4 STEPS to a Solid Exit Strategy

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

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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. Despite having these end goals in mind, most business owners are unprepared or struggling to reach their desired level of financial freedom or stability. They tend to work harder and harder in the day-to-day, yet fail to achieve their final result.

This isn't just because the owner lacks a solid business plan; in fact, most owners probably don't have a clear direction or solid implementation plan to carry out their wishes. These owners work so hard and before they know it, years have passed and they are still nowhere near their financial and/or professional goals. All of a sudden, that 'pot o' gold' is on the horizon and the time to reach it is rapidly decreasing.

If this sounds familiar, you are not alone. Most business owners feel underprepared when attempting to transition their business to achieve their long-term financial goals.

There is no time like the present to begin thinking about your exit strategy — and expect to reevaluate it each year. Life changes, new opportunities, and marketplace challenges influence exit strategies, their timing, and ultimately, your decision. Following are five steps to a solid exit strategy that should be carefully considered so you can reach your pot o' gold.

Research conducted by Securian Financial Group found that: "More than 60% of small business owners planning to leave their business in the next 10 years don't have an exit strategy and aren't working on one."

- Exit Strategy? Most Small Business Owners Don't Have a Plan, Business News Daily, February 2014

Why the avoidance? 30% say they are more focused on growing; 30% think they are too crucial; 18% believe no one else is qualified to lead

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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? Many entrepreneurs face difficulty in shutting off in retirement, and many move on to starting new companies or financially supporting other business ventures.

This financial component is essential to outline so that owners aren't forced into work due to poor financial planning, or, on the other hand, unable to engage in new hobbies or maintain a comfortable lifestyle.

It is never too early to create an exit plan. In fact, it is an essential piece to a business' overall strategy as it prepares for both planned and unplanned leadership transitions. Aside from ascertaining who will lead the company, succession planning dives deep into the creation of a sustainable and effective advisory board and wealth transition plans that will determine where the company's wealth will go, and how it will impact the wealth, tax, retirement and estate planning of the primary constituents when ownership changes hands.

What is your business' pot o' gold?

- **Sell the business after reaching a specified financial goal**
- **Grow the business for the second generation to lead**
- **Develop the business so it can be acquired by a larger company**

What is your personal pot o' gold?

- **Start a new business**
- **Financially support other business ventures**
- **Retire to a beach house and work on hobbies**

STEP #2:
UNDERSTANDING THE BARRIERS THAT DECREASE YOUR VALUE

To maximize your business' value, strengthen the core areas of your business.

In turn, this will minimize the discounts in the value of your business.

The most common components that discount 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?
- **Financials.** Do you have consistent net profit in the business? Have you invested in technology and equipment to ensure your business' sustainability? How are you benchmarking against your industry?
- **Operations.** Do you have an intentional process and structures to ensure consistent delivery of your product or service? Do you have a solid reputation in the industry?
- **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?

To properly plan for your exit, you have to be strategically working through these areas to ensure you can achieve the value you desire and build an organization that is attractive to acquire.

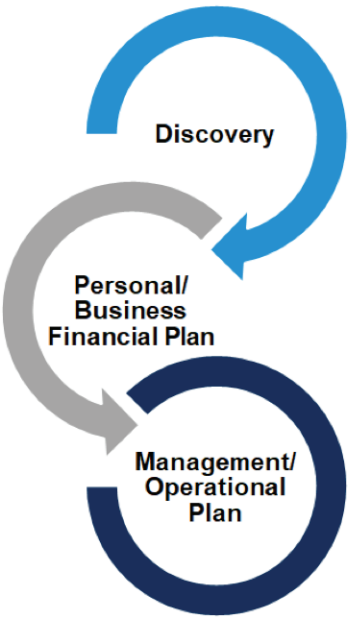
Recent studies by the Exit Planning Institute show that only 20%-30% of businesses that go to market actually sell (whether that is in the form of an internal sale to employees or next generation, or if that sale is to an external party). That leaves up to 80% of those without solid options to harvest their wealth and ensure economic continuity for their own retirement, their heirs or their philanthropic desires.

"State of Owner Readiness" Survey. Exit Planning Institute, 2013.

STEP #3:
EXIT STRATEGY PLAYBOOK

The Exit Strategy Playbook, pictured here, summarizes the steps to take to assess the business against the desired financial goals and areas of value to discover the various gaps that may need to be addressed. Once that is completed, create a financial forecast and related goals, and create a solid management and operational structure to implement the necessary changes.

The purpose of this exercise is to improve the company's value and develop a comprehensive series of plans dedicated to growing the business to the owner's desired endpoint, thereby allowing for a smooth transition and exit.



STEP #4:
EXECUTION AND MONITORING

Finally, execution of the plan is where many owners fail. They have created their plan, identified their goal and have clear strategies to achieve their outcomes, but stumble with the implementation and thus never obtain the desired value or achieve their outlined goals.

What is often missing is the ongoing measurement, assessment and accountability on the progress towards one's exit strategy. Individuals spend time defining their goals, creating strategies, and documenting their exit strategy — and then they will let life and their business take precedence over their plan. To truly embrace and ensure implementation of the plan, enact, at a minimum, quarterly measurement and assessment structures. These structures will evaluate the success of the implementation strategies of the plan.

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, you have a pot o' gold, i.e. your reward, to obtain the proper value for your business based all the years spent building it.

Are you achieving your sales, revenue and profit goals? Have you begun to make your role in the day-to-day less relevant? Have you started building your competitive advantage? These are essential measurement and assessment tasks.

THE BOTTOM LINE

Planning and implementing now is critical to achieve your desired outcomes in the future. By combining the elements of succession planning, growth planning, and analysis, you will achieve an embedded management infrastructure, intentional infrastructures, and methodical growth. All of these elements combined will secure the company's future scalable growth to allow you to reach your pot o' gold.