WHY SHOULD EXIT PLANNING FOR YOUR PRIVATE COMPANY BEGIN NOW?

The prior sections explain the unique complexities of exit planning for a private company. And while most owners do not recognize all of these complexities, they generally are also reluctant to deal with the uncertainty of change in their private company which is a major part of their life. Unless an emergency occurs, owners usually conclude it is always easier to put off addressing these issues to a future time, so the years go by with no exit plan.

For many owners, this “think about it later” exit planning strategy often leads to one of the “Three Ds” in disaster exit planning: Divorce, Disability, or Death. Each of these events, which most commonly strike a private company owner unexpectedly, can materially reduce the company’s value as well as the owner’s exit alternatives. Divorce often leaves an owner emotionally wounded and in need of cash for an equitable distribution settlement at a time when he is least able to give the company the attention it needs. Disability can be to the owner’s health or to the company’s health, either of which can decrease the company’s value and eliminate one or more exit options. Death often leaves the company without its leader or visionary; and this gap can hurt relations with customers and suppliers, and cripple operations. In addition, unless proper estate planning is in place, the company may have to be sold to generate the cash to pay estate taxes that are due.

Planning in advance is essential because, as has been discussed, one or more factors commonly prevent immediate execution of most exit options. Whether it is building a successor management team, preparing the company for a sale or waiting for better market conditions before exiting, delays commonly occur. A soundly drawn exit plan recognizes these timing issues to minimize unwanted delays and fit the owner's timing preferences.

Advanced planning also accommodates the changes in an owner's needs and goals that occur over time due to age, health, outside interests, desire to work, or other factors. This is particularly important when the company has multiple owners because each will want to get out under favorable circumstances and there must be a market for the shares of any exiting owner.

As the discussion about exit planning that follows will emphasize, an effective plan typically requires a team of professionals from several disciplines and a quarterback to lead the process. Most of the professionals involved tend to focus on their specific tasks and are often reactive in nature. That is, they will do what they are asked to do when they are asked to do it. Thus it is up to the owner's exit planning quarterback to see to it that an effective plan is developed and that each service provider works to achieve the owner's priority goals.

While five or ten years is a long period to plan most activities, it is the time frame required for effective planning to exit a private company. The complexities of the process, the reality that needs and goals change over time, continually changing business conditions and the varying circumstances that multiple owners bring to an investment create a compelling case to plan well in advance.