ProVest Wealth Advisors

Transitioning Your Business

CHALLENGES, SOLUTIONS, AND WHERE TO GET HELP

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INTRODUCTION

Most business owners don't have time to think too far ahead into the future. That's because they're busy attending to the needs of today: interacting with customers, managing employees, and ensuring the services or products they offer stay one step ahead of their competitors. If they *do* think about the future, it's usually in terms of when they can expand locations, hire additional workers, or branch out into new markets. The truly long-term decisions, like when to sell or transition your business (not to mention how to do it), are mentally filed away under the heading, "Bridges to cross when I've come to it."

Unfortunately, the question of when and how to sell your business is something that needs to be answered sooner rather than later. The first step is to have a plan. Having a plan in place *now* can save you untold time and trouble in the future…and it can also help ensure that you do it *right*.

The stakes are high. For an overwhelming number of business owners, the sale of their business will be their primary source of income for retirement. As such, it's *crucial* that they get it right. Otherwise, they will be denying themselves the chance at much-needed income during a time when every dollar counts.

For others, their major goal is to keep their business in the family. But transitioning your business, even to your own children, is a long and complex process.

Finally, *everyone* wants to cement their legacy and good name long after the transaction takes place.

At Provest Wealth Advisors, we appreciate the hard work you've put into establishing a successful business. We understand it hasn't been easy. Yet we also know that the decision to one day sell or transfer out of your business can be just as difficult. Fortunately, we're here to help. Our business is all about assisting people secure their long-term future.

Understand that we are *not* a Mergers & Acquisitions firm. And we certainly don't want you to sell your business if you don't want to! But as a financial advisor, my job has always been about helping people secure their financial future. So, if you think there's even the slightest chance that you may want (or need) to sell or transition your business within the next few years, it's critical that you understand how to do it right.

To give you an idea of how and where to start, I've prepared this special white paper. In just a few short pages, we'll look at some of the challenges facing business owners who want to quit working someday, what the most successful business owners are doing now, and where you can get additional help.

The challenges facing business owners who want to quit work someday

Here are two plain and simple truths.

1) The first is that no matter how much you enjoy what you do, you probably don't want to do it forever. At some point in our lives, we all want to wind down, explore other interests, and just generally live life at a slower pace. It's called retirement.
2) The second truth is that retirement is becoming increasingly difficult and expensive. This is especially true for business owners like you. There are unique challenges you face that must be overcome in order for you to sell or transition your business and retire the way you've always dreamed.
   For example:
   - How to determine the value of your business
   - How to find a buyer
   - Choosing the right time to sell
   - Deciding whether to sell to a family member or a non-related party
   - Determining whether selling your business will bring in enough proceeds to fund your retirement and other financial goals.

So, what are business owners currently doing to overcome these challenges? Unfortunately, research shows that too many business owners aren't doing nearly enough.

What business owners are doing

A 2021 study conducted by the PwC US Family Business Survey found that only 34% of US family businesses have "a documented and robust succession plan in place".

If you were to speak to many business owners, you would find that many might *say* they have a plan, but that it is informal and unwritten. Unfortunately, an unwritten plan is really no plan at all, as it is subject to whimsy, forgetfulness, and even recency bias.

Other business owners might say that it's just too early to start thinking about succession planning. This might make sense to a young business owner, were it not for the always-unpleasant possibility of dying unexpectedly, and the immediate problems that would pose to the business, not to mention the surviving family.

No matter how young or old you are, you need to have a plan. Saying "It's too early" is like saying, "I don't need to put my seatbelt on yet, I just pulled out of the garage. I'll wait until I'm on the highway." The fact is, it's *never* too early. The sooner you have a plan, the sooner you can more ably avoid the unexpected bumps that every business owner faces at some point or another.

[1]"Majority of US Family Business Leaders Don't have Robust Succession Plan in Place," *PwC,* http://www.pwc.com/us/en/press releases/2015/majority-of-us-family-business-leaders-dont-have-robust-succession-plan.html.

[2]"Succession Reset: Family Business Succession in the 21st Century," *Baker Tilly International*, http://www.bakertillyinternational.com/media/1956606/succession-reset-usa-country-report-us-size-october-2014.pdf

Dwight Eisenhower, former president of the United Sates, said it this way:

"Failing to plan is planning to fail."

Assuming the above study is correct, approximately 35% of business owners are far more likely to retire when they want, how they want. They're also far more likely to *stay retired*. That's because they've left nothing to chance and have taken the steps to *secure* their retirement rather than just hope for it. In short, they have a formal, written **business transition plan**.

An effective business transition plan includes a thorough analysis of your business, including its finances, management structure, competitive environment, and the basic policies and procedures by which it runs smoothly. Basically, it should show what your business needs in order to be successful. Think of it as an inventory of what you have to work with.

Next, it should address the three most important needs you'll have when it comes to selling or transitioning your business:

1. How to ensure the orderly payment and transition of ownership/management of your business to your successor/heir
2. How to minimize the taxes that come from selling your business
3. How to ensure you have sufficient assets to pay estate taxes (should the sale of your business trigger at death) or to provide necessary liquidity to the business during the transition period.

At Provest Wealth Advisors, we and our partners have almost 40 years of experience helping business owners address each of these needs. So, let's look at each of these in a little more detail.

Selling your business

Essentially, you have three basic options for exiting your business.

1) Sell to another person or another business. It's an arms-length transaction, and as such will often require the most effort and discipline. But it's also the option that usually provides the highest financial reward.
2) Transfer or sell your business to the next generation of your family. Management expert Peter Drucker, perhaps a little tongue in cheek, calls this "the final test of greatness" for business leaders. Family dynamics make this choice arguably the most complex, and studies show this transfer to be successful in only around 33% of cases.[3] However, the right amount of openness, clarity and respect between family members, along with legally sound transfer/sale documents, will go a long way towards making this option a great triumph.
3) The third option is a buyout by existing management/employees. This has the advantage of ensuring that the new owners have complete familiarity with the business itself, and are already invested in its success. But while the new owners' familiarity is a given, the difficulty to arrange financing makes this the least common option. However, effective planning done well in advance can enhance the likelihood of a successful management buyout.

Tax strategies for business owners

This topic deserves special consideration for two very broad reasons. The first is the tax-saving advantages you can gain by planning properly long before you sell your business. The second reason is the not-so-pleasant tax repercussions that will occur should you sell your business improperly, particularly under the watchful eyes of IRS. The good news is that we at Provest Wealth Advisors have access to the top tax experts specializing in this subject, and we'd be happy to introduce you to them.

Regardless of what you decide to do or who you decide to work with, engaging a qualified tax professional is key…but it's critical that you do it sooner rather than later. Many of the best strategies for minimizing taxes on the sale or transfer of your business take a significant amount of time, meaning you can't wait until just before the sale to start them.

Here are just a few strategies you should discuss with your tax professional[4]:

- **Qualified small business stock exception.**
- **Employee stock ownership plan sale.**
- **An installment sale.**

[3] Michael Evans, "5 Steps to Create a Viable Succession Plan For Your Family Business," *Forbes.com*, http://www.forbes.com/sites/allbusiness/2013/08/28/5-steps-to-create-a-viable-succession-plan-for-your-family business/#1767017e5248

[4] Curtis Kroeker, "Plan to Sell Your Company Someday? Slash Your Taxes Now," *Inc.com, http://www.inc.com/curtis-kroeker/plan to-sell-your-company-someday-slash-your-taxes-now.html*

Ensuring you have sufficient assets for both you and your family's future

An important part of the process is to create a comprehensive plan encompassing all aspects of your financial life. By understanding what specifically about money is important to you, and how much you will need to achieve your goals, dreams, and lifestyle needs, you will have a better idea of when work can become optional for you instead of mandatory. This is also important in giving you the peace of mind you need in order to ensure you are exercising sound judgment when the time comes to sell your business.

In short, creating a formal business transition plan should provide you with a blueprint of *what* your goals in life will cost, *how* to be able to afford them, and *when* to execute various strategies designed to help you achieve them.

Getting the help you need: Building your own Transition Team

Successfully planning for and ultimately selling your business will almost certainly require some expert help. There are so many among legal, accounting, tax, and insurance implications that it's all but impossible for you to do it all on your own. Getting a qualified valuation of your business is also vital. *Fair market value* can be a very sticky issue with tax authorities, and trying to hand over the business to family or friends at a "good" price can have serious consequences.

Most business owners feel busy enough without having to contemplate the complex, and sometimes unpleasant possibility of selling their business someday. But unless they're planning on living (or working!) forever, "then an ounce of prevention is worth a pound of cure." Those people are best-served by engaging wealth management professionals to help make the process simple, easy, and *effective*.

This is where Provest Wealth Advisors comes in.

Provest Wealth Advisors

You have your business and I have mine. My name is Noel B. Swain. I have almost 40 years' experience in the financial industry. I went into this business for two reasons: because I have a passion for plumbing the depths of investing, and because I am even more passionate about helping people.

My philosophy is basically this: that all Americans, especially business owners, *need* and *want* personalized financial advice that helps them achieve their goals in life. To that end, my team and I have acquired great expertise at developing *specific* and *personalized* strategies for each of our business-owner clients. We work to enhance their knowledge, provide guidance, and create confidence for each of them to enjoy.

Summary

It should be clear by now that it may become necessary to sell your business someday to reach your goals in life. In order to sell your business in a timely, cost-effective, and *profitable* manner, you need to have a business transition plan. It's this plan that will give you the step-by-step instructions needed to ensure the orderly transition of your business to your buyer and/or your heirs, minimize taxes, and ensure you have sufficient assets for both you and your family's future.

So, how do you go about creating a business transition plan? The answer: by not trying to do it alone.

The world of finance has gotten more complex than ever. It takes years of time and training to master all the intricacies of financial planning, to say nothing of the laws and regulations that seem to increase very year. As a business owner, your time and energy should be spent on one thing: your business. That's why it's so crucial to choose an experienced, qualified financial expert to help you. Such an expert can answer your questions and look closely at your business before suggesting the best course of action. An expert can do the legwork and manage your plan, giving you confidence and peace of mind.

> **I've worked with many businesses in the Upstate area. Helping entrepreneurs like you is my job. It's also my passion. I take pride in helping business owners do what they deserve to do: enjoy the fruits of their labor and retire when and how they want to.**

To demonstrate what a business transition plan would look like, I'm currently offering a free consultation to business owners in and around the area. All we'll do is sit down, have a cup of coffee, and look at your goals and needs. I'll explain some of the things you'll need to consider and where to get started. There's no obligation on your part. If you need further assistance from me, I'd be thrilled to provide it. If not, no matter. I'm just happy to help in any way I can!

If you want to take me up on my offer, just call Pamela or Ginny at 864 582 7766. We'll set up a time to meet whenever is most convenient for you. Keep in mind that the sooner we meet, the sooner you can have a plan in place. If your goal is to quit working someday, creating a plan is a must. Thinking about your future is a must.

Taking action is a must, too.

Don't waste another day. Start now.

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