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Business owners should plan their exit strategies

Jim Kendall
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Jim Kendall on Small Business Business owners should plan their exit strategies>

John Selzer Jr. wants us to pay more attention to our Triple-A team: The accountant, attorney and (financial) adviser.

Joe McCaul is concerned about the Dreadful Ds — death, disability, divorce and distress.

Mark Gilbert says we should determine what we want our “status of life to look like” when it’s time to retire, “then operate the business to fulfill that goal.”

All three deal with business-owner transition issues that often are more complicated than they need be. Their collective advice: We should pay far more attention to planning our exit strategies.

Selzer is a CFP and principal of Glenview-based Capital Point Financial Group Ltd. McCaul is president of Joseph Associates International, Inc., a business brokerage firm with offices in Chicago and Naperville. Gilbert is a senior financial planner at Harris Private Bank, Chicago.

“Business owners are so focused on generating sales and meeting goals that they don’t look at where they want to be personally,” Gilbert says. “Some people can’t see themselves leaving the business — which is OK. Others want to be out doing something else.”

Whatever the choice, Gilbert continues, an owner should “structure the business to facilitate the goal.” Gilbert advises that “four or five years away from the exit event, you should be seriously thinking about what you want your future to look like beyond the business.”

Although he would start sooner, 10 years out, Selzer agrees that the key is to begin planning. Business owners “have a plan to grow,” he says. “They should have a plan to exit” as well.

“You have to work on, not just in, your business,” Selzer continues. He looks at two standards: The business should provide its owner with a good lifestyle and be “an asset that is worth something at the end of the day.”

That’s why Selzer focuses on what he calls the Triple-A team — the owner’s accountant, for tax planning; attorney, for business structure; and financial adviser, to help make certain the dollars will be there.

McCaul warns that the money we want may not be there when we want it. “Look at the typical 60-year-old owner,” he says. “He (or she) is taking $200,000 a year out of the business. Probably has a company car. A summer place in Wisconsin. Isn’t there on Fridays any more.”

And just what’s wrong with that scenario? “Employees adjust” when they sense the owner is pulling back, McCaul says. “Productivity slacks off. Customers notice a drop in the service level. Earnings go flat, and growth is zero or less.”

As a result, the value of the business declines. That’s the center of McCaul’s argument about the need for planning. “Business owners stay very focused on what’s immediate, right in front of them,” he says. “They need an exit plan, too.”