

Separation from the Business is Not Something you Can Take for Granted

Determine objectives as these will directly impact the exit-planning strategy. Do you want to maximize the business value? Is minimizing taxes important? Maximizing flexibility? Is it the intention to pass or sell the business to family members? When this is the objective, a very difficult question to ask and answer honestly may be: Is the family member capable of running the company? If the answer is "maybe," then the questions should be: What does the individual lack, and can the issues be remediated?

Some people may simply not be cut out for business ownership and/or leadership. Should the business stay in the family but outside leadership should be brought in? Key people can be encouraged to continue to grow and become an increasingly valuable part of the company's future success. Key employees are often the most important asset to a company during transitions in leadership or ownership. Plans can be designed to give key employees a real sense of ownership and perhaps some "skin in the game."

Even when the objective is to keep a business in the family as an ongoing enterprise, non-family personnel can provide valuable leadership and skill sets that family members may not have now or even in the foreseeable future.

The Business is Likely Your Best Investment

The assumption that we all work until a certain age, such as 65, and transition to the next state called retirement is an erroneous and outdated conclusion.

After building a business that is successful and profitable, and has supported a comfortable lifestyle that perhaps included such things as paid rotary dues and country club dues and has become what you have identified yourself with—and then to assume that all this ends at age 65—may not be in complete alignment with your values.

For the vast majority of our clients, their businesses are their best investment and with careful planning and foresight, an individual can continue being engaged, being the "chairman" well beyond age 65, and continue harvesting the fruits of their lifelong endeavor.

Letting go, but not getting out, for many individuals may be a different way to consider retirement in a non-conventional sense. Letting go and letting your key people step into their leadership roles may perhaps be the most rewarding outcome for you, your family, your key employees, as well as your personal legacy.

Studies are just now coming out that the onset of cognitive decline can be eliminated, or in some cases postponed, by continuing to be engaged in mental and intellectual activities and exercise. What we see now are business owners well into their seventies enjoying the highest incomes of their lifetime, experiencing their most rewarding intellectual, social and financial period, all while working less with reduced stress and staying more physically and mentally fit than at any other time during their life.

Exit versus Succession

The difference between exit-planning and succession planning is not widely discussed. It is only on the radar recently because an increasing number of business owners have sold their businesses to other businesses and private equity has become more common lately, as well.

These kinds of sales are more common in manufacturing or distribution companies and are rare in the construction field. Very often, however, varying degrees of disappointment surface as new owners do not always value a company's culture, employees, customers and/or community relationships in the same way as the company founder has (and has perhaps done for generations).

The rewards for successfully transferring a company from one set of owners to another can be deeply rewarding, well beyond the actual dollars changing hands, if the right balance and consideration is given to the community served, the well-being of employees and the impact a business can have as a family legacy; these issues are important and should not be overworked.

Timing is Everything

With baby boomers in or nearing what is considered normal retirement age, thinking ahead and putting key planning in place now may be a wise consideration. Even for a business that is well-run, has a great reputation and a history of profitability, an outright sale may not be possible. Aging baby boomer demographics may create a spike in the number of businesses for sale and many may lack ready buyers. Often, selling to key people within the organization may be the best or only option when there is no "next generation" ready to take over.

The following are simply sound steps to take to plan ahead and create options and choices for the business owner and others in the organization.

- Securing your key people.
- Creating succession contingency plans.
- Moving wealth out of the company.
- Balancing risks (asset allocation).
- Hedging future tax increases.
- Identifying what your legacy can and should be.
- Identify what your community, and the well-being of your employees and their families, means to you.

Contingency Planning for a Successful Succession

Often, business owners may want to see one result in their succession but for a number of possible reasons, the business plan or the people are not in alignment. For instance:

- The owner's children are not mature enough.
- The key people are the wrong age or do not have the funds to buy the company.
- Multiple owners, all of a similar age.
- The owner lacks personal retirement funds or adequate savings.

Many of the most successful construction-related companies in Upstate New York have been sold to key employees, often ones that were young and had little resources but who still made it work.

Ultimately, the best possible outcomes can result if all potential contingencies are considered and options put in place to allow all parties to succeed.

The best possible result can be obtained if steps are taken that allow for a number of possible outcomes. Recognizing, acknowledging and creating tools that protect and create value for the senior owner and key people may be the most powerful step to take.

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