CASTLE VALUATION
A DIVISION OF CREATIVE PLANNING

Business Succession Planning Adds Value

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Five Steps to Prepare for Your Sale/Exit Plan

If you are a business owner nearing retirement, you've likely dedicated the last 30 to 40 years of your life to making your business a success. It can be difficult to focus on a plan for retirement when you're used to spending your days working with employees, helping customers and putting out daily fires. However, taking time to carefully plan for the succession of your business can significantly improve your ultimate sales price.

The best time to begin the succession/exit planning process is three to five years before you intend to sell. Consider using this time leading up to retirement to work through the following steps.

Step #1 – Improve your financials

In the three years leading up to the sale, try to increase your gross margins by 1% each year while simultaneously decreasing your expenses by 2% each year. The improvement in your cash flow will make your company more valuable to potential buyers, resulting in a higher sales price.

Step #2 – Clean up your records

The next step is to clean up your financial statements and other records. Potential buyers will want to review two to three years of tax returns and finances. Be sure to remove any unnecessary entries, including loans to or from shareholders that have been paid off.

Step #3 – Fix it up

If you're planning on selling your house, you spend some time fixing it up, clearing out unnecessary clutter and adding a fresh coat of paint. The same should be done with your business.

Add a fresh coat of paint to the inside and outside of any buildings. Make sure the parking lot is in good shape. Make sure all equipment is clean and functioning. Organize the office and clear away any clutter.

Step #4 – Assemble a team

It's very important to choose a team of advisors to help you design a succession/exit planning strategy to meet your needs as well as the needs of the business. Your team should include the following:

- Corporate attorney – An attorney should review all documents and help ensure everything is in order from a legal perspective. Find someone who has experience working with family-run businesses.
- Accountant – A qualified accountant should help minimize your personal and business tax liability.
- Financial advisor – Make sure you choose a fiduciary advisor who will put your best interests first. Expect to pay a fee to this advisor, rather than a commission based on product sales. An advisor with experience guiding clients through business sales can help:
- Negotiate the sale of business
- Analyze your net worth
- Prepare retirement income projections and develop a retirement income strategy
- Protect your net worth
- Manage the proceeds from your sale

During the three years leading up to your sale, you should expect to meet with your team at least two hours a year. Once you have identified a qualified buyer, you will likely meet with your team more often.

Step #5 – Plan for income in retirement

Before you sell your company, it's important to develop a retirement income strategy. Your team of advisors will help you determine your monthly income requirements, make smart financial decisions, minimize the taxes you owe and protect your net worth.

Although it may be difficult to find the time to prepare your business for sale, the end result will likely be well worth your efforts. By following the steps above, you can potentially increase your selling price and minimize the taxes you owe. You'll also have a clear understanding of your retirement income and how to fund your desired lifestyle going forward.

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At Creative Planning Valuation, we specialize in helping business owners navigate the sale of their business. As a division of Creative Planning, a nationally recognized wealth advisory firm, we are supported by a team of credentialed, educated, experienced and action-oriented advisors, including CERTIFIED FINANCIAL PLANNER™ practitioners, certified public accountants, insurance specialists, attorneys and other professionals dedicated to helping you achieve your goals. We work together to help ensure all aspects of your business and personal finances are well cared for. If you'd like help with succession/exit planning for your business, or for any other financial concerns, please schedule a call.