CPA & Business Advisory Blog

Business Exit Planning: Maximizing the Value of Your Business Before Exiting

Posted on Friday, April 17th, 2015 by Mike Ella, CPA

Many business owners today don't look at the sale of their business as the end of their working life. Rather they view it as an exciting and active new stage of their lives that includes learning new things, starting new ventures and continuing their personal growth. To accomplish this effectively, they need to maximize the amount of money they'll have when they leave the business.

A business valuation is essential to understand what your business is worth. It needs to be linked to a financial plan to determine if you will have enough money to retire after the business is sold. The difference between your current net worth and the wealth needed to retire is called the value gap. In many situations, the biggest component of an owners' net worth is his or her business. Reducing the value gap is generally the most important step in the exit planning process. This is accomplished by "de-risking" the company. What drives value in the eyes of a buyer is risk. Higher risk companies are worth less to buyers and lower risk companies are worth more.

The de-risking process is started by completing an overall assessment of the company. The assessment includes topics such as management strengths, revenue drivers and business contracts.

Addressing weaknesses in the company creates value that is transferable to the buyer. The mission of the succession plan is to create value within the company that is separate from the business owner. Eventually, the business owner will exit their business; the goal is for value to stay with the company, and not exit with the business owner.

Companies operating at their full potential inherently sell well as they are attractive to buyers. They will also hold their value when the market becomes saturated with businesses for sale. The mergers & acquisition (M&A) market has strengthened in recent years, and it has very much been a seller's market. However, this will not last forever. With Baby Boomers beginning to retire, a significant amount of businesses will become available over the next 5 to 10 years. The market will eventually (sooner than later) turn into a buyer's market. When that happens, the increased competition among sellers will begin to drive selling prices down. This is where the true value of the exit planning process comes into play.

Even with increased competition from other sellers, a well-run business that is organized with an exit plan in place is more attractive to prospective buyers. Done right, your succession plan will ensure a smooth transition and maximize your company's financial health, increasing the chances for a profitable sale even in a buyers' market.

Your business is an asset in which you have invested great time and money. It should be increasing in value so that when the time comes to sell, you will be able to harvest additional wealth. The majority of individuals have advisors managing their financial investments, however most financial planners estimate that 85-90 percent of the average business owner's net worth is tied up in their business! Doesn't it make sense to have an advisor assessing its strengths and weaknesses as selling the business is the key to your retirement?

If you'd like to discuss your business exit planning strategy in detail, and ways you can increase the value of your company, please contact Mike Ella at 440-449-6800 or mella@skodaminotti.com.

This entry was posted in CPA & Business Advisory, Mailchimp RSS. Bookmark the permalink. Follow any comments here with the RSS feed for this post. Comments are closed, but you can leave a trackback: Trackback URL.

Subscribe to our blog

email address

Subscribe

- CPA & Business Advisory
- Valuation & Litigation Advisory
- Financial Services
- Wealth Management
- Marketing
- Staffing
- Risk Advisory

Recommended Articles

- Five Essential Steps to Developing a Strategic Marketing Plan: Step Five – Determining Your Marketing Budget
- Business Exit Planning: Maximizing the Value of Your Business Before Exiting
- Disputes in Mergers & Acquisitions – Lost Profits vs. Lost Business Value
- Does Your Website Stack Up? A Survey of the Nation’s Top CPA Websites Revealed at AAM Summit
- When Your Child Asks for a Loan, Should You Say Yes?