Title:
How to Plan Your Business Exit Strategy

Word Count:
641

Summary:
You started your business with dreams of making millions. When the time comes to sell your business, you will want to keep as many of those after tax dollars as you possibly can in exchange for your blood, sweat and tears. Advance planning can make a big difference in the amount you pocket after the sale of your business.

Keywords:
merger,acquisition,exit strategy,selling a business,buyers,confidentiality,ownership,transaction,negotiations

Article Body:
You started your business with dreams of making millions. When the time comes to sell your business, you will want to keep as many of those after tax dollars as you possibly can in exchange for your blood, sweat and tears. Advance planning can make a big difference in the amount you pocket after the sale of your business.

Consider this. Under prevailing tax rates, Owner A sells a business for $1 million in cash and nets $800,000 in after tax proceeds. Owner B also sells his/her business for $1 million in cash, yet only nets $500,000 (or less) in after tax proceeds. The difference in the cash you keep has everything to do with the form of ownership and elective tax status, the nature of the transaction, and the tax structuring that you and the buyer agree upon.

One hundred percent of all businesses will experience a change of ownership. In some cases, this change will be involuntary and take the form of a bankruptcy or closure. However, in the vast majority of cases, it will result in the owners receiving significant amounts of money as they transfer the earning power and good will of their businesses to others.

Because there is not a centralized database that tracks all forms of transfers of privately owned business ownership interests, the annual rate of transitions of ownership can only be estimated. However, from prior research on the topic and from 23 years of experience in providing representation to those who sell their privately owned businesses, I estimate that between 6% and 7% of all privately owned businesses have ownership changes each and every year. This means that the average period of ownership is approximately 13 years. The vast majority of these transitions will involve the sale and transfer of all prior ownership to new ownership.

In most cases, the owners will have spent years running their businesses on a day-to-day basis to generate both personal income and profits. Yet surprisingly few business owners have assembled the necessary plans for (a) when they elect to sell, or (b) how to be positioned to maximize their after tax dollars when it comes time to transition the ownership of their businesses.

Though an exit strategy should ideally be part of an original business plan, it is never too late to become informed about all aspects of how to unlock the hidden value of your business and convert it to cash when the time comes to sell. In the above $1 million illustrations of the sale of two different businesses, the tax savings are obvious. However, what is not obvious is a true understanding of the time proven processes of getting buyers to pay you what your business is really worth. The process of profitably transitioning business ownership involves a series of steps that include the following:

- Understanding your personal objectives and financial needs
- Realistically determining the present value of your business
- Understanding what can and will influence its future value
- Determining the best market timing to move forward
- Correctly “packaging” your business
- Developing strategies to proceed with total confidentiality
- Entering into totally confidential negotiations
- Knowing how to find the best possible buyers
- Financially qualifying buyers
- Finding a lender for your buyer so you can get cashed out
- Reaching agreement on the negotiation of details
- Preparing appropriate legal documents in a time and cost-effective manner
- Coordinating pro-rations and closing needs
- Realistically assessing your post-closing obligations, such as training or transition consulting
- Actually closing the transaction
- Knowing how to best inform employees, customers, vendors and others after the transaction has closed.

In most cases, business owners only go through the sale process once and thus cannot develop expertise through successive transactions. Whether you started your business with an original exit strategy or are just beginning to develop one, the concepts are not difficult to either grasp or implement, and the effort can be very profitable.