

Planning to exit

No this is not an article about euthanasia, although it is said that the two certainties in life are death and taxes!

Another certainty, often not recognised is that one day we will leave the business that we have nurtured, developed and devoted our lives to building; and you'd be surprised how many business owners are too busy worrying about the day to day growing and running of their business that they fail to take this into account.

Are you one of them?



It's never too soon to start thinking about it. Exit, and value realisation planning, are as important as any other aspect of business; ignore it at your peril! People have often told me that their business is their superannuation. How important then to plan the means by which this asset is to be realised, and the manner by which they are to be released in order to enjoy the fruits of their labour?

Exit planning - What Is It?

There are many ways to define Exit Planning, but essentially it is based on one simple premise: At some point in time, every business owner leaves his/her business, voluntarily or otherwise. At that time, they want to receive the maximum amount of money, or best income stream, in order to accomplish personal, financial, income and estate planning objectives.

Formulating an exit plan will provide a clear understanding of the ownership transition goals and the various steps, which will be required in order to achieve them.

The exit planning process

There are three key steps in the exit planning process:

- Clarify your personal goals and objectives
- Select the most appropriate exit route, having regard to your objectives
- Plan the transition into life after work

Exit objectives:

What are you seeking to achieve by exiting? Is it simply to “cash up”, and take the long dreamed for world cruise? What happens after that? How much cash is required? Does it need to be lump sum, or could it be by way of annuity or something similar?

Do you want total liberation, or will you seek to keep that part of the business that has in recent times captured your enthusiasm? Do you want to sell your entire stakeholding, or will you retain a minority share? Will you sell all at once, or will you do so progressively?

What aspirations do you have for yourself, your family, staff and other supporters?

Exit route and transition:

Are you building a business ultimately for sale? Or are you building an opportunity for job security for the children, or even building a family dynasty? Can the business afford to employ the kids and still continue to provide you with the income stream you will need to fund your lifestyle in retirement? What if the kids don't share your enthusiasm for the role you envisage for them? After all, they are entitled to their own choices. Or they might not have the right aptitude for taking on the task.

Ownership will change either by sale, bankruptcy, flotation, transfer to a family member or merging with another company. Each of these events will have cash, tax and lifestyle consequences for the owner. How best to minimise exposure to tax, stamp duty and other levies. Will you sell the company, or just the assets and goodwill?

Who will buy it? It is not uncommon for buyers to be sourced from the ranks of your competitors, customers, suppliers, or staff. What can be done now to better position the business as an attractive proposition for a purchaser? To what extent is the business dependant on your personal goodwill & knowledge? What can be done in advance to ensure the business survives after your exit?

When will you sell? When should the process commence? Will you be prepared to stay on in a training, or consultancy role, for the transitional period, or even longer if desired?

These are just a few of the many relevant questions every business owner should take some time to ask themselves. In the same way that you made the decision to invest in your business and nurture it, you must plan ahead to maximize, and best structure, your ultimate return from that investment.

Cheers

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