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A Thoughtful Exit to a Brighter Future



Business owners are busy people. They create the economic engines upon which most of this country's success has been built. They create value for their customers, jobs for their employees, and opportunity for everyone they do business with. This takes time, dedication, and money. It also takes the expertise of outside advisors such as Brightworth.

When we advise business owners, we concentrate on developing and integrating their financial, tax, and investment strategies so they can focus on what matters most. That may mean running their businesses, investing in their families, or investing in their communities. Never is that relationship and process more important than when a client realizes that it's time to prepare to exit their business. The issues are complex and well beyond the maximization of economic value.

First, it is a mistake to assume that the transition process can be accomplished quickly. While it is possible to sell a business in a few months, the quick sale likely cuts short the process of addressing critical financial and personal issues in a thoughtful way. This can result in decreased overall value for you, your family, and your employees. From start to finish, a solid transition strategy can take years to plan and execute before you arrive at the attorney's office to sign a deal with the "best possible buyer". The exit planning process needs to be thoughtful, strategic, and executed with excellence, leaving no stone or issue unturned.

Based on years of experience helping business owners with this process, each transition will

be unique and based on the needs and the specific issues of each owner(s). However, the elements tend to be very similar:

1. Initial Identification of Your Objectives
2. Develop a Wealth and Estate Plan
3. Preliminary Appraisal of the Business
4. Maximize and Protect Business Value (Identify and Address Value Gaps)
5. Build Your Advisory Team: Preselling Coordination
6. The Selling Process and Post-sale Coordination
7. Transition

Initial Identification of Your Objectives

This is the single most important step in the process, and the one that tends to get the least attention. The issues surrounding a business owner's exit and transition are complex and built up over years, involving financial issues, relational issues, and personal self-worth. Each individual has a different definition of maximizing value. Is it money in the bank after taxes? Is it leaving a great management team behind? Heirs in charge? Is it making sure the business will not fail after you leave? What about the expectations of the owner's family, who may have made many sacrifices over the years? Consider a short sabbatical (couples, if married) to get away and write your thoughts down, including issues you think may be lingering in the background. Then break them down into primary and secondary goals and issues based on the impact should those goals not be achieved.

Develop a Wealth and Estate Plan

Make sure that you will be able to accomplish most if not all of your goals from an economic standpoint. Understand the amount of wealth necessary to support the lifestyle the cash flow from your business has been providing. This process will be instrumental as you walk towards a deal. It includes extensive data collection on the part of your Brightworth team, preliminary business valuations, and long-range cash and investment strategy. It also requires scenario analysis to determine the impact of various sale prices and whether it is wise to sell all or keep some assets to lease, such as real estate. This critical step will allow the business owner and their spouse to better prioritize and focus their existing goals as well as uncover new issues and opportunities to explore further.

Preliminary Appraisal of the Business

Most business owners think they have a sense of what their business is worth. Unfortunately, this usually comes from talking with others in your business bragging about multiples, without the related adjustments that get made or the role of earn-outs and growth in those numbers. It's important to understand what the market is likely to pay, whether from a strategic buyer, employees, or private equity. This leads to the development of the concrete strategic business steps highlighted below that need to be implemented before the business is ready to be presented to the market.

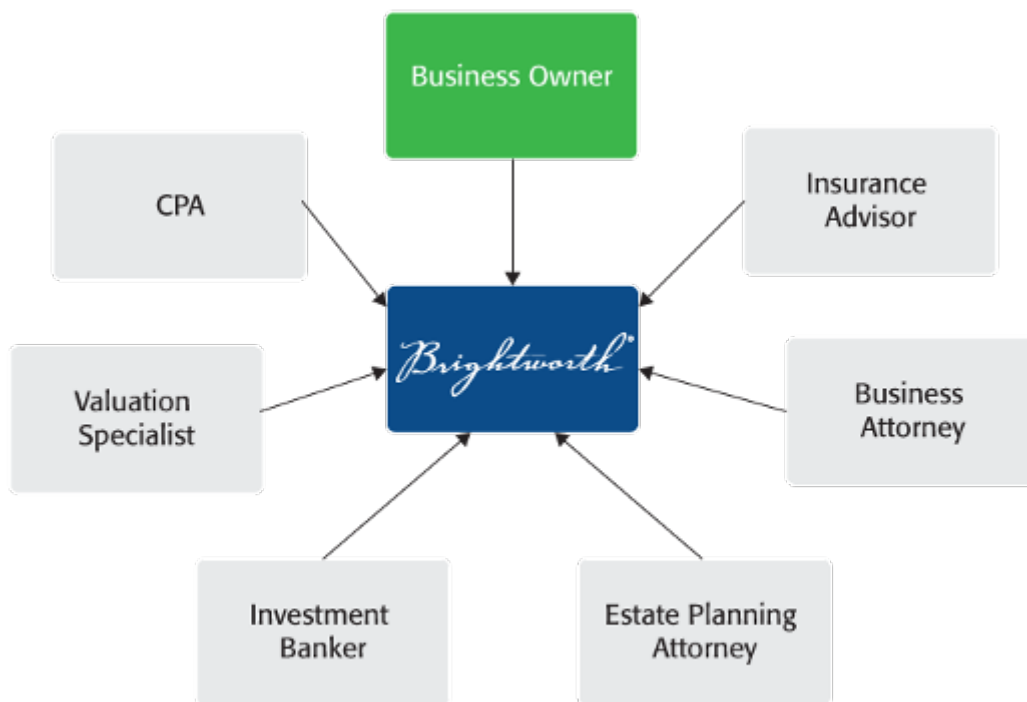
Maximize and Protect Business Value (Identify and Address Value Gaps)

Before actually putting the business up for sale or discussing a transition with family members or employees, the business owner should take specific strategic and operational steps to maximize their business value: not only to enhance economic benefit, but also to increase the chances of business survival. This may require the retention of an industry expert or consultant to help define and execute operational changes. Also, a comprehensive evaluation of succession and continuity planning should be included in this stage. In many cases, adjusting how compensation is paid or profits are distributed is recommended to better reflect

the true economics of the business. The tax strategies that previously helped maximize owner's cash flow should be secondary.

Build Your Advisory Team: Pre-selling Coordination

Your advisory team is there to support your agenda rather than control it. It will eventually be made up of several important professionals, each bringing unique expertise to the process. Your Wealth Advisor will not only provide context for the development of your sales strategy, they will also coordinate with your other advisors, including your CPA, business attorney, valuation experts, and business consultants. Finally, an investment banker or selling agent may join the team if an outside sale is preferable. The most important element (see graphic below) is to understand that you, the business owner, should not be the person coordinating your various advisors. As owner and CEO, you should be focusing on the execution of your business, so value is maximized. This is where the Brightworth Business Exit and Transitions Services team can be of tremendous benefit, as we have the experience and expertise to coordinate the process for the owner, ensuring that each of the advisors is working out of the same playbook.



The Selling Process and Post-sale Coordination

Communication is key to the sales process. It is critical to communicate with the stakeholders in stages, and at the appropriate time, regarding the owner's transition and what it means for them. This process may take weeks, months, or even years and will depend on the nature of the exit strategy.

The exit strategy may include one or several of the following:

- Sale to Outside Owner
- Private Equity Recapitalization

- Employee Stock Ownership Plan
- Management Buyout (including family members)
- Family Wealth Transfer and Gifting Driven Sale. This is similar to a Management Buyout but with different motivations and economics.

Transition

Your objectives are defined and modified as your personal wealth planning evolves, your advisory team is put in place, and the business is positioned toward maximum value and a successful transition. Once you have selected your exit strategy and have initiated your sales process, your transition has already started. While you may not have signed the countless legal documents, your priorities have already started to change and will continue to over time.

Conclusion

As a group, business owners tend to see their “post-sale” life optimistically, with an exciting new active stage characterized by continued personal growth, personal reinvention, and new beginnings. At the same time, they have a strong connection to their business, which has played a prominent role in their personal identification. For these reasons, the exit planning process needs to be thoughtful, strategic, and executed across all elements with excellence, leaving no stone or issue unturned. While your past was essential to becoming who you are today, it is your future that you are looking forward to; a future that includes new decisions, objectives, and possibilities.

Have questions? Want to learn more about our team?

Brightworth helps you by understanding your ultimate goals for your business, family, philanthropy, and legacy. We then review options, create a clear strategy and plan to reach those goals, and partner with you over the long term in executing and monitoring the plan. Throughout this partnership, we can help you with a plan to get an optimized tax outcome, one that is customized to your objectives to include tax, charitable giving, and wealth transfer strategies as applicable. This lets you focus on what you're best at, successfully managing your business and personal life.

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