

Key Family Wealth – Business Advisory Services (BAS)

# Top Excuses Owners Use to Avoid Transition Planning – Part One



Like every owner, you will one day transition your business — voluntarily or involuntarily. On that day, you will want to attain certain business and personal objectives: The first (and usually prerequisite to all others) is financial security. Believe it or not, most owners do absolutely nothing to consciously plan and systematically move toward that all-important goal. Anecdotally, these are four most common excuses owners use to justify delaying and eventually ignoring transition planning:

1. The business isn't worth enough to meet my financial needs. When it is, that's when I'll think about leaving.
2. I will be required to work years for a new owner.
3. I don't need to plan. When the business is ready, a buyer will find me.
4. This business is my life! I can't imagine my life without it.

Let's look at the first hurdle that prevents most owners from making the necessary plans to cash out of their business and move on to the next stage of their lives.

## The number one excuse

**It makes no sense to start planning when my business isn't worth enough to meet my financial needs. When it is, that's when I'll think about leaving.**

This is a common, and not unreasonable, assumption: Why spend time, effort, and money to plan to leave your business when, today, you can't? Why not wait until it is at least theoretically possible to leave to begin the transitioning process?

### Scenario: Rowling's plan

At age 45, Jerome Rowling was dreaming of the day he could leave his company. The past five years that Jerry had spent trimming fat, watching every dime, and developing new marketing strategies on a shoestring had taken their toll. Like the trouper he was, Jerry kept his nose to the grindstone, fully confident that if he worked hard enough, the transition he dreamed of would take care of itself.

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Fast forward five more years and we find Jerry pretty much where we left him — dreaming more frequently, but doing nothing about the day he will walk out the door. What had changed was that Jerry had reached his 50th birthday — a benchmark he had set years earlier — for the day he'd leave the business behind.

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During the five years Jerry spent working in (rather than on) his business, he missed the opportunity to:

- Clearly establish his personal transition goals and objectives.
- Create a transition plan (based on his goals) that would identify the most productive actions he could take to create and protect value, and to do so in the most tax-efficient way possible.
- Drive up business value to the point where he could sell, pay taxes, and transition with the amount of cash necessary to achieve financial security.

What owners know to be true, but often fail to act upon, is that growing value usually does not occur unless they focus their efforts on deliberate actions that move the company measurably toward their goals. In failing to act on what they know, owners don't create or implement transition plans and so are never able to transition on their terms.

## Do you have a plan?

To avoid planning not only puts your future financial security at risk, it overlooks your company's need to grow in value — efficiently and quickly — in carefully targeted areas. Growing and protecting value is at the core of Transition Planning. To identify where and how to spend precious company resources (your time and money) to make the greatest impact is a key transition planning task. It is just as important as identifying and implementing strategies to minimize current taxes and the tax bill when you transfer your company.

It makes sense to start planning for your eventual transition because you have to plan (and consistently take purposeful actions to implement your plan) if you ever want to transition in today's (and likely tomorrow's) economy. The simple reality is that most owners don't plan and therefore most owners are never able to leave their businesses in style. In our next issue, we'll talk about the other three most common reasons owners avoid planning their transitions.

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For more information, please contact your advisor.

The Key Family Wealth BAS team is dedicated to providing guidance and support to privately held business owners like you. Specifically, the BAS team helps owners prepare for an eventual business transition with strategies and advice on how to maximize the after-tax value of a business transition.



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