Succession Planning

Don’t Wait for the Pot o’ Gold: Create an Exit Strategy Now

Collaboration
business consulting

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What is Your Exit Strategy?

Business owners all have their own definition for the ‘pot o’ gold’ at the end of the career rainbow. Everyone’s destination is different; some want to build up their company to sell, others have a goal of attaining a certain level of revenue, and others wish to create a company that their kids can one day lead. Even with their end goals in mind, many business owners struggle to reach their desired level of financial stability or freedom. They often work tirelessly in their day-to-day operations yet fail to achieve their larger vision. As a result, they may feel unprepared for the next phase of their business or personal life.

Many business owners struggle to achieve their financial and professional goals because they lack a clear direction or solid implementation plan. Despite working hard, they may find themselves years down the line without having made significant progress. However, the prospect of a successful exit is always on the horizon, and time is of the essence. If this situation sounds familiar, you’re not alone. Most business owners feel unprepared when it comes to transitioning their business and ensuring its long-term success. That’s why it’s crucial to start thinking about your exit strategy as soon as possible and to reassess it regularly. Changes in life, new opportunities, and marketplace challenges can all affect your exit strategy’s timing and ultimately, your decision. Here are four steps that can help you create a solid exit strategy and reach your pot o’ gold.

STEP 1

What Do You Want To Do?

The first step to developing an exit strategy is defining your pot o' gold. Do you want to sell your business when you reach a certain financial threshold? Do you want to create a company as a legacy and pass it down to your children? Are there options to transition to your existing team? Or is there another goal you want to achieve through your business? Regardless of your exit strategy, you must determine how to transition your business — both financially and psychologically. Ask yourself this question: You want to sell your business and retire to the pot o' gold. But, what will you do with yourself after exiting your company? Do you plan on living off of the revenue made during your tenure at the helm of your company? Or off of the profits from the company's sale?

Retirement can be challenging for many entrepreneurs who struggle to disengage from work. Some may choose to start new companies or invest in other business ventures. However, financial planning is crucial to ensure that owners aren't forced to work due to poor financial preparation or unable to maintain their desired lifestyle. Creating an exit plan is never too early, and it's an essential aspect of a business's overall strategy. It prepares for both planned and unplanned leadership transitions, including identifying who will lead the company. Succession planning also involves developing a sustainable and effective advisory board and creating wealth transition plans to determine where the company's wealth will go and how it will impact the primary constituents' wealth, tax, retirement, and estate planning when ownership changes hands.

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When creating an exit strategy, it's crucial to have a "Plan B" in addition to the initial plan. Business owners must recognize that succession planning is not a one-time decision but a continuous process. It involves ongoing assessment, communication, and adaptation to changing circumstances. For instance, suppose a CEO retires unexpectedly, or a potential successor turns down the offer; in that case, having a backup plan ensures the company can continue to thrive, even if the original succession plan does not materialize.

It is essential to understand that business succession does not always happen as planned, whether selling the business or hiring a new leader. Therefore, businesses must prepare for contingencies and have alternative plans. The backup plan may involve identifying and grooming internal candidates or engaging with outside recruitment firms. In any case, it's vital to ensure that the company's leadership transition plan aligns with its goals and values. A well-thought-out succession plan can provide stability, promote growth, and reassure stakeholders that the business will continue to succeed even after a leadership change.

STEP 2

Understanding the Barriers that Decrease Your Value

To maximize the value, it's important to focus on strengthening the core areas of your business. This will help minimize any potential discounts in the value of your business. Some common factors that may negatively impact a company's value include:

MANAGEMENT

How active are you, as the business owner, in the day to day aspects of the organization? Do you have a solid management team in place, or does the business rely on you for daily decisions and direction?

MARKETPLACE

How strong is your position in the marketplace? Do you have many competitors? Do you have a unique product or service? How are you benchmarking against your industry?

CLIENT BASE

Is your client base growing? What has been your growth rate over the last three to five years? Do you have repeatable revenue or one time projects with clients?

FINANCIAL

Do you have consistent net profit in the business? Have you invested in technology and equipment to ensure your business's sustainability? How are you benchmarking against your industry?

OPERATIONS

Do you have intentional processes and structures to ensure consistent delivery of your product or service? Do you have a solid reputation in the industry?

STEP 2

Understanding the Barriers that Decrease Your Value

HUMAN RESOURCES

What is your employee retention rate? Do you have a strong company culture of trust? Are your leaders well-trained and effective?

DIVERSIFICATION

Do you have areas of your business that are not as profitable as others? Are you diversified in your client base, geographic reach, and product/service offerings? Are you reliant on a few or many sets of suppliers?

INDUSTRY

Is your industry growing or shrinking? Are you seeing consolidation in your industry? Is there a seasonality within the business that could impact the timing of a transition?

CAPITAL STRUCTURE

Is there sufficient cash on hand and cash flow to fund existing operations and planned growth? Is the debt-to-equity ratio of the firm within industry standards? Is the debt service sustainable during down time?

RISK MANAGEMENT

Are there proper controls in place to minimize losses and disruption to providing your product and services due to natural disasters, key person death or disability and lawsuits?

STEP 3
Leadership Selection

If you're a business owner considering succession planning options, you're likely at a stage where you are still actively running the company but need a plan to gradually exit without disrupting the organization's success. To begin implementing your exit process, you must figure out: who is going to manage and lead the business in your place?

There may be emerging leaders already in the organization, family members wanting to continue on the legacy for family-owned businesses, or you may need to conduct a professional and disciplined search for external candidates. Many businesses run into trouble when they insert existing team members or family members into roles who do not have the required experience or skillset. To avoid that pitfall, the selection process should begin by developing an ideal position profile that clearly defines the type of leader needed and the skills and experience required for any candidate. For example, you could make it a rule that any internal employee who is seeking an executive position must earn a college degree, just as external applicants would be required.

A solid strategy to begin the process of leadership selection is to conduct a formal selection process by looking internally first, then externally, using the defined role and requirements as a guide. Once a candidate is selected, the exit timeline can be mapped out using annual and quarterly milestones to define how the new candidate will take on responsibilities while you provide guidance and oversight to ensure an effective transition of leadership.

Who is going to manage and lead the business in your place?

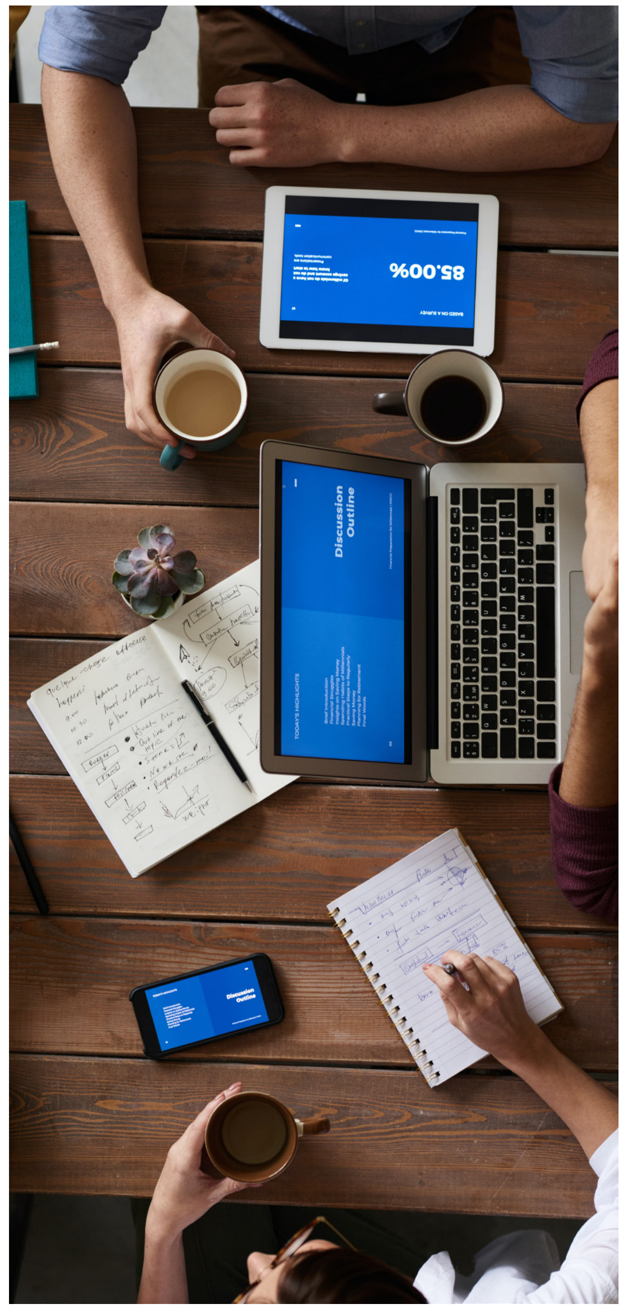
Define the Roles and Requirements

Search Interally

Search Externally

Map Out the Exit Timeline

STEP 4
Execution and Monitoring



Many business owners fail when it comes to executing their exit plan. While they may have created a clear strategy to achieve their goals, they often stumble with the implementation and fail to achieve the desired outcome. One crucial aspect that is often missing is ongoing measurement, assessment, and accountability to track progress towards their exit strategy.

Although individuals may spend time defining their goals, creating strategies, and documenting their exit plan, they often let the demands of life and their business take precedence over their plan. To ensure successful implementation of the plan, it's important to enact a regular measurement and assessment structure, at least on a quarterly basis. This structure will evaluate the success of the implementation strategies and help to keep the exit plan on track.

Without quarterly check-ins, a year will pass by quickly. Then two years. Then more. Ultimately, you may find you have not made much progress against your initial exit strategy goals. If you are serious about driving towards achieving your exit strategy, you and your trusted advisors should be evaluating your progress quarterly and making necessary adjustments to your implementation strategies or plan to ensure you are staying on track. Remember, success preparation and implementation of your exit strategy will maximize your opportunity to obtain the proper value for the business you've spent years building.

The Bottom Line

Planning and implementing now is critical to achieve your desired outcomes in the future. By combining the elements of succession and growth planning through analysis and implementation, you will secure the company's future scalable growth.

Give us a call at (805) 541-9040 or email us at info@collaboration-llc.com.

We can evaluate where your company currently is and learn how to sustain growth or manage a market downturn without negatively affecting your business's foundation.