
# How to Help Small-Business-Owner Clients Get Started with Their Exit Plan

***Many owners of small firms don't plan their exit properly — or at all. Here are things advisers should keep in mind to help business-owner clients make plans.***

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While large, multinational companies like Apple, Google and Amazon tend to dominate the daily financial headlines, smaller firms arguably have more of an impact on the U.S. economy. Indeed, in many ways, small businesses form the backbone of the country, employing nearly half of all Americans and accounting for 99.9% of all companies.

Of course, not all small businesses thrive, with nearly 20% failing within the first year. But many grow rapidly, producing millions in revenue year over year.

Still, many of the owners of those wildly successful firms face liquidity issues, since much of their net worth is tied up in the value of their firms. In other words, they are paper-rich but cash-poor.

On the surface, that may not seem like a huge problem. After all, they'll sell their business sooner or later — and when that day comes, whatever liquidity issues they have presumably will disappear. Yet things don't always work out that way.

One reason is that many business owners don't plan their exit properly — or at all. Further complicating matters is that most don't ultimately control the timing of that exit.

Instead, a life event, or one of the five Ds, usually makes that decision for them: death, disability, divorce, disagreement or distress. And when one of those events occurs, it's often too late for a business owner to ensure a good outcome.

The upshot is that thousands of successful entrepreneurs each year don't get to choose how or when their companies get sold. Here are some basic things advisers should keep in mind to help business owner clients avoid that fate:

## Get a valuation of the business

Imagine meeting with a client for the first time. You ask them how many investible assets they have and what their annual income is, and they say they don't know. Obviously, it would be almost impossible to help without getting more information from them. Similarly, if a small-business owner says they have no idea what their firm is worth (many either don't know or have a wildly overinflated view), putting together a financial plan for them is a challenging exercise.

## The business can't be their personal checkbook

Some liquidity-starved small business owners sometimes focus on cash flow out of necessity — it's how they pay their mortgage and the rest of their bills. A far more pragmatic approach is to help them view their companies through the lens of earnings before interest, taxes, depreciation and amortization, or EBITDA. Cash flow alone doesn't build transferrable value, to say nothing of the legal and tax issues associated with drawing upon company accounts for personal use.

## They need to know their exit options

According to a recent Exit Planning Institute survey, two-thirds of all business owners are unaware of their exit options. Though that figure is shockingly high, it highlights why many small business owners never begin the exit planning process: After all, how can you plan for something effectively if you don't know where to start? Advisers, therefore, should understand and be able to communicate all the alternatives available to their small-business-owner clients mulling an exit plan. "Outside" options include selling to a third party, recapitalizing, or doing an IPO or an orderly liquidation. Meanwhile, the "inside" options are an intergenerational transfer, management buyout, or selling to existing partners or employees via an employee stock ownership plan.

## Personal Planning

For some clients, being a small business owner is an inescapable part of their identity. It's who they are and what they've always done, so it's hard to think about being in another role — which is another reason some do, at best, minimal exit planning. The key, therefore, is to create a sense of post-transaction purpose for them, whether it's forming a foundation, serving as a mentor or learning new skills. Many successful entrepreneurs tend to have an inescapable urge to stay relevant and engaged.

One recent study found that three out of four business owners who sold their companies "profoundly regretted" their decision within 12 months. But selling their business isn't necessarily the root of their regrets. It's how they sold it — without a plan.

Had they had one, their business may have been worth more, their finances could be in better shape and their lives would have more meaning — all of which adds up to fewer regrets and highlights the importance of having an exit plan.

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