



## There's No Need for Succession/Exit Planning



There's not really a need for succession or exit planning. Basically, a few months prior to your planned departure, contact a business valuation expert to determine the value of your business, then either find a buyer or choose a successor, engage an attorney to draw up the necessary paperwork, execute the papers, get paid, and transition into retirement. It's all pretty straightforward.

In fact, there are only a handful of reasons where that plan may not be sound. Here are the issues, the consequences of those issues, and the remedy for each.

### REASON #1: BUSINESS VALUE

#### THE ISSUE:

The value of your business ends up being below (and sometimes, far below) the value you need or want.

#### THE CONSEQUENCE:

The consequence of this is self-evident. The business won't sell for enough money.

#### THE REMEDY:

There are many factors that go into determining the value of a business - things like profitability, profit trend, strength of the remaining leadership, effectiveness of systems, and customer diversification. The challenge is that each one of these factors takes time to impact the value of the business. In fact, they often require several years to make a difference.

The remedy, therefore, is to have your business valued two or three years in advance of your planned retirement in order to determine whether changes need to be made. Use a qualified business valuation professional to give you an unbiased valuation of your business. Doing this in advance will give you the time to implement any changes and increase the value of your business.



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## REASON #2: TRANSACTION STRUCTURE

### THE ISSUE:

There are a number of fundamentally different ways a transaction can be structured.

### THE CONSEQUENCE:

If you choose the wrong structure to your succession or exit, value can be negatively impacted, plus you may end up paying far too much in taxes. In addition, it's not only about choosing the best structure but the timing as well, because a number of these strategies must be put into motion long before the actual transaction takes place. The consequence of waiting until you want to retire before you address this issue is that you won't be able to consider many of these options, resulting in a lower business value or a higher tax bill.

### THE REMEDY:

The process starts with understanding your financial needs for retirement. Next, the value of your business needs to be determined. And then, the tax implications need to be estimated.

Once you know where you stand, the best structure can be determined for the transaction and transition, and the appropriate measures can be put into place to minimize taxes and maximize cash. An experienced exit/succession professional can help you determine whether an internal sale, external sale, ESOP, trust, or some other structure would best serve your interests.

## REASON #3: COMPANY SUCCESSOR

### THE ISSUE:

You know who you'd like to choose as your successor but grooming someone in the mechanics of the business does not ensure leadership development or their success as an owner.

### THE CONSEQUENCE:

If a successor isn't properly prepared to take over as an owner, the consequences can be disastrous. Poor judgment and poor decisions can quickly undermine the success of a company. Poor leadership can cause an exodus of key people from the organization. And a poorly run company will cause customers to leave.

Obviously, the consequences of a poorly groomed successor are declining revenues, reduced profits, and diminished cash flow, which result in the inability to make purchase payments to you. If that happens, it will require you to come out of retirement, rebuild the company and (hopefully) find a new buyer.

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## **THE REMEDY:**

A successor needs to master a number of leadership competencies, hone his or her judgment, refine strategic thinking, and adopt an owner's mindset. An objective assessment should be done followed by leadership development tailored to the results of that assessment. This is often a one to two year process. This development requires coaching from an experienced executive coach and mentoring from you, the owner.

## **REASON #4: THE UNANTICIPATED**

### **THE ISSUE:**

You're confident in how you'll orchestrate your retirement from the business, but then the unexpected happens – death, disability, divorce, dissolution, etc.

### **THE CONSEQUENCE:**

If your exit from the business is triggered by anything other than a voluntary sale, then the successors, survivors, family, employees and everyone else will suddenly be thrust into a very difficult situation. If you suddenly have a stroke, it probably will not occur at a convenient time (it never does) and will happen without warning.

If you haven't done any planning in advance, the value, the transition, and the future of your business will all be thrown into chaos and uncertainty. The fitness of the business will be jeopardized and the consequences can be devastating.

### **THE REMEDY:**

As with each of these reasons, business owners who plan ahead have better results than those who don't. A well thought out and well-structured succession/exit plan will address not only a planned event, but unplanned events as well. The consequences of an owner's death, disability, stroke, etc. prior to retirement can be mitigated by having a comprehensive plan in place, a well-prepared successor in place, and the proper funding mechanism in place, all well in advance.

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## CONCLUSIONS:

On the surface, it seems like planning an exit or succession is fairly straightforward and can be accomplished in about three to six months. But the truth is that if you want to maximize your company's value, minimize the taxes you'll pay, maximize the cash you end up with, and ensure your company continues to thrive, you should start planning and taking action several years in advance of your exit. Start to lay the groundwork now. Waiting only limits your options.

If you'd like help with any of these issues, I can refer you to qualified professionals in your vicinity. I've built a network of experienced professionals around the country who can help. Just give me a call and I'd be happy to recommend some people. Michael Beck, 503-928-7645, [mbeck@elicitingexcellence.com](mailto:mbeck@elicitingexcellence.com), [www.ElicitingExcellence.com](http://www.ElicitingExcellence.com)

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