

## The Business Transfer Newsletter

### The Problem with “The 5-Year Exit Plan”

Most business owners who are asked about their exit plans will reply that they want to exit their business ‘in about 5 years’. Often times, 5 years later, the same owner will give the same answer to the same question. In reality, the 5-year window is a subconscious resistance to beginning the process of planning for an exit. This newsletter is written to help owners see that the perpetual 5-year plan is not good for themselves or their businesses and that the natural tendency to delay the planning for your eventual exit may be costly to both you, your company, and the people who depend on your business for their livelihood.

#### The Five (5) Year Exit Phenomenon

The 5-year, universal answer to ‘when will you exit your business’ represents a number of interesting factors relating to the challenges associated with developing and executing an exit plan.

First – the 5-year window of time is, in many ways, a simple refusal to commit to anything immediate. This means that an owner who says that they will exit in 5 years is essentially saying “I don’t have any idea when and / or how I will exit, but if I say ‘5 years’ then this is enough time to begin to think about it at a later date.”

Next – the 5-year window can many times reflect an accurate amount of time that it will take for an owner to properly exit a business. However, if that owner does not take any

action today, then the 5-year window will often times become an indefinite period of time before the exit planning occurs. The ‘rolling 5-year phenomenon’ then begins to take form.

#### The Challenges Associated with Planning an Exit Strategic vs. Tactical

Most owners of private businesses lack the ability to see beyond their day-to-day running of their business. This leads to a natural delay in doing long-term planning such as ‘exit planning’.

Why is this case?

Quite simply, most business owners are tactical and not strategic in their approach to their businesses. Time is not put aside for looking far into the future to try to see where the owner thinks that he/she and the company want to be.

The beauty of 5 years is that it is just far enough to be ‘out of sight’, conveniently delaying the process of planning for the event. Most owners can see what is ahead of them for the next year and perhaps the next 2 to 4 years. However, few if any owners can look ahead 5 years to anticipate what will become of their business. Therefore most business plans – written or otherwise – address the next 1 to 3 years, and not the longer time horizon.

Planning for an exit often requires going beyond the next few years. And, because it is difficult for most owners to do this, the planning gets put off until some point in the future.

### **An Outside Force is Often Needed as a Motivator for Many Owners**

Business exits do not happen by themselves. Too many owners rely upon a hope that something good will happen to them in the future. However, exit planning is complex and often does not occur without an outside motivating force compelling it to happen. Unfortunately, many owners will experience that outside force in the form of sickness, disability, divorce or just simple burnout from running the business.

Because these outside forces compel an owner to react, the process is not proactive. And as a result of being in a reactionary mindset, these outside, uncontrolled forces tend to diminish the value of what you receive at the point of your exit because you are being compelled to exit in a manner and time period that is not suited to your needs. A proactive, strategic approach to planning your exit is the significantly better way to go.

### **Do you have a rolling / permanent 5-year window?**

This is a good question to ask yourself to begin the exit planning process. The real answer to this question requires a bit of time and reflection about ‘why’ you are in business to begin with. Did you start your business because you wanted to be independent and autonomous from previous employers? Or was there a more logical reason for starting your business – such as the fact that a well-built business would, one day, provide you with enough financial resources to be permanently independent to live a life of your choosing? There are many challenges associated with any business exit

but the first one is figuring out if the trap of the 5-year phenomenon is really you just putting off the planning aspect of your business exit.

### **Overcoming the 5-Year Plague – Begin Planning Your Exit Today**

The best way to avoid the loss of wealth and discomfort associated with losing your business to a rolling 5-year plan is to reject the idea that you cannot begin your exit planning today.

There is a system and process in place that can organize your exit planning. The money and time that you invest today in the exit planning process will reward you with peace of mind and the knowledge that you have not have fallen prey to the ineffective and non-existent 5-year plan that so many of your business owner counterparts will continue to falsely believe in. Take action today. Make exit planning one of your top business planning priorities. And, finally, be aware that if your answer to when you will exit your business is ‘in 5 years’, then you too need to heed the false assumptions that exist with the 5-year phenomenon. The good news is that this 5-year obstacle is easy to overcome.

[Cathey Paine is a registered representative of Lincoln Financial Advisors Corp.](#)

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