NOVEMBER 2011

MOSS ADAMS LLP Certified Public Accountants Business Consultants

Acumen. Agility. Answers.

manow
Manufacturing & Distribution

Planning Your Business Exit Strategy

by John Whiting, Partner, Moss Adams Wealth Advisors LLC, and Jay Silverstein, Principal, Wealth Services Group

By all accounts, the economy is turning around. If you're a business owner, congratulations: You made it through the worst, your company survived, and you're wiser for it.

So now what?

After weathering the past few years, many business owners in the manufacturing and distribution industries are eyeing retirement and thinking sunny beaches sound like more fun than withstanding another down business cycle. But how do you get from Point A to retirement with enough financial security to last you while protecting the future of both your family and your business?

The first thing to understand is that your business and personal wealth are intertwined. Business owners that take the time to plan a successful transition of their business stand a better chance of maximizing the value of their company, reducing income and estate taxes, and achieving future financial independence, wealth transfer, wealth preservation, and family harmony.

The task may seem daunting, complex, and time consuming, but it can be broken down into manageable pieces. Below are some initial questions you should be able to answer to better position yourself when it comes time to plan—and ultimately implement—a business transition.

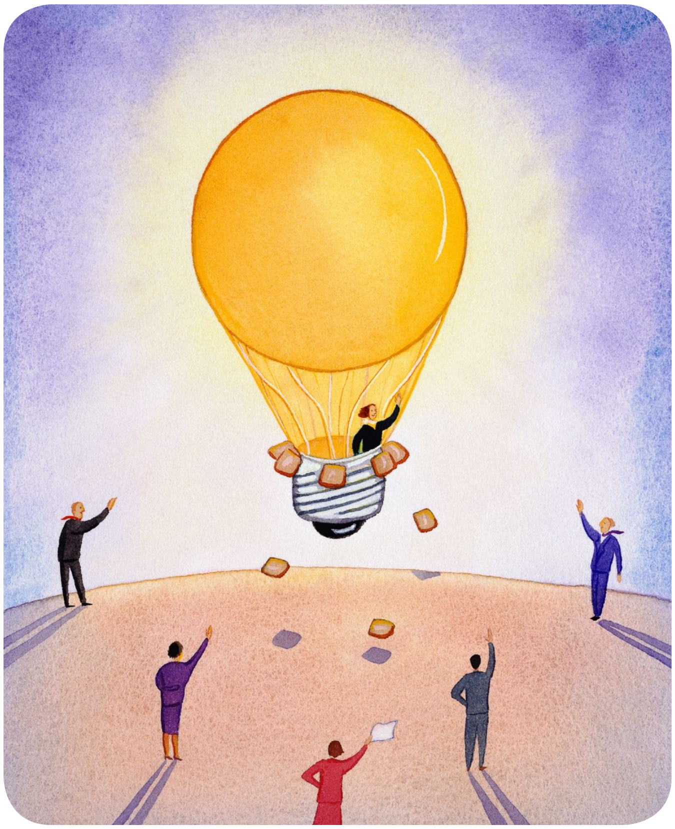
How Much Longer Do I Want to Be Actively Involved in My Business?

It's imperative to avoid the "in about five years" response and thereby put off planning. Most successful transactions or transitions take time—time to create value, develop the next generation, or employ income and estate tax strategies.

The trap many owners fall into is that by not being proactive in their planning, they become reactive to someone else's plan. Rarely does this work to the owner's advantage. To maximize the value of your business, invest some time and money into crafting a well-thought-out plan, regardless of when you plan on retiring.

Who Is a Likely Successor: A Strategic Buyer, My Children, or My Employees?

Every industry is different, with its own universe of strategic or financial acquirers. Every company is different too, with its own unique mix of, family members, management, and employees. Understanding this landscape is critical to proper planning.



Stockbyte | Thinkstock

Pursuing a strategy that isn't optimal for your industry or your company could yield a lesser value from the transaction. Understanding your market and conducting pre-transaction due diligence is imperative to securing the best option. Although maintaining a legacy might be an important factor for you, it's equally important to consider whether your company, under the next generation's management, will confidently be able to pay you what the business is really worth.

If you do plan on a transition to your children, understanding the cash flow of your enterprise is critical. An analysis of current and projected cash flows can help determine the sales terms your company can support. It can also help you understand what you need to do to maintain a financially sustainable enterprise that can benefit both you and the next generation.

What Do I Need from a Transaction or Transition to Be Financially Independent?

This is perhaps the most critical question of all. How much do you need from a deal to know, with reasonable certainty, that you'll be able to accomplish your life's goals? Planning for spending in retirement should include a provision for basic living expenses, pre- and post-Medicare health care costs, education funding for children or grandchildren, travel costs, replacement vehicles, second homes, weddings, charitable giving, and legacy planning. A well-designed plan will also include a provision for taxes, the effects of inflation, and a conservative projection of the rate of growth for your investments.

How Much Is My Business Really Worth?

Although it's vital to know what you need from a transaction, you also need to be realistic about what your business is actually worth. When the time is right, you should obtain an independent business valuation, because knowing the value of your business before you start negotiating is critical. Additionally, oftentimes a business valuation can help guide you to make necessary strategic changes that can in turn improve the overall value of your business.

What Should I Be Doing Now to Help Reduce My Future Tax Liability?

This is where time is on your side. A good financial plan will tell you how much you'll likely consume during your lifetime. Armed with this information, you can begin to design a plan for moving assets to future generations using appreciated assets such as your business. For instance, discounts for minority interest in company stock that has been gifted to children and grandchildren can afford you a great opportunity to move appreciated wealth to future generations while reducing tax liabilities.

The current economic and tax climate provides a great opportunity to transfer wealth to future generations. However, this transfer must be done with an eye toward how that transfer of wealth will affect your personal cash flow needs, the future ownership and management of the business and the preservation of its value, and family harmony.

Conclusion

Whether you're considering selling or transitioning your business in the next year or the next five years, it's not too early to start the succession planning process. While the process may seem intimidating, you can start with a few simple and efficient steps, such as defining and prioritizing your business and personal goals and objectives.

Doing so can help you embrace a future free from the financial worries sometimes associated with retirement—and help you focus on living a long, healthy, and happy life while at the same time transitioning and preserving the wealth you've worked so hard to create.

John Whiting advises business owners and high net worth individuals on the creation of personal financial plans, business succession solutions, and wealth strategies.

Jay Silverstein focuses his practice on ownership succession strategies and estate planning for owners of closely held businesses and their families.

A version of this article was originally published in the North Bay Business Journal.