CREATIVE PLANNING®

Bridging Business Planning and Personal Wealth:

A Business Owner's Guide

Is Your Business Strategy Integrated Into Your Long-Term Financial Plan?

You've spent decades building a business that's become far more than a source of income — it's the cornerstone of your family's wealth, your personal identity and the legacy you may hope to leave behind for future generations. If you're like many business owners, your company's value represents the majority of your net worth.

As you think about the future, it's important to take steps to maximize your outcomes. The key is to establish a written plan that incorporates both your business goals and your personal goals.

In this guide, we offer strategies to help bridge the gap between your business success and your personal financial objectives. Read on to learn practical tips for evaluating your current plan, protecting your assets, maximizing the enterprise value of your company, identifying gaps in your current plan, reducing your tax exposure, optimizing your investment portfolio and establishing an enduring legacy for future generations.

The decisions you make today will impact your long-term wealth and financial security. Let's consider how you can work toward maximizing both.

The Risks of Concentrated Wealth

As a business owner, your company may represent the largest share of your personal net worth. While a future liquidity event represents a significant opportunity to substantially enhance your lifestyle, it also introduces significant risks, including the following.

- **Illiquidity** – The most immediate risk may be illiquidity risk, which refers to the challenge of accessing assets that are wrapped up in your business. Unlike publicly traded stocks and bonds, which can quickly be sold on public markets, shares of a privately held company can't be sold on demand. In order to access assets, you must sell, recapitalize or establish a structured payout of your ownership stake, which can take a significant amount of time and effort.
- **Unanticipated events** – Another risk is that the value of your ownership stake may be eroded by unexpected events, such as market volatility, industry disruptions, regulatory changes, supply chain issues or new competitors entering the market. Some owners discover that these unexpected events erode the value of their ownership at a time when they need to access liquid capital to meet their needs.
- **A blurred line between personal and business assets** – Maintaining a source of personal assets separate from your business assets can help protect your family's lifestyle, healthcare, education and retirement security. Business reserves can help protect expenses related to payroll, operations, inventory and growth opportunities. Without a clear separation between the two types of assets, both your personal and business finances may be at risk from an unexpected financial event.

Why Do You Need a Plan?

Business planning is the process of preparing your company to achieve its goals. There are several reasons why business planning is an important task to undertake.

- **Business continuity** – A business plan increases your chances of long-term sustainability and future success.
- **Enhanced value** – Having a well-designed plan can help optimize the value you receive for your business. This is especially vital for business owners considering retirement, as it helps ensure you have enough assets to support your lifestyle.
- **Reduced tax exposure** – A carefully crafted plan may incorporate trusts, buy-sell agreements and life insurance policies to potentially reduce your family's tax exposure.
- **Enhanced control** – A plan allows you to prepare future business leaders, protect personal assets from creditors, access liquidity to fund your financial and retirement goals, preserve jobs for loyal employees and maintain your company's value, even after you've exited the business.
- **Improved decision-making** – The planning process can remove uncertainty and provide you with the clarity you need to make informed decisions regarding the financial future of both your business and your family.

Designing Your End Game

It's important to start planning as early as possible. The most effective plans begin five to 10 years before any anticipated transition, while there's still adequate time to implement strategies that align with your business, personal and legacy planning goals.

The following tips can help you develop your planning strategy.

Define your priorities

Start by identifying and clearly articulating your objectives. A few common goals among business owners include:

- Enhancing and preserving the value of the business
- Minimizing tax exposure
- Providing security and business continuity for stakeholders
- Leaving a financial legacy for family members and charitable causes
- Rewarding key employees
- Achieving personal financial security

Conduct a business valuation

It's important to understand what your company is worth. This can be accomplished with a formal business valuation. An up-to-date valuation can help you project and improve cash flow, establish estate and gift tax planning strategies, ensure adequate insurance protections, update your buy-sell agreement, understand what collateral is available for financing, and plan for retirement. Additionally, some of the best leaders are proactively using a business valuation to teach their leadership teams or key employees what areas increase the enterprise value and what risks need to be mitigated.

A valuation can support your business with:

- **Executive and corporate planning** – Executive compensation analysis, stock option plan design, fairness opinions, divesting a subsidiary or division, review of debt securities, preferred stock and other assets or notes
- **Corporate documents and succession planning** – Valuations pursuant to provisions in buy-sell agreements, business succession/exit planning
- **Corporate and retirement planning** – ESOP feasibility studies and plan administration services, annual valuations for ESOPs and 401(k) plans with privately held stock, purchase price allocations in compliance with accounting standards, redemption of corporate stock for retirement
- **Personal estate planning** – Review of estate planning and related estate and gift tax valuations, including family limited partnerships (FLPs) and limited liability companies (LLCs)

Once you understand what your business is worth, you can take steps to help grow and protect its value. Doing so can enhance your company's attractiveness to potential buyers, help maximize the value you receive from your sale, protect assets from business and personal creditors, and help retain key employees and family members.

Get educated on your future exit options

There are typically five exit options to consider, based on your specific needs, challenges and vision. These include:

TRUSTED INDIVIDUAL

You may decide to sell ownership of your business to a trusted individual, such as a family member, business partner or key employee. This is often the least disruptive option and can help ensure business continuity by keeping the business under a familiar leadership style and culture.

Transfers to trusted individuals are typically funded by the business's cash flow or a structured payment plan, which leads to a more gradual transition, less disruption and less worry within the workforce. However, trusted transfers often yield a lower sales price than other exit options. Also, if your buyer has funding challenges, you could face financial and emotional stress.

STRATEGIC BUYER

An existing company within your industry or a related market may view the acquisition of your business as a way to enhance market share, gain talent, expand its product/service offerings or leverage the experience of your workforce. A strategic buyer will likely seek to integrate your business into its existing operations.

While this approach provides the potential benefits of a higher sales price and ongoing longevity, it also comes with disadvantages, such as the loss of independence and company culture, a potential downsizing of your employees, and the erosion of your legacy as your business becomes named and marketed under a new brand.

ACQUISITION ENTREPRENEUR

This option involves selling your business to an entrepreneur or investor seeking to purchase an established company. These buyers are sometimes seasoned investors seeking to diversify their portfolio, or they may be high-net-worth employees hoping to transition away from the corporate world.
This type of buyer is often new to the industry and may fund the purchase through a combination of personal funds, seller financing and external loans. The transaction will likely require a more extensive valuation review and be heavily focused on establishing cash flow. The buyer's skills and competencies will greatly impact the ultimate success of the deal.

The benefits of this type of transaction include the infusion of new ideas into the business, flexible sales terms and the potential to receive a higher sales price. Risks include the erosion of company culture, a higher chance of employee turnover and a potential service disruption for customers.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

An ESOP is often the first option business leaders seek to explore during initial planning conversations. ESOPs involve selling some or all of your shares to the ESOP in order to allow employees to acquire ownership of the business. When executed successfully, an ESOP can provide a greater incentive to employees to continue your company's legacy and preserve all you've worked so hard to build.

An ESOP can be a great strategy for owners who want to defer or avoid capital gains, and this type of transition may allow you to continue being involved in the business if that's important to you. Employee retention generally increases with an ESOP, as employees are more vested in the company's success.

On the downside, it can be difficult to make an ESOP's numbers work from a retirement funding perspective. And, while you'll experience legal and professional services costs with every exit planning option, the costs of standing up an ESOP are typically the highest. Also, an ESOP typically results in a lower sales price than some other options.

PRIVATE EQUITY

The final option is to sell all or part of your company to a private equity (PE) firm. PE firms typically look for opportunities to improve a business's performance by implementing improvements and efficiencies across operations, strategy, talent, systems and processes.

PE firms typically have one of two main strategies in acquiring companies. Some are looking to diversify their portfolio, and yours may be the first type of business that falls under a certain classification. Others seek a roll-up strategy, where they buy many companies similar to yours and strive to implement enhancements that result in a higher valuation.

The biggest upside of selling to a PE firm is the enhanced potential for liquid capital. Downsides include a loss of control when it comes to decision-making and the potential requirement to continue working at the company for a period of time.

Succession Is a Process That Requires Ongoing Planning, Not a One-Time Event

Leadership transitions often involve emotional, leadership, operational and financial complexities. Without a deliberate plan, open communication, employee and client retention, and operational efficiencies, enterprise value may suffer when it matters most.

Viewing planning as a process allows you to carefully consider your options and take proactive steps over time to streamline the transition and help maximize your company's value. The following tips can help.

- **Start the process as soon as possible** – Ideally, you'll take gradual steps to transition your business over five to 10 years. Planning in advance allows you to be deliberate in your approach, implementing strategies to enhance the value of your company and ensure alignment between your personal and business strategies.

- **Make decisions based on merit and interest** – If you operate a family-owned business, you may need to make a difficult decision about which family member will take over as your primary successor. It's important to base this decision on skills, experience, interest in taking over and what's best for the long-term success of the business.

  If one family member has primary ownership of the business, you may want to take steps to equalize the inheritance received by other loved ones. This can be accomplished through life insurance, a trust or a structured buyout that's coordinated with your estate plan. Thoughtful generational wealth transfer planning can help balance family relationships while still prioritizing an effective family business succession plan.

- **Provide training and mentorship** – Training and mentorship are key components of a successful business transition. They provide the new leaders with opportunities for real-world experience in business administration, strategic planning and decision-making, which can help support a more successful transition over time.

  As you plan your exit, take time to train the next generation of business owners. Establish a formal training program with measurable milestones to help ensure your successors are fully prepared to take over. As they learn more, gradually begin transitioning your responsibilities to key employees. Doing so can help ensure a seamless transition for both your employees and customers.

- **Communicate regularly** – Open and honest communication is vital to a successful business transition. Schedule regular meetings with all key stakeholders and share your goals, concerns and status updates. Your wealth manager can help facilitate these meetings to avoid conflict and keep everyone informed of your succession plans.

The Importance of a Buy-Sell Agreement

A buy-sell agreement is a legal document that specifies exactly what will happen to a company's ownership when one owner exits the business. It's one of the most powerful tools in business succession planning, because it turns an otherwise chaotic or emotional transition into a clear, predictable and orderly process.

A buy-sell agreement specifies the parties eligible to purchase shares, the circumstances under which the agreement can be triggered, the process by which the business will be valued and the manner in which a purchase can be funded.

A buy-sell agreement:

- Establishes a buyer and a price
- Prevents unwanted outside business owners from purchasing shares
- Can provide immediate liquidity when paired with a life insurance policy
- Reduces family conflict and litigation
- Protects a business's value
- Supports a seamless operational transition

There are two main types of buy-sell agreements, as described below.

CROSS-PURCHASE AGREEMENT	ENTITY PURCHASE AGREEMENT
Under a cross-purchase agreement, co-owners agree to buy each other's shares. This type of agreement is most effective for businesses that have two to four owners. It allows the remaining owners to receive a step-up in cost basis for tax purposes.	Also known as a redemption agreement, this structure involves the business itself buying back the departing owner's shares. This type of agreement works best when there are more than a handful of owners or when a company wants to control the transaction.

While buy-sell agreements are vital for all businesses, they're especially important for family-owned companies, because they establish clear guidelines free from emotion and challenging family dynamics. As part of your broader family business succession planning, a well-crafted buy-sell agreement helps formalize the succession process and supports business continuity even during unexpected events.

Integrating Estate Planning With Business Strategy

If your goals include leaving a lasting financial legacy for the people and causes that matter most to you, it's essential to integrate estate planning into your business succession strategy. Failing to do so can result in unnecessary tax exposure, leadership gaps, family disputes and, in some circumstances, the forced sale of business assets.

The benefits of incorporating estate planning tools as part of your exit planning strategy include:

- **Tax efficiencies** – Strategies such as gifting trusts can help reduce your heirs' future estate tax liabilities and preserve more assets for your loved ones.
- **A streamlined transition** – A well-documented estate plan can significantly reduce operational disruptions and maintain your company's value.
- **Fewer disputes** – Providing clear guidance to your loved ones and business partners can help avoid conflicts, especially in a family-owned business.
- **Legacy protection** – An estate plan allows your business vision and company culture to endure across future generations of family and business leaders.

Maintaining open lines of communication with all relevant parties is key to successful estate and business succession planning. Throughout the exit and estate planning process, schedule regular meetings with key stakeholders and family members to offer status updates, discuss your plans and share your vision and expectations for the transition. Incorporate feedback as appropriate, and be sure to thoroughly document your wishes so that there's no confusion.

Preparing for a Sale – Even If It's Years Away

The most successful business exits are often reverse-engineered years in advance. Advanced planning gives you an opportunity — and ample time — to improve your financials, increase the value of your business, train successors and prepare your loved ones. Specific benefits of planning your exit in advance include the potential to:

- Improve margins
- Increase cash flows
- Document sustainable earnings
- Pay down debt
- Implement new systems and efficiencies
- Strengthen, train and align future management
- Carefully evaluate and negotiate with potential buyers
- Enhance your personal financial preparedness

Align Your Personal and Business Financial Plans

When the time comes, selling your business may represent the largest financial transaction of your life. Your business transition may represent decades of hard work and your single greatest source of retirement capital. If you're not considering how your sale may impact your personal financial life, you could be missing out on a significant opportunity to maximize your retirement savings. That's why it's important to work closely with your wealth manager to help ensure your business exit strategy aligns with your overall financial plan and future goals.

Aligning your business exit plan with your personal financial goals can help you:

- Maximize post-sale proceeds
- Ensure your retirement lifestyle goals are funded by the sale
- Create immediate liquidity and accurately project cash flow
- Minimize family conflict
- Reduce your heirs' future estate tax exposure
- Streamline your transition by allowing you to make clear-headed decisions throughout the process
- Invest the proceeds from your sale

The Importance of Teamwork

When preparing your exit plan, one of the most important decisions you'll make is choosing a team of trusted advisors. It's important to seek the guidance of qualified, experienced advisors who can help you navigate the challenges of transitioning your business, establishing income security in retirement, minimizing your tax exposure, ensuring all necessary legal documents are in place, identifying and transitioning to a new owner, investing the assets from your sale, and more.

As you're assembling your team, consider including the following professionals.

- **Wealth manager** – Start by enlisting the support of a wealth manager with experience helping business owners navigate the exit planning process. Your wealth manager will serve as a "quarterback" by coordinating the functions of your other team members and ensuring all decisions are in line with your personal and professional objectives. Your wealth manager will connect you with additional professionals to support your needs.

- **Business attorney** – Your business attorney will coordinate the necessary legal documents to guide the transition, including buy-sell agreements, shareholder agreements and transfer documents. They'll also handle ownership structure changes and certain asset protection strategies.

- **Estate planning attorney** – Your estate planning attorney will help you establish the necessary documents to support a smooth transition of wealth to your heirs. These documents often include wills, trusts, powers of attorney, charitable and lifetime gifting strategies, and other asset protection strategies.

- **Business advisor** – Having a business advisor in your corner to help you craft and execute a plan helps create greater enterprise value and ensure sustainable success. It's said that having a plan in writing increases the odds of achievement by 42%.[1] Having a business performance advisor working with you on the plan in an ongoing manner increases the odds to more than 90%.[2]

- **Accountant** – A CPA will coordinate necessary financial analyses, due diligence, financial/tax compliance and cash flow planning. He or she will also help you navigate the tax implications of your sale, including income, estate, gift and capital gains taxes.

[1] https://writeyourlist.com/the-science-of-goals/
[2] https://www.afcpe.org/news-and-publications/the-standard/2018-3/the-power-of-accountability/

How Creative Planning Can Help

Building a successful business requires years of commitment and dedication. Planning an exit strategy to transition away from your business requires just as much strategic foresight. When properly executed, a well-structured business plan can create a long-term wealth-building opportunity. Strategic business planning can help you prepare for tax implications and reinvestment opportunities while helping to ensure all strategies are in line with your personal financial goals.

At Creative Planning, we provide custom business planning solutions designed to help maximize the value of your life's work while minimizing your tax exposure. Our experienced wealth and business advisors work closely with owners to design personalized business plans that support their long-term financial goals and personal legacy.

We begin by taking time to understand what truly motivates you — whether it's building wealth, cementing your legacy, rewarding key employees or having a lasting charitable impact. With this insight as our guide, we build a custom business exit strategy that reflects your values, timeline and long-term financial vision. As your dedicated business exit strategy team, Creative Planning brings together specialists in tax, law, business advisory and investment management to help craft a seamless transition designed to optimize your outcomes.

And, because we serve as fiduciary advisors, you can be confident we'll put your best interests first.

If you own a business, it's important to start planning early and seek the guidance of an experienced team of advisors. The professionals at Creative Planning would love to support you on your journey. To get started, schedule a complimentary, no-obligation consultation with a member of our team to learn how we're helping others like you build long-term, sustainable wealth.

We look forward to getting to know you.

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