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Is Exit Planning Worth the Time and Money?

When we talk to business owners about the value of Exit Planning, we are talking about orchestrating a business exit that fulfills their unique personal and financial goals. More often than not, the business is the only asset that has the potential to deliver the results that the owner wants and needs. Since tackling a task of this magnitude can be daunting, owners sometime ask whether devoting the necessary time and money to this project is really worthwhile. Our work in the Exit Planning arena has taught us a few things.

Watch Your Emphasis

Good Exit Planning can be the difference between a successful ownership transition and a complete derailment of the departure and of all the owner's goals. Exit Planning is not, as others might have you believe, a thoughtful sale of a business. It is much more. As a business owner, your emphasis should be on the *Planning*, which will in turn, support the *Exit*. "Planning" is the key concept.

It all starts with understanding your own objectives. When an owner sets her objectives in an Exit Planning context, she does so methodically and proactively. Owners who wait until entering the business sale process to decide how much cash they want and need from their companies, do so reactively. Often, they make hasty decisions or are blinded by attractive bait held out by less than scrupulous buyers.

Early in an organized and systematic Exit Planning process, owners place a realistic value on the company. If an owner has one foot out the door, or suffers from the fatigue

of ownership, finding out the company is not worth what he or she had hoped is a painful experience. Even more painful is the subsequent rededication of effort to building the value of the company.

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without a doubt, the emphasis that Exit Planning places on building and protecting business value. Owners often don't realize that focused attention on building value is an essential part of the exit. "If I'm leaving, why would I build value?" Keep in mind that Exit Planning includes a heavy emphasis on *Planning*, and the result is a more successful *Exit*.

Let's Be Specific

Let's look at just one of the many ways that Exit Planning shifts the emphasis to *Planning* for the benefit of the *Exit*. A technique that we use to motivate managers to remain with a company long-term and after a sale is the "Stay Bonus". An effective Stay Bonus accomplishes three tasks:

1. It gives the key managers a reason to stay.
2. It is structured so that it increases the value of the company.
3. It includes a penalty (usually in the form of a covenant not to compete) that deters key managers from taking key clients, vendors or trade secrets with them, should they leave before or after the sale.

The Stay Bonus is a carefully structured compensation program with details designed to fit your particular business needs and timeline. It encourages key managers to support a sale of the business and allows them to benefit financially from the successful sale.

The Stay Bonus supports the transition from old ownership to new, by aligning the motivations of the departing owner, the new owner, and the management team. Coupled with restrictions on what those managers can do if they leave the company, the overall Stay Bonus package creates real value.

Think about it – if a buyer is evaluating two businesses that are exactly the same in all other respects, the one that can document an increased likelihood that top management will stay and work hard for the new owner will more likely get the offer, and at a higher price too.

Owners who participate in an intentional Exit Planning process often find that Exit Planning is indeed well worth the time and money devoted to it. If you'd like to learn how Exit Planning might, in turn, actually save you time and money, please contact us.

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