Foreseeing the Future
Use VR to Help Form an Exit Plan for Your Business

The owner/chef of a lucrative and well established restaurant was diagnosed with a terminal illness and suddenly was unable to work. The business was highly dependent on the owner. While his bereaved wife struggled to run the business and hire a replacement chef, food quality, service, profitability and the reputation of the restaurant plummeted and never recovered. When the lease came up for renewal a year later, she shut the business down and walked away with nothing.

At the age of 66, the owner of a profitable construction company seeking to retire sold the business to his son, who was also an employee. His son had minimal savings so was only able to make a small down payment, and the price was discounted significantly. He also lacked the exceptional people and leadership skills of his father. The son began clashing with a key, more senior executive, who subsequently left the company to start a competitor, taking several other employees with him. At the age of 70, the father began working full time again, seeking to salvage the business, as he was dependent on the sale proceeds for a comfortable retirement.

The two entrepreneurs above had something in common with more than 85% of small business owners – they never developed an exit plan.

Without an exit plan, a business could quickly be severely damaged by a sudden crisis, such as illness, death, divorce, partnership dispute or rapid change in market or competitive environment. Or a business may deteriorate gradually as the owner burns out and neglects the business, or transfers it to a weak leader. Either way, the result is the same – greatly diminished business value. With tens of millions of baby boomers approaching retirement age, and controlling trillions of dollars of private company wealth, the issue is becoming acute.

By contrast, private equity groups and venture capital firms, perhaps the world’s most sophisticated owners and financiers of businesses, rarely fund or purchase a business without first having a formal exit plan in place. At VR Business Sales, we can help you create an exit plan so that you will be prepared for when you’re ready to step down as a business owner.

Understanding the Basics
So what is an exit plan? It’s actually a series of continually evolving and interrelated plans that will help you address at least the following critical questions:
- What are your preferred options and timing for exiting the business? For example, sale to outsider, sale or gift to family or employees, merger with competitor, buyout by a partner, etc.
- What family members are involved in the business and what are their objectives?
- What are your financial objectives and retirement plans?
- What is the value of your business now?
- What key actions are necessary to increase business value and position it for sale at the optimum after tax amount needed to achieve your financial objectives?
- What actions are necessary to manage estate, trust and tax issues you will face through retirement and beyond?
- What actions, programs and agreements are necessary to ensure continuity of the business in the event of departure, death, or incapacitation of any of the owners or key executives? Examples include training programs, system development, buy/sell agreements, key man insurance, and non-compete agreements.
- Who will replace you or other owners upon departure? Are any current executives and/or family members capable of doing so, and if so, what additional skills, training, licensing, etc. are needed? If not, what is the strategy for recruiting and developing a replacement?
- What changes in the business and your role are needed now to preserve your quality of life and your passion for the business?

Developing a comprehensive exit plan is a demanding task that generally takes 3-6 months to complete and as long as 2 to 4 years to implement, depending on the complexity of the business. It will address a wide variety of intricate strategic, operational, financial, tax, human resource and legal issues. While a primary focus is meeting the owner’s objectives, it should ideally reflect the desires and concerns of all important stakeholders, including a spouse, children, business partners, other shareholders and employees, and in some cases customers, suppliers and the community. Input should be gathered from key advisors, including your CPA, wealth planner, estate planner, business consultant, insurance broker, appraisers and mergers and acquisitions advisor.

An exit plan is decidedly not a fancy written report that sits on a shelf gathering dust. To have any meaning, it must be regularly updated to reflect changes in your life, family, health, goals, finances, and the business. It must be action oriented and offer prescriptions that are implemented, not ivory tower theories. An ideal plan will take a long term view and continually assess actual progress of implementation against the plan timetable and take any necessary corrective action needed to keep on track with the plan.

If an exit plan sounds like a lot of work, it is. But having one can be the difference between your business shuttering when you depart and leaving a legacy that endures for generations. Contact VR Business Sales today to learn how to put an exit plan together for your business.