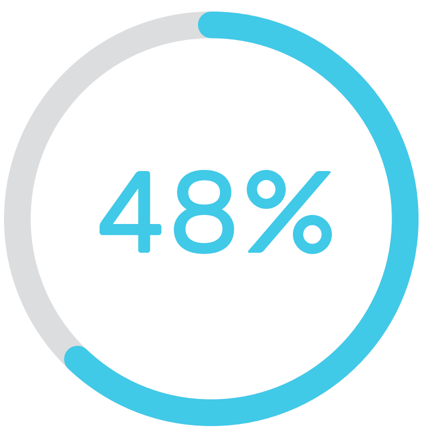
Exit your business on your terms

There's been a lot of research done on business owners and their top business planning priorities. But the one statistic we don't need research to prove: **100% of business owners will exit their businesses some day.**

Why exit planning is good business strategy.

Exit planning is the ongoing process of developing a written strategy for the day a business owner leaves his/her leadership or ownership role in the business due to a voluntary or involuntary departure.

Exit planning should be viewed as "options planning." That's because a business owner who views his/her exit as an inevitable eventuality, and plans accordingly, will have flexibility and options for life after the business. An exit plan is also a roadmap for you, your family and your employees to help ensure that when you step away, regardless of when that time comes, everyone knows what will happen next.



Do business owners think about stepping away from the business?

In 2018, MassMutual® and HawkPartners* conducted a survey of business owners and found that transitioning ownership of the business ranked very low in terms of importance and priority. In fact, nearly 50% of business owners rarely or never think about transitioning ownership or finding a buyer for the business upon retirement. This is not all that surprising when you consider that nearly half of the business owners surveyed don't even think about retirement or can't imagine ever retiring.

*2018 MassMutual Business Owner Perspectives Study conducted by HawkPartners for MassMutual.

What goes into an exit plan?

Exit planning is sound business strategy. And, like any strategy your business may already have in place, an exit plan follows the same principles. It should address the who, what, when, where, why and how. Your professional advisors will provide you with detailed guidance on setting up a plan customized for you and your business, but an effective plan will address business succession, owner retirement, and the family's estate. In addition, consider these questions as you begin to develop your exit plan:

- What are your goals? Identify what you want to get out of the business when you retire.
- Who are your successor(s)? Choose who will be taking over for you. Outline a plan to ensure they are properly prepared.
- What will the ownership structure look like? If the company will have multiple owners in the future, specify their ownership roles and percentages.
- How will you keep your management team intact? Define steps needed to keep vital, non-owner management in place to ensure a smooth transition.
- Is the business ready to transfer? Determine when and how the transition will take place and what needs to happen leading up to that time.
- What are the financial impacts? Identify where the funds will come from to buy you out; calculate what taxes will be due and what will be the effect on your personal estate plan.

To be effective your exit plan must be documented and communicated.

Share details of the exit plan with family and key members of your management team.

Discuss the plan with your chosen successor(s) to be sure they are both interested and able to take over the business. Our study* found that 1 in 4 successors don't even know they are the chosen successor!

And finally, be open and honest about your role in the business post retirement. If you intend to stay active in the business, your role (duties, responsibilities and authority) must be agreed upon and included in the plan.

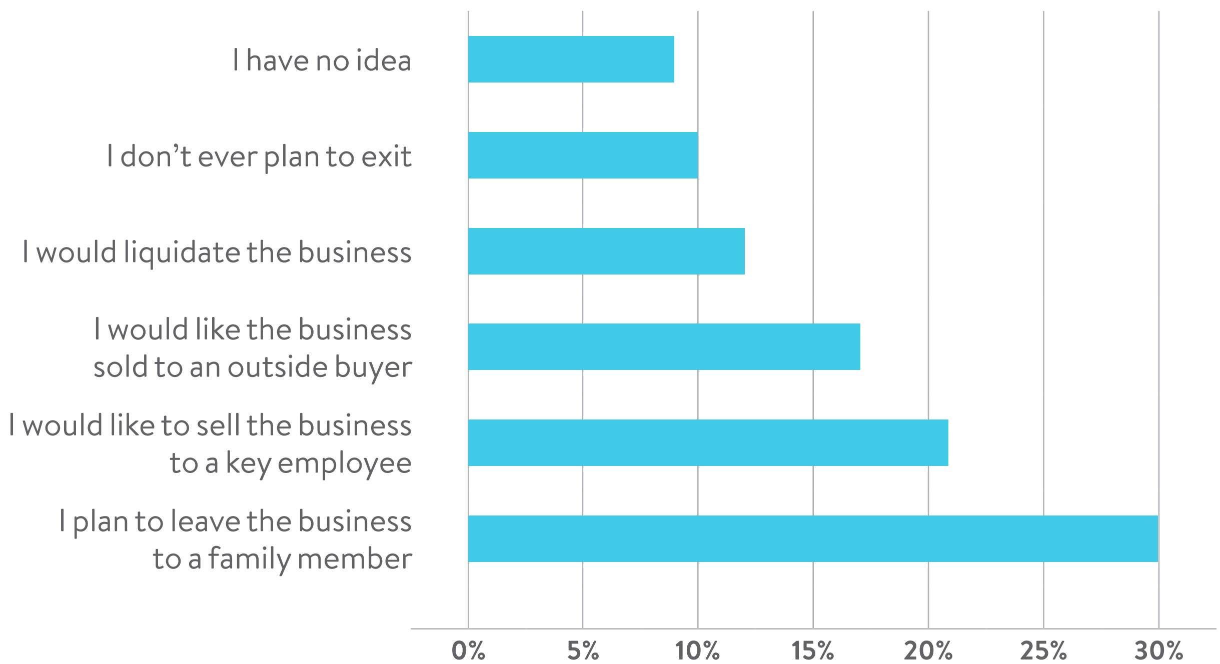
*2018 MassMutual Business Owner Perspectives Study conducted by HawkPartners for MassMutual.

Exit planning is about options for your retirement

Your retirement is one reason why exit planning is so important. It helps you specify, in writing, what will happen to the business when you step down. The process of developing an exit plan should begin early in the life cycle of your business so you can make the decisions now about what will happen to your business — and how you will fund your retirement — in the future.

According to the 2018 MassMutual Business Owner Perspectives Study, 10% of business owners say they don't ever plan to exit their businesses. In addition, two out of three business owners do not know all of the available exit options. Having a clear picture of how you wish to exit the business will help you determine how much retirement savings you need to plan for. Unfortunately, many business owners haven't thought about their exit strategy, let alone how it will impact their retirement plans.

WHO DO YOU PLAN ON TRANSITIONING THE BUSINESS TO?*



*2018 MassMutual Business Owner Perspectives Study conducted by HawkPartners for MassMutual.

Knowing your exit options

There are pros and cons to each exit strategy. You'll need to spend time not only in the selection process, but also giving consideration to how your chosen exit strategy will impact your retirement income. This is why exit planning should be viewed as "options planning." The earlier you begin the planning process, the more options you will have to exit the business on your terms.

Inside exit options

Inside exit options include a sale or gift to family members, sale to an existing ownership partner or key employee, management buyout and an ESOP (Employee Stock Ownership Plan).

Again, there are pros and cons with each. For example, gifting the business to the next generation creates a wonderful family legacy. However, it is a non-cash transfer. You cannot rely on proceeds from the sale of the business to fund your retirement.

A sale to a key employee is a great way to ensure the business stays in the hands of someone who has the same passion for the business as you do. But often the buyer has little cash and must purchase the business through an installment sale. What happens if that individual makes a better employee than an entrepreneur? Will you be forced to come back into the business?

Outside exit options

Outside exit options include a sale to a third-party, private equity sale, and liquidation.

Think about these options as well. Selling the business to a third-party is often the most desired exit strategy because it can get the most dollars up front. But the reality is 80% of businesses put up for sale don't ever sell.* Are you confident you'll find a ready, willing and able buyer who can pay the full value of the business at the time you want to sell? Maybe, but it takes time. Time that can impact your expected retirement age, as well as your personal health and the health of the business.

Unfortunately, the most common exit strategy, though not often intended, is liquidation. For many businesses, liquidation — selling off the business in pieces for pennies on the dollar — is not the desired plan, but becomes the reality when there is no exit plan in place.

*The Business Reference Guide, Tom West, 2021

What's the value of your business?

It is critically important that you know the value of your business at different points along the way. It's been estimated that up to 80% of a business owner's net worth is tied-up in the business. Therefore, the business value plays a significant role in your exit plan, as well as your retirement income strategy.

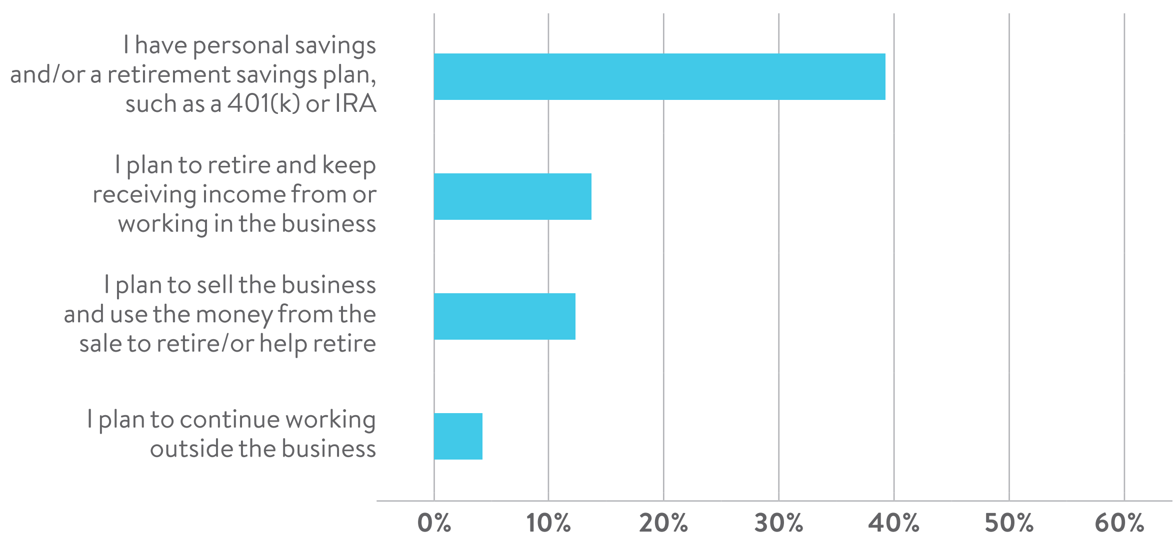
Income replacement value

Since your business is most likely your largest asset and a key component of your retirement plan, a valuation can help you reconcile your future retirement income needs with the current value of your business to help identify any retirement income shortfalls. While this may seem like a common sense approach, the reality is that nearly 40% of business owners don't have a retirement income strategy outside of their businesses.

Perhaps the most important value to know isn't an actual business valuation at all. It's the "income replacement value" — the value you need the business to be worth to maintain your current standard of living in retirement.

Business owners often realize that the income replacement value is higher than what they can realistically sell the business for today. This is your retirement income value gap. However, this gap can be reduced by either determining ways to increase the value of your business over time or by having assets outside your business to fund the gap. The reality is it will probably be a combination of both.

HOW DO YOU PLAN ON FUNDING YOUR RETIREMENT?*



*2018 MassMutual Business Owner Perspectives Study conducted by HawkPartners for MassMutual.

Grooming your successor

You could have a well-drafted and properly funded exit plan, but if you haven't adequately prepared the person who will take over the reins of your business, your plan may not work out as intended. In fact, our study* showed that 30% of business owners are not completely confident in their successor's ability to take over the business!

Grooming the right successor is critical to the long-term success of your business. Here are a few tips for properly preparing an individual for taking over the business.

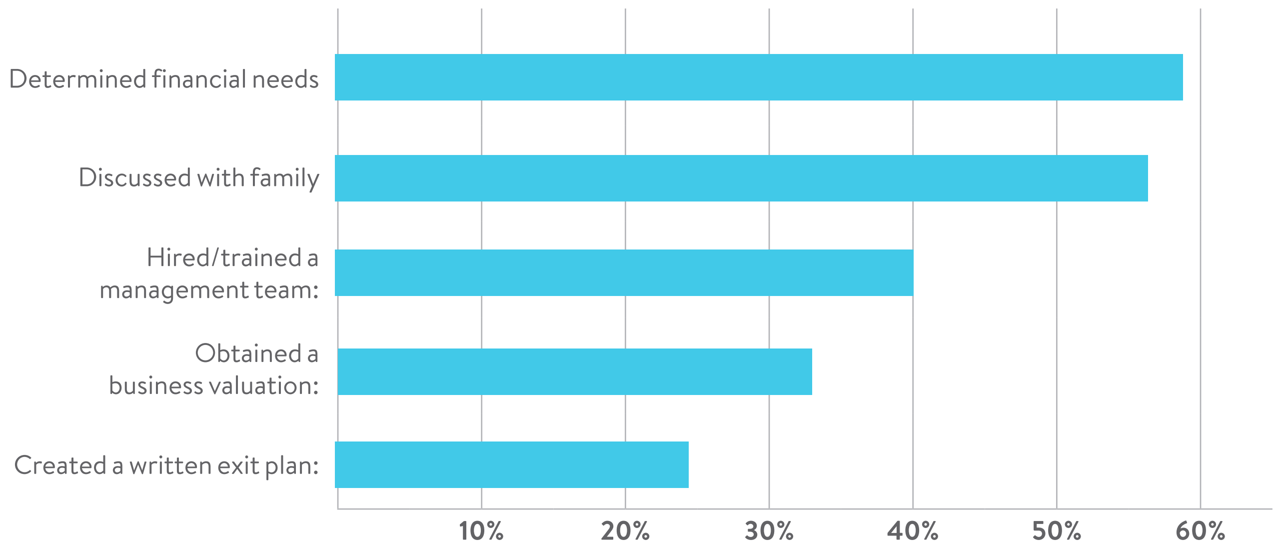
- Encourage gaining experience outside the business: Successor candidates should ideally spend 3-5 years gaining work experience outside the business. This fosters new skills, fresh ideas and self-confidence. It also helps determine if taking over the business is something the chosen successor is actually interested in doing.
- Implement a successor development plan: This is a written career path for the successor to follow. It begins with an assessment of the successor's current skills and interests, and defines what additional experience, education, and training must be achieved.
- Coordinate the succession plan with family members and key managers: Have them participate as appropriate in structuring the succession plan and make sure they fully understand its impact on them. To achieve this, they must understand that there is a rigorous process of successor development and selection that will shape the next leader of the business.
- Recommend utilizing a mentor outside the family/business: Help the successor find and utilize a mentor outside the business to act as a coach, advisor, and educator. This might be a trusted person within the industry (but not affiliated with the company), a professional career coach, or a professional development group composed of successors from other non-competitive companies.

*2018 MassMutual Business Owner Perspectives Study conducted by HawkPartners for MassMutual.

See the process through

Exit planning is a multi-faceted, complex endeavor. It is not a one-time event, but instead a continuous process that starts with your goals and builds and improves over time. The key to the process is time. And while 80% of business owners say that a successful exit will result from planning and action items they implement, many just never see the process through.*

HOW FAR DO BUSINESS OWNERS GO IN THE EXIT PLANNING PROCESS?*



*Source: BEI Business Owner Survey, 2019

Estate equalization

Exit plans can also have a substantial impact on a business owner's estate plan. And your estate plan can be used to help address one of the largest financial issues for business owners and their families: the business, often the largest asset, is illiquid. There's no cash to divvy up.

Oftentimes in exit planning, you have to account for family members who are working in the business, and those who are not. When ownership is passed down to both there is the potential for creating tension and resentment within the family. Yet, according to our study,* over half of business owners plan to divide the business assets equally among all children regardless of their involvement in the business.

Fair does not always mean equal when it comes to business ownership, and you may want to look at ways to 'equalize' your estate for your heirs. Your estate plan can identify a combination of financial vehicles and the distribution of non-business assets to help address any inequities. This allows those who have a personal stake in the business to retain control and full value of the business, while at the same time passing on an equal value of assets to family members with no interest in the business.

Whatever your choice, your exit plan and estate plan should work in tandem to both protect the business and ensure family harmony.

* 2018 MassMutual Business Owner Perspectives Study conducted by HawkPartners for MassMutual.

At MassMutual, we recognize the challenges you face and are equipped to help you prepare for the future with more confidence.

To learn more about how MassMutual can help you protect what you've worked so hard to build, visit **MassMutual.com** to find a MassMutual financial professional in your community.

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