

Palo Alto Entrepreneur Implements Exit Strategy for his Company

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What is An Exit Strategy?

I recently consulted with a very successful Palo Alto business owner and was surprised to learn that he did not have an exit strategy for his business. As a matter of fact, he told me that he had never really even thought about what would happen to his business if he died or became incapacitated. He just assumed that his wife or children would continue to operate the business once he was gone.

During our meeting, I explained to my client that business succession planning is an essential element of estate planning. Business succession planning enables a business owner to implement an exit strategy for leaving the business either voluntarily (retirement or sale) or involuntarily (incapacity or death). Without a relevant and up-to-date exit strategy, the departure of a business owner can have a devastating impact on the business – including bankruptcy or closure.

Elements of a Good Business Succession Plan

In my many years as a Palo Alto estate planning attorney, I have formulated estate plans which include exit strategies for several high net-worth clients who are business owners. This experience has enabled me to identify a number of key elements which should be considered when planning a business succession exit strategy.

. *What Are Your Financial Goals?* – In putting together an exit strategy, a business owner must determine what his financial goals are. This includes determining long term income needs and retirement goals. It's also important to consider these goals in light of the costs of medical care in the event of a major illness.

. *When Will You Retire?* – It's important to establish a timeline for retirement. This gives the business owner ample time to groom a replacement, if necessary, and otherwise get her proverbial ducks in a row.

. *What Is the Current Value of the Business?* – Knowing the value of the business is important because it directly impacts the business owner's timeline for exiting the business. To determine the value of the business,

an accountant or other financial expert will analyze the business's profit and loss statement and balance sheet and compare it with those of similar businesses in the area.

. *Increasing the Value of the Business* – If the value of the business is insufficient for the owner to achieve his financial goals or meet his income needs upon his exit, it's essential that a plan for increasing the value of the business be formulated and implemented.

. *Selling the Business* – As part of the business succession planning process, a business owner must consider the pros and cons of selling the business. The pros and cons will vary depending on whether the business will be sold to its employees, family members, or an outside third party. Moreover, the type of purchaser will impact employee compensation and benefits packages and tax planning strategies.

. *Planning for Disaster, Incapacity or Death* – In an ideal world, every exit would be voluntary. Unfortunately, there are instances when a business owner is forced to exit because of incapacity or death or when a business is destroyed in an earthquake, fire, or other disaster. Every business succession plan should include a contingency plan for these unexpected events. A good contingency plan often includes:

- . Buy sell agreements;
- . Business, disability and life insurance policies; and
- . Key employee incentive programs.

. *Intersection of Business Succession Planning and Estate Planning* – It's a fact of life; we are all going to die eventually. So, having a relevant and up-to-date estate plan is essential. The business succession plan directly impacts the owner's estate plan. How it impacts the estate plan, however, depends largely on whether the exit plan calls for the sale of the business versus a bequest (gift) of the business.

Getting Legal Help

It's essential that a business owner formulate an estate plan that addresses every aspect of the business succession plan and that as each phase of the succession plan is achieved, the estate plan is updated accordingly. I am experienced in formulating personalized business exit plans and estate plans for business owners throughout the Palo Alto, Los Altos, and San Francisco Bay areas. If you have questions about business succession planning, visit <http://calprobate.com> to schedule a consultation.