

Exiting a Business by Running the Bases

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Forecasters estimate that over the next ten years, at least one-third of all business owners will transfer ownership; this translates into \$4.6 trillion of personal wealth.

Another statistic shows that generally, 75 percent of a business owner's wealth is attributable to the business itself.

However, most business owners don't proactively develop an exit plan – only 15 percent by one estimate. For the other 85 percent, an involuntary event may likely trigger a business sale or transfer – like one of the "Dismal Ds: Death, Disability, Divorce, Declining market, Debt overload or Dissenting owner."

So, how would a business owner go about developing an exit plan? Visualize a baseball field. The home team is the business owner, family and employees; the opposition is the emotional barriers to face, the lack of management depth and the exposure to income and transfer taxes. The exit planning process is like "running the bases."

Home plate – Goals are identified.

Authors like Stephen Covey would say: "Begin with the end in mind." So, begin at home base by identifying the business owner's goals surrounding exiting the business. It's not only who or how to transfer ownership, and what the owner will do after leaving the business; it's finding the purpose behind it all. How will the owner feel after the sale or transfer? From the mind's eye, what will that look like? When the owner can describe his or her purpose behind the goal at the feeling level, the truth behind that goal is revealed and emotional barriers begin to fall. After all, home is where the heart is.

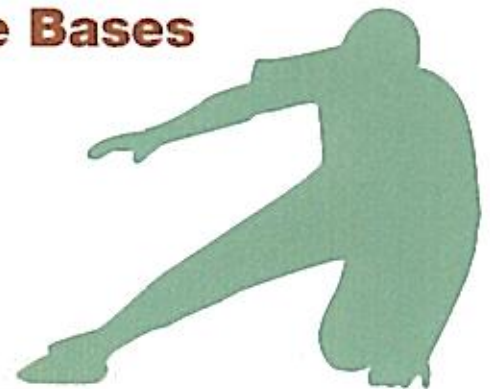
First base – Where are we now?

Financial security upon retirement is often one of the business owner's biggest concerns. It's imperative to know the business owner's personal resources today and what resources are projected for the future. Also, it's finding out the needs of other home team members. If 75 percent of a business owner's wealth is tied up in the business, and financial security is important, it's critical to know what the business is worth. There can be more than one value for a business; and, value differs from price. The saying is: you determine value and negotiate price.



Second base – Where do we want to be?

Aside from selling out through a public offering, there are generally six options of either selling or transferring business ownership: 1) third-party buyer, 2) management, 3) other owners, 4) family, 5) employee stock ownership plan (ESOP) or 6) voluntary liquidation. Purposes behind each option, might be these: a sale to a third-party to maximize the price; selling to management to reward them for prior service; selling to other owners arising out of a buy/sell agreement; a gift of ownership to family members to maintain the family business legacy; selling to an ESOP to



motivate and retain employees; or, an orderly liquidation becomes the most prudent option.

Third base – How do we get there?

Here are some examples of ownership transfer strategies: to maximize the price paid by a third-party buyer, sell the business under a controlled auction amongst competing strategic buyers; in a management buy out, stage the buy-in by selling minority interests over time at affordable prices; have the owners execute a buy/sell agreement which defines the triggering events and the pricing and funding mechanisms; make lifetime gifts of minority ownership interests to family members; have the company pre-fund an ESOP over two to five years, borrowing the remaining purchase price from a bank; or, hire a professional auction company to liquidate the company's remaining assets.

Back at home plate – Goals are met.

The bases have been run and the goals met for the home team. Business owners who don't get in the game run the risk of turning over the decision of exiting the business to a "Dismal D." Proactively developing an exit plan gives the business owner the freedom to decide when, why and how business ownership will be sold or transferred. When done with a purpose, the process can be a rewarding life experience for the entire home team.

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