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PROTECTION
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Ingredients to Jumpstart the Planning Process

Taking on any large project can be manageable when you have a reliable process in place. When deciding to exit your business, for example, you will need a proven process in place to ensure you have covered all the bases.

Just like baking, without following the specific process or recipe, you could end up setting off the fire alarms. There is a "recipe" for creating a successful business transfer. The "recipe" below has worked, time and time again, for business owners who are looking toward the future. However, different ingredients in your recipe can change the outcome. Each business is unique and requires slightly different "ingredients" to plan for a successful future ownership transition. You can add these ingredients in any order that you want based on your top priorities, but if you leave out any of the following ingredients you could end up with a vastly different outcome.

First Ingredient – Establish Your Objectives

This first planning step is similar to the eggs in the recipe for the "planning cake" you are baking. This keeps the whole plan together. Without goals and objectives to strive for, your plan will fall apart.

Make a list of your goals and objectives (personal and professional). You may have several business objectives, including some of the following:

- How you (and your spouse, if active in the business) define financial independence.
- How you and your spouse define "fairness" regarding distribution of family wealth (including the business) among children if you are considering an inside transfer.
- When you (and your spouse, if active in the business) want to leave the business and transfer control according to a timeframe you set.

Second Ingredient - Determine the Company's Value and Cash



**William Battle McQueen, CPA, JD, LLM,
CExp**

Bill@LegacyProtectionLawyers.com

Legacy Protection Lawyers
<http://LegacyProtectionLawyers.com>

100 - 2nd Avenue South
Suite 900

St. Petersburg, FL 33701

(727) 471-5868

Flow

This could be considered the flour of the cake you are baking. This is the foundation of how your business will be run. It may fluctuate over time, but you want to gradually keep adding this ingredient throughout the lifecycle of the business.

In addition to knowing what you want (ingredient 1), you must know what you have (the value of your company) before you can plan for the future. You must determine the gap between what you have today and what you need to have by the time you are ready to part with your ownership interest. Determine a baseline value. Get an accurate representation of your business and personal resources. This measurement, along with a professionally reviewed estimate of future cash flow, will give you a more accurate timeline.

Third Ingredient – Build Business Value

The third step in this process could be considered the milk, butter, and spices of your baked treat. This is what really gives your cake flavor.

Once you know what you want (ingredient 1) and what you have (ingredient 2) you must think about how you can motivate key employees to maintain or increase the value of the company before, during, and after a transition. A well-designed incentive plan is a great tool to encourage key employees to continue to grow your business. You want to be sure your business is worth something and can run efficiently after the transition of ownership.

Fourth Ingredient - Ownership Transfers

This ingredient is like deciding if you want chocolate or vanilla frosting on your cake. The succession path that you choose for your business and your family is ultimately your decision. There are a lot of variables to consider when deciding between an inside sale or a sale to a third party.

When considering a sale to a third party, you must thoroughly evaluate your risk profile, business value, and the management team you have in place to help the buyer continue to grow the business. The key to this ingredient is making sure that both you and your business are prepared for the sale process well in advance of the day you go to market.

In contrast, when the plan is to transition ownership to an insider (co-owner, family member, or employees), your attention is more focused on planning the method and the timing of the transfer of ownership. This can include gifting, incremental sales, or even a plan to hold onto ownership for some period of time

Fifth Ingredient - Business Continuity Planning

The fifth ingredient can be compared to making sure you have back-up ingredients, or even a back-up bakery, in case anything goes wrong. This is the step most owners take to plan for the unexpected. Many

people fail to create a back-up plan because they assume their baking skills are flawless and everything will just work out.

It is critical to make contingency plans for what will happen if you die suddenly or become severely ill before the transfer can be completed. You may need to make arrangements for the financial well-being of your family. You may need to talk to those you've planned to run the company if you are not able to do so.

Sixth Ingredient – Personal Wealth and Estate Planning

This ingredient can be compared to all of the planning you'll do to make sure everyone involved enjoys the cake. Where will you get together? Do you have plates and forks? How will the cake get from your kitchen to the party?

A key goal of estate planning is to make sure that, whether you own your business at your death or not, the ownership of your business or the value you received for it, along with all of your other assets, are transferred when and to whom you see fit. You may need to plan for your family's standard of living to be maintained. You may need to address fairness and/or equality among your heirs. You may wish to do something for charities you care about.

Process is Everything

Process is everything when it comes to long-term planning. Following a process to complete any large task can help any project flow smoother, especially when a process is proven to work. Implementing elements of each of these ingredients to your plan can significantly impact your planning process.

We strive to help business owners identify and prioritize their objectives with respect to their business, their employees, and their family. If you are ready to talk about your goals for the future and get insights into how you might achieve those goals, we'd be happy to sit down and talk with you. Please feel free to contact us at your convenience.

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