The importance of having an Exit plan

Why, how and when?

Why

At the outset, it's important to understand your motivation for selling the business. This way, a deal that achieves your objectives can be constructed.

There are many reasons for selling, but they typically fall into the following categories.

Life goals change: After many years driving the business forward, the entrepreneur may be seeking a different challenge. They may have a life-changing experience, or for whatever reason, they are seeking a new goal in life.

It's no longer fun: Entrepreneurs are business builders; they are creative, full of ideas and energy. At the start, they probably have great fun running their business. But as the business develops, they might find themselves weighed down by administrative issues. The fun goes out of the business, and selling is the most logical way out.

The business becomes all consuming: For many entrepreneurs, the business takes over their life. Their personal life can suffer. Selling the business will release funds and time to spend with family and friends, or to pursue other activities.

Fresh energy is needed: The entrepreneur has created a great business, but it has plateaued. It needs an injection of fresh ideas and energy to take it to the next level. At this point, both the shareholders and the company will probably benefit from a sale.

No matter what the reason (and there are many more), it's important to clarify it. Let's move on to the how.

How

Most business owners have lots of experience selling their services or products but very little, if any, experience selling a business. Because it involves large numbers, owners tend to think it's an accounting issue.

The reality is that it's a sales and marketing issue – but this time, it's the business that's the product.

Because business valuation is so entrenched in accounting principles, it's easy to undersell a business. When you sell a product, you sell it based on its advantages to the customer and the value that it delivers. Selling a business is no different. You need to find acquirers that will value the purchase. It's crucial to find out the acquirer's motives for purchasing.

Most buyers buy for future growth; they are looking to expand their existing business. Breaking down the growth motive results in three key areas:

1. **Diversification** – The buyer wants access to your products and services, which have taken years to hone (eg, Google buying YouTube)
2. **Client acquisition** – The buyer doesn't want to spend the time and money growing organically in a new market (eg, Old Mutual buying Skandia)
3. **Geographic expansion** – The buyer wants to obtain a foothold in a new territory (Tata Steel (India) buying British Steel

Other motives for buying include the following:

- Seasonal balancing (I worked with a business that sold greeting cards in the autumn and winter and plant seeds in the spring and summer)
- Operational and financial synergies (cost savings in the combined resultant business)
- Intellectual property purchase – perhaps the buyer wants hard-to-obtain trade licences in a particular area
- A niche-skilled workforce
- Taking out a competitor

If the main motive is growth, why place a limiting value on a business by taking a historical, formulaic approach? The past can't be changed or recreated. People buy the future and what it can do for them.

If you're negotiating, it's important to maintain the ability to walk away. The best way to do that and still sell your company is to have a range of buyers. You need to keep the buyer in a competitive frame of mind and the balance of control with you, the seller of the business.

We have seen a number of deals where the vendor narrows their options down to one preferred bidder. Once this happens, the bidder has the control. It's amazing how a seemingly wonderful preferred buyer can pull a Jekyll and Hyde change and start reducing their offer as a result of any minor issue. Since the vendor has rejected the other bidders, they're much more willing to accept reductions rather than start the whole process off again.

Put yourself in the buyer's shoes. Imagine you're buying a house. You've just found your dream home, and the seller says there are five people interested. How would you feel? Then, the seller says, 'There is no guide price. Make me an offer.' The seller is in control. You, as the buyer, aren't going to mess about with ridiculous offers.

If you stay in control, you will obtain a better price, the speed of the deal will be greatly accelerated, and the terms of the deal will likely be much more favourable to you.

Along with understanding the buyer's motives, you need to be able to 'sell the future'. The key is to create a vision of what this business will look like in three years under new ownership. Create a different vision for each shortlisted bidder, based on their motives.

Include the following in the vision:

1. The effect on your business of the new owner bringing their clients to buy your products and services
2. The effect on the business if the new owner can bring new investment to the existing business
3. The effect on the business with fresh energy, ideas and enthusiasm from a fresh management team, with more relevant experience
4. The effect on the new business taking into account projected synergies and cost savings

When you sell the business, don't sell what it looked like under your ownership, past or present. And don't sell what it would look like under your leadership in the next few years – you won't be there!

Investors have access to the same data, so will be unlikely to pay more than seven times future earnings. Buyers will pay above the industry average only if they are strategic purchasers and the vendor keeps control of the deal. Remember, the value of a business isn't just about the multiple of earnings. If it were, a spread of four to twenty-four would not occur.

To achieve a premium price, you need to position your business strategically. Look for buyers that see your business as complementary to their own, not as competition.

It is crucial to be prepared for Exit, to ensure you get the most out of your business, and enjoy the fruits of your labor in the future. Don't have a **Plan to sell your business** yet?

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