

Succession Planning vs. Exit Planning

Many people believe that succession planning and Exit Planning are one within the same and can be used interchangeably when talking about owners who are in the process of leaving their businesses. However, this misconception can end up leaving you unprepared for one of the biggest financial events of your life.

In practice, succession planning and Exit Planning are different concepts, but ones that can work in unison to achieve your overall Exit Objectives. To help clear up any confusion, the remainder of this article will provide a discussion on the differences that exist between these two popular concepts.

Succession Planning: Focus on Transferring Leadership

Succession planning is an important concept for owners who are leaving their businesses, but this type of planning primarily focuses on the transfer of leadership and/or management from one generation to the next within the business. This one-off approach usually identifies successors within a business and provides them with an opportunity to develop their skills and experience in order to replace the existing leaders of the business at a future date.

While succession planning is an important topic for owners who are in the process of leaving their businesses, it typically addresses only one aspect of your successful exit from business. This type of planning predominantly focuses on the business itself and its continuity when one owner leaves and another takes over. Although this is important to the livelihood of your company, succession planning typically revolves around the needs and objectives of the business and not those of you, the departing owner. Succession planning is essentially a Business Continuity approach, which is one of several critical Components of Exit Planning.

Exit Planning: The Comprehensive Approach

Exit Planning, on the other hand, is the comprehensive analysis of all of the factors that impact a business owner. Exit Planning addresses not only the succession aspect of leaving a business, but also a wide variety of other issues that can be important to you, including current and future planning with respect to your



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personal financial stability, your business (its value, its employees, its position in the market), your family and your community. Exit Planning starts from the perspective of your goals and objectives in each of these critical areas, along with your current and projected resources (business value, personal and business financial resources), to identify the unique combination of strategies and steps that are most likely to allow you to reach your overall goals.

There are many tools available to help you get into business, but few to help you get out. The Seven Step Exit Planning Process™ practiced by my firm is a customized, comprehensive approach to designing and implementing your successful exit from your company. Exit Planning uses your unique personal objectives to convert your current reality into your desired outcome. The Exit Planning Process helps maximize the financial return, minimize tax liability, plan for contingencies and increase the likelihood of a successful transfer of the business.

Although each Exit Plan is unique depending on an owner's specific objectives, a properly crafted plan has several common elements. As a reminder, the elements, or steps, involved in creating a comprehensive Exit Plan include:

- Step 1: Owner Objectives
- Step 2: Business and Personal Financial Resources
- Step 3: Maximizing and Protecting Business Value
- Step 4: Ownership Transfers to Third Parties
- Step 5: Ownership Transfers to Insiders
- Step 6: Business Continuity
- Step 7: Personal Wealth and Estate Planning

Conclusion

As we have discussed in this article, succession planning and Exit Planning are not incompatible. Succession planning is an important element to the longevity of a company, but it is only one piece of an overall, comprehensive Exit Plan. It is important for you to work with a trained Exit Planning Professional so that the succession plan for your business fits neatly into your overall Exit Plan.

If you have any questions about creating a comprehensive Exit Plan prior to leaving your business or would like additional information on any of the steps within the process, please contact us to discuss your particular situation. We can help guide you through the process of creating an Exit Plan that addresses your unique Exit Objectives.

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