

Why a Business Owner's Exit Plan Is So Important

There are plenty of days when we want to “take that job and shove it.” But what happens when we're sick of a job we've created for ourselves in a business we've founded?

The idea is to make a plan that allows you to get out before you tire of your company or before you are overwhelmed by personal, industrial or economic factors that force you to sell, transfer or close a company. This is called an exit plan.

Everyone glamorizes creating a business as a way to completely control one's own destiny. But it's ironic how many businesses go on day-to-day without any thought to a proper ending. An exit plan is not only a set of mental notes about how one should pack up and move on. It is a way to focus an owner's thinking about:

- A family legacy – should a business be passed on to family or associates, or should it simply be sold or closed?
- The owner's own career goals – does an owner want to do this for the rest of his or her life, or should one make way for other professional or personal directions?
- The creation of wealth – too many people think of a business as a job and a paycheck instead of a creator of wealth that can support one or more generations of a family. A paycheck supports short-term goals; wealth is accumulated money that can either be invested smartly in the business or outside the business to support philanthropy, or family and personal goals.
- A retirement strategy that allows an owner to do everything they've dreamed after they quit.

An exit plan isn't born in a day. In fact, many financial experts in investment, tax and estate planning disciplines think it's wise for business owners to come up with an exit plan when they start a company if possible, and if not, within 3-5 years of the date they'd like to exit. A CERTIFIED FINANCIAL PLANNER™ professional with specific expertise in working with business owners could be a helpful partner in helping you determine the following:

- How many more years do I want to run this business?
- What's the optimal way to get rid of the business when I'm ready to go? Do I want to sell it, transfer it to family or associates or just close it down?
- What if I got a fantastic offer on the business tomorrow? What would I do?
- If I sold my business, how would I protect myself from a personal and business tax standpoint?
- How do I communicate my wishes and ideas with my spouse, kids and other family members with a stake in the business?
- What about my employees, clients and customers? How do I protect them if I die or decide to leave?
- How much money do I want in my life after my business, and what would I do with it?
- What should I do to make my business as valuable as possible?
- How do I plan the tax implications of my actions toward the end?
- If I have investors, how do I make them happy as I leave?
- Are there any specific accomplishments I want this business to make before I leave?

An exit plan allows you to not only to change your own employment, but to help you change your whole career if you choose. No one has to stay in the same industry – or company – for life, and with an exit plan, you can leave open the possibility for an endpoint that will allow you to travel, do philanthropy or any number of new activities in business or other walks of life.

The financial planning aspect of the exit plan will align your monetary needs with your career or post-career needs. Your exit plan can do whatever you want it to. Some entrepreneurs build sabbatical time and other arrangements for study and learning into the timeframe leading up to their exit to help them refresh their minds and decide what their next career or vocation will be.

The bottom line is that it's never really too early to start thinking of an exit plan for a business you've formed. Today, smart entrepreneurs start asking themselves those questions as they're organizing and forming companies. Get some good advice to start that discussion.

May 2008 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Paul Lemon, CPA, CFP, a local member of FPA.