Are You Planning to Sell Your Company? If so . . .

Plan to Leave Your Business Profitably

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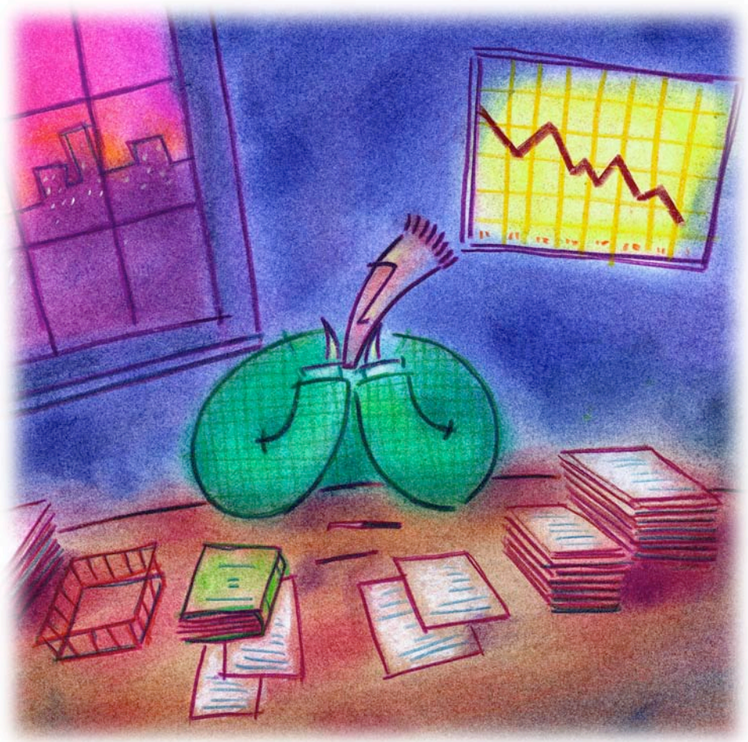

Yogi Berra once said, "You've got to be careful if you don't know where you're going, because you might not get there."

His reflection applies to business owners who don't carefully plan ahead for the sale of their companies.

Are you thinking about retiring and getting out of your business? Perhaps you'd like to sell your company? If so, are you taking steps to ensure that you can sell your company or retire profitably when the time comes?

A study by The Douglas Group, a business consulting firm in St. Louis, Missouri, addresses this issue. It found that 70 percent of participating business owners talked about selling but didn't act until a negative event -- a death, disability or market downturn -- made it unavoidable. Only one in three business owners sold their companies when they wanted to. "An entrepreneur who builds a successful enterprise may dream of selling it profitably. But without careful planning, small business owners can end up losing in the long run," says Reed Schnittker, RHU, president of Financial Group in Dallas, Texas. "Amazingly, many business owners think of their company's value only in terms of the income and lifestyle it affords them at a given moment, but don't think beyond that."

Conduct a SWOT Analysis

What can business owners do to prepare for an orderly -- and profitable -- ownership transfer? Here are some basics. Conduct a SWOT analysis. Identify your firm's strengths, weaknesses, opportunities and threats. A SWOT analysis can frame a strategic plan to fortify your firm, making it more appealing to potential buyers.

■ **Streamline** the business based on its market opportunities; for example, a unique product or service, a specific market, intellectual property or other competitive advantages.

■ **Make the business as transferable as possible.** This could mean reducing dependence on you, the owner, and positioning top employees as key assets or making sure that contracts can be conveyed.

■ **Update capital equipment.** Buyers may balk if they believe they will need to invest in new equipment and train employees to use it.

■ **Boost your firm's reputation with customers.** "Good will" is a valuable asset. Aggressive public relations, customer networking and trade show activities may enhance your firm's image.

■ **Ensure that key executives will stay on.** This may mean activating employee benefit or deferred compensation plans that encourage top people to stay with the firm, preserving its value.

But these are not the only issues.

Succession plan

"The sale of a small company, for whatever reason, is a life-changing event for the owner," Schnittker observes. Planning for a sale means creating a succession plan to ensure orderly transition -- and business continuation -- after the owner is gone. Components of succession plans typically include a business valuation, a buy-sell agreement, funding for the agreement and strategies to address the owner's personal financial considerations.

Prepare in advance. Decide what you want from the sale.

"Most business owners, including baby boomers, face expenses for their children's education and want to ensure their own comfortable retirement," says Michael S. Weisman, CFP, president of Wealth Products Group, Enterprise Bank & Trust, Clayton, Missouri.

"High incomes create the need for estate planning. It's a fact of life that most entrepreneurs are wrapped up in running their business -- they need help identifying executive compensation and benefits plans that, once in place, can enhance the appeal of their business to potential buyers. The owner also may need insurance to fund a business succession arrangement and pay estate taxes."

Buy-sell agreements

"Buy-sell agreements are widely used mechanisms that ensure orderly transfer of ownership in a small company or partnership," adds Weisman. "Without a buy-sell agreement, arguments among owners and key executives or shareholders can literally ruin the company."

"The world is littered with the wrecks of businesses that did not have a buy-sell agreement," Schnittker adds. A typical buy-sell agreement also identifies what events -- such as disability or death -- will lead to succession, and who the successors will be. Buy-sell agreements can be funded in several ways, but life insurance may be the best funding method because of its death benefit.

Estate planning

"The sale of a business will more than likely have an impact on estate taxes for the parties involved," says Schnittker. "Business owners should get estate planning advice from professionals who can help them make the right choices."

The tax treatment of a business sale will differ, depending on the firm's legal structure. Other factors, such as estate taxes and estate equalization, must be considered because a company's value often comprises the majority of many a business owner's estate. Potential solu-tions may include:

■ **Business continuity trust** -- A legal mechanism that takes business assets out of the owner's personal estate and shields them from estate taxes while ensuring that business succession proceeds according to plan.

■ **Charitable remainder trust (CRT)** -- An irrevocable CRT is a way to gift to favorite organizations and gain an income tax deduction while reducing the value of an estate for tax purposes.

"It's important to assemble a team of qualified financial, insurance and legal professionals to decide the best ways to prepare a business for sale, get top dollar and keep as much wealth as possible," says Weisman.

"The sale of a business should be a happy, profitable occasion for the owner, not a disaster. After the sale, the seller should be able to enjoy the fruits of labor, not worry about an under, funded retirement or estate taxes that can torpedo a lifetime of savings and investments."

Tips for Selling Your Business

Prepare in advance. Decide what you want from the sale. Tackle issues that could turn off an interested buyer.

Get documentation. Retrace income statements, balance sheets, tax returns, accounts payable and receivable reports, loans, contracts, and leases, and produce an analysis of the business and its market.

Price it right. Determining value is a task for an appraiser or CPA. Itemized financial records, data about sources and uses of funds, plus values of equipment and real estate, will help set a price.

Time it right. Establish what the firm is worth now and how its value may change in years ahead. A potential buyer will want to see financial data, but also growth potential projections.

Target prospects. Potential buyers may be your competition, suppliers, customers, investors, existing management, employee groups or members of your family.

Be quiet. If word of a possible sale reaches the wrong ears, you might lose customers, employees or credit. Be sure potential buyers are qualified before releasing proprietary data. Before negotiating, get guarantees of confidentiality.

Be flexible. How much of the sale price do you need to receive at closing? Will you finance part of the price? Will you stay on after the sale or sign a non-compete agreement? Expect to compromise.

Assume nothing. Keep a business-as-usual attitude. Run the company as if it will be yours indefinitely. Otherwise, it might be.

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