



Building Value is the Win-Win-Win of Exit Planning

In all likelihood, you are absolutely critical to the success of your business. Without you, there is no business.

We want to fix that.

With a little luck and a lot of hard work, we can help you become an Inconsequential Owner.

At some level, all owners understand that they will someday leave the businesses they have created. Let's assume for a moment that you leave your business permanently tomorrow. If you are an Inconsequential Owner, your exit will have no impact on the business, and that's good for business value. Buyers pay for business value, not for the departing owner. If you constitute a significant part of your company's value (i.e., you are a Consequential Owner) and you have left the scene, there likely will be few buyers interested in your company, and those who are interested likely will pay significantly less than they would had you been an Inconsequential Owner.

Exit Planning is a process you can use to transform yourself into an Inconsequential Owner for your sake, your family's sake, and your company's sake. While perhaps not the most flattering label, becoming an Inconsequential Owner not only increases your business' value but also probably aligns with what your friends and children have been calling you for years!

All Exit Plans should answer this question: "What has to happen in my business by the time I leave it to (1) enable me (and my family) to achieve financial security and (2) allow me to move forward with the rest of my life, confident that I have been a good steward of the business?"

The details that constitute "what has to happen" are discussed in myriad newsletters, books, and white papers that we can share with you. For most owners, one of the first and most important things that "has to happen" after figuring out where they are (i.e., current business value) and where they want to go (i.e., Exit Objectives) is to create and sustain business value. When we talk about value in the context of Exit Planning (Step Three of The Seven Step Exit Planning Process™), we divide the discussion into three areas: building value, protecting value, and minimizing income taxes. The following is a summary of each area.

Building Value

When considering building value, we first will ask, "What do you, as the owner, need to do to create a successful company that can operate without you?" Topics include developing a market focus, creating a top management team, and adopting a proper financial focus and corresponding policies.

Second, we ask, "Which characteristics will buyers pay handsomely for?" We call these characteristics Value Drivers, and they include (but aren't limited to) the following:

- A stable and motivated management team.
- Operating systems that improve cash flow sustainability.

- Understanding and nurturing the company's competitive advantage.
- A solid and diversified customer base.
- A realistic growth strategy.
- Effective financial controls.
- Good and improving cash flow.

Protecting Value

Protecting value relates to both internal and external threats. Instead of handling these threats as they occur, owners must identify threats and know how to avoid them before they happen. Some examples include protecting propriety information and trade secrets; preventing employees from doing harm to the business when they leave by taking customers, employees, and business relationships; and anticipating and evaluating outside threats to owners' companies.

Minimizing Income Taxes

The lifeblood of every business—and therefore the best indicator of value—is cash flow. Our discussion includes how to preserve cash flow and value from income taxation (legally, of course). Income taxes collected on the sale of a business interest can range from 0 to over 50%. Of course, each tax-efficient design and the tools used to implement those designs usually have disadvantages along with their advantages. However, to date, we have not identified any upside to paying more than necessary to your silent partner, Uncle Sam.

As you read articles about The Seven Step Exit Planning Process, we hope you begin to appreciate that while planning and preparing yourself and your business for your ultimate exit may seem to be a daunting task, it does not need to be. Indeed, if you approach the task systematically, you will use only small chunks of time and effort for a potentially enormous payoff.

If you would like more-detailed information about Value Drivers, please contact us today, and we will provide you with guidance and literature on how to install and maximize the effects of Value Drivers in your business.

Brought to you by:



Chris Rich ChFC, MSFS, CFP®
chris.rich@goldenhawkprofessionals.com

GoldenHawk Professional Associates, LLC
 3254 East Cactus Road
 Phoenix, Arizona 85032
 Office Phone: 602-923-8300

Chris Rich is the Founder and President of **GoldenHawk Professional Associates, LLC**. He has been serving the business owner/ CEO community for nearly 25 years, with expertise and wisdom. He holds numerous professional designations, including Certified Financial Planner (CFP®), Master of Science in Financial Services (MSFS), & Chartered Financial Consultant (ChFC).

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