

Mining the Gold Out of Your Business: Planning Ahead Starts When the Procrastinating Stops

Part Two of a Series

In the last issue, we concluded with the need for long-term planning, and specifically, long-term succession planning. So, have you developed your game plan yet or are you still procrastinating? If the latter was your answer, you are not alone. And, after all, there are some good reasons to continue putting it off -- including paying higher estate and gift taxes, working until the morning they put you in the ground, and let us not forget, having your heirs fight. Do we have your attention yet? If you just don't like any of these options, you do have an alternative. Simply stop procrastinating -- planning ahead starts when the procrastinating stops.

So, what can you do to get started? Following are some great ways to get the ball rolling:

- 1) ***Take a step back and think about your goals.*** What do you want to do when you step away from the business -- embark on some foreign travel, spend every day at the golf course, or simply spoil the grandchildren? And, do you want the business to be a means of providing continued support for your family while you move forward with these endeavors? Or, do you want to see the hassle of running the business become someone else's problem all together? Needless to say, each of these decisions will have financial ramifications -- especially with regard to your retirement plan. So, consult with financial and legal professionals throughout the planning process.
- 2) ***Get your advisory team in place.*** If you do not have legal and financial counsel in place, start the interview process now. Hiring a business broker may also be appropriate if a sale is in your future. Finally, establish what family members will be involved in the decision process and what their role will be.

At this point, it may also be a good idea to establish a contingency plan in case something unthinkable happened to you today. Designate which players would have

a key role at this stage of the game. Part of this contingency plan may also include updating your will!

- 3) ***Prioritize/choose your exit strategy.*** Do you want to keep it in the family, sell to employees via an ESOP, or sell to some other strategic buyer? Determine which exit strategy best supports your goals -- emotionally and economically. Then prioritize and ultimately choose one.
- 4) ***Select a time frame.*** Getting out from under a business is no easy task no matter what strategy you choose to pursue. Based on the exit strategy you select, set a time frame in which to complete the process. Consider your age and market conditions when doing so.
- 5) ***Get a professional business valuation.*** While business valuations can have many purposes, they are most commonly used for estate planning and the sale of a business. And, when faced with the need to step away from your business, they are often one of the single, most important steps in the process.

To complete this step, however, you need to have selected your exit strategy to move forward. Why? Valuations are only useful when they are conducted for a specific purpose. In fact, more than one value can be correct depending on the purpose. To better understand this concept, think of selling your business to a family member. Isn't it likely that you would place a different value on it for family than if you sold it to your biggest competitor? Or, what if circumstances required an immediate sale? Again, the value would probably differ. By hiring a professional, you will ascertain a realistic value -- good or bad. Decisions can then be based on this value. Remember, no matter who you sell to, a fair market value must be placed on the business -- one that will not raise eyebrows at the IRS.

Several key factors go into a comprehensive valuation -- hard numbers, soft numbers and a category called intangible assets. Hard numbers refer to historical profits,

assets such as property and equipment, cash flow, liabilities, etc. Soft numbers refer to things like income and cash flow projections. After all, one of the key factors in establishing the present value involves a determination of the company's expected future value. Finally, intangible assets may include things like your client list, goodwill, patents, and even your value to the company. There are a number of methods for conducting business valuations. Book value, adjusted book value, and the income capitalization method are three very common ones.

Finally, a business valuation is not a definitive bull's eye, but rather a point to shoot for along a continuum. Remember, buyers and sellers often differ, as do banks and the IRS.

- 6) ***Get your books and legal paperwork in order.*** This is important for the sale or in the event of your untimely departure from the business. Let's face it, formal financials make a better impression on prospective buyers. Locating and organizing your formation documents, leases, customer contracts, etc. makes life easier during the succession process and beyond.

To conclude, as you begin the planning process, remember that keeping your eyes and your options open is essential. Also remember that your decisions will have financial consequences that will impact your tax situation and ultimately, your retirement activities. Finally, remember that planning ahead starts when the procrastinating stops. Don't delay, start your succession planning today!

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