

Establish Your Exit Plan on a Firm Foundation

by MICHAEL SIPE, President — CrossPointe Capital

Because entrepreneurs are optimists at the core and believe in their businesses, we often see them bet too much on the business. They neglect fundamentals in their personal life, which sabotages their exit plan. If you have that all handled, feel free to skip this article. However, there may be some of the items discussed below that need attention and that properly set up will facilitate a smooth exit from your business, whenever you decide the time is right. Some things to consider:



Life Insurance. Everyone dies. Young people and entrepreneurs think that fact only applies to someone else. Consequently, many entrepreneurs are woefully underinsured. If you were to die unexpectedly, do you have enough life insurance in place, in addition to your liquid assets, to settle your personal and business obligations in full and leave your family in a comfortable place financially? If not, this must get fixed. It's not that expensive and once in place creates a great sense of peace. By the way, your business is not a liquid asset. It may be one of your least liquid assets, so it's important to plan for taking care of your obligations independent of selling the company.

Disability Insurance. In the short term, you are much more likely to become disabled than to die. If you are seriously disabled, do you have sufficient disability insurance to meet all your monthly obligations and provide for yourself and your family? What sort of contingency plans do you have for managing the business and meeting its obligations if you were to become disabled? Just because no one wants to contemplate serious disability does not mean it is prudent not to plan for the possibility. Like all bad things — hopefully, a disability or debilitating illness will never happen to you — but having a contingency plan in place will make everyone in your life sleep better.

Business Interruption Insurance. Insurance products are available to enable you to meet the business monthly obligations in the event business is interrupted by external factors. Unless you have sufficient business cash reserves to weather a storm without dipping into personal funds, business interruption insurance is worth consideration.

Diversify. For many entrepreneurs, their business is their biggest asset. Prudence dictates putting some eggs in different baskets, however...just in case. Some of the toughest business sales to negotiate are the ones where the seller's entire financial future is riding on every cent of the purchase price because he or

she has not accumulated other material assets outside the business.

Pay Yourself First and Protect Your Reserves. Again, because of the optimistic entrepreneurial nature, we often see excessive re-investment in a business, and owners over-exposed personally because they are betting completely on the success of a business. A safety net is always a good idea. A business needs to exist within the context of all your affairs. Setting aside retirement funds not connected to a sale of your business is sound practice.

Asset Protection. As your business grows, take some prudent steps to protect your business and personal assets. Hopefully, you'll never have a catastrophic loss or devastating lawsuit, but it's wise to set up your affairs to protect against that event... even if you think it unlikely. It would be tragic to see the fruit of the work of a lifetime eliminated by a frivolous lawsuit. Talk to a good property-casualty insurance agent and to attorneys with experience in asset protection, taxes and employment law, but for the limited purposes here, several general ways to protect assets are worthy of your consideration:

- Maintain proper liability insurance in proper amounts.
- Segregate assets — don't put all your eggs in one basket.
- Operate businesses within liability-limiting entities
- To the extent possible (and it's not always possible) avoid personal guarantees of corporate obligations — or attempt to negotiate guarantees limited in scope and amount.
- Keep real estate out of operating business corporations.
- Establish a pension plan.
- Explore creative organizational structures to isolate liability.
- Use good contracts — and watch out for the warranties and representations (both express and implied) you make about your products and services.
- Get good advice on tax and employment law.

Establish Your Plan from Sound Foundation. When your personal affairs are nicely in order, and contingency plans are in place, developing a business exit plan becomes much easier. You can also operate your business with a greater sense of peace.

Michael Sipe is a mergers and acquisitions advisor, executive coach and Republican Candidate for State Representative HD53.

CrossPointeCapital.com

Having Trouble Hiring?
Radio works for recruitment!
BendRadio.com

COMBINED COMMUNICATIONS
RADIO | DIGITAL MARKETING

PRIDESTAFF

Leading the way

One of the best and most reviewed Employers in Bend. ★★★★★ 4.8 STARS ON GOOGLE OVER 150 REVIEWS

PrideStaff Bend LOCALLY OWNED
541.797.6941
bend@pridestaff.com
pridestaffbend.com

Our Mission: Consistently provide client experiences focused on what they value most.