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Legacy Advisors

EXIT PLANNING Review

Prepared by Business Enterprise Institute

Setting Exit Objectives

“When a man does not know which harbor he is heading for, no wind is the right wind.” So said Seneca almost 2,000 years ago. Today, speaking to business owners he might likely say, “*Exit Planning* for business owners must start with knowing your exit goals and objectives; otherwise, failure may be inevitable.”

Why is Seneca’s wise counsel so true today? In this first and most indispensable of The Seven Exit Planning Steps™, owners form their goals and objectives. But what should an owner’s objectives be and why is it so vital to fix them before taking the next Step?

Ben is the owner of a 45-employee plastic extrusion company. He had long thought of transferring his business to a son and a key employee but had done little to prepare for that transfer. After years of procrastination, at age 58, he was finally ready to retire.

It was helpful that Ben had already decided on two of the critical *Exit Objectives* all business owners must face and answer. He had determined how much longer he wanted to work in the business. It seems he wanted to leave sooner rather than later. And second, he had decided to whom he wished to transfer the business; his son and a key employee. But he still needed to determine a third, critical, *Exit Objective*: How much money do you want or need when you leave the business? And, does that money need to be in cash or would you accept a promissory note?

Like many owners, Ben had two choices. First, he could retire now and sell the company for cash – but not to his son and key employee. They had no cash and no bank would lend an amount even close to the amount of money necessary to close the deal. If Ben wanted to sell now and achieve financial goals, he would have to sell to an outside third party with sufficient cash. His alternative was to sell the company to his son and key employee – knowing he would have to wait six to ten years to receive the entire purchase price.

Ben’s situation illustrates why setting *consistent* and *achievable* objectives early in the Exit Planning process is so critical.

Three principal objectives common to nearly all business owners (and the questions that must be answered in setting these objectives) are:

1. Leaving the business on your timetable. How much longer do you want to remain active in the business?



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2. Leaving the business financially stable. Think of financial stability as a stream of after-tax income, adjusted for inflation. How much income will you need for the rest of your life after you leave the business? Do you want to be cashed out when you leave the business or are you willing to receive the purchase price over many years?
3. Transferring the business to a particular person. To whom do you want to transfer the business? To a child? Key employee? Co-owner? Or perhaps to an outside party who can pay top dollar for the company?

If you don't answer these questions and thereby set your basic *Exit Objectives*, you may end up like Ben. He was left without a means to exit his business in style because he wanted to transfer the business to a key employee and he wanted cash. Failure to set consistent and achievable objectives can leave you without the means to exit your business as well. If you prefer to "leave your business in style" you must formulate specific, consistent, attainable goals and objectives. Your *Exit Objectives* are the foundation for all subsequent planning, or in Seneca's words, "the harbor you must head for."

Know, however, *that many owners may not reach their objectives*. Why? Because they may not have a plan to achieve them. They may be too hurried, too focused on their businesses, and they may not know how to go about planning. Many owners understandably lack *Exit Planning* experience – they may not even know where to start. We suggest you begin your *Exit Planning* process by working with experienced advisors.

Future issues of this newsletter will discuss other common ownership objectives as well as how to resolve conflicts between objectives.

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