For a Successful Exit, *PLAN AHEAD*!

By Murray Parker

"Now is the time to sell" has been a frequent theme of editorials, columns and white papers throughout this year. Authors have been encouraging owners to take timely action because:

- A perfect storm is coming – soon! (Deteriorating economic conditions in Europe, China and Japan; growing US debt; monetary expansion and declining confidence will lead us into another downturn)
- Pending tax changes could reduce net returns
- Interest rates are low
- Transaction valuation multiples are good
- Record Private Equity dry powder awaits on sidelines
- Asian investment in the US is on the rise
- Fund covenants are aging; funds need to be used or returned to investors
- Your industry segment or business type is garnering particular attention
- And more…

Compelling as they are, these external factors *are often not leveraged by business owners* due to the universal trump card: events occurring in owners' lives. Whether ownership is corporate or individual, influences such as personal interest, access to capital, disagreement, disability, excessive debt, divorce, attachment, illness, death and willingness to move on to new horizons command precedence over everything else and often lead to less-than-favorable outcomes.

Take for example the case of a business owner who grew his business from scratch to $35 million revenue before the downturn. After several years of owner funded losses, the business broke even at half-peak revenues. At the same time, a private party offered to buy his business. Our 75 year old owner with no succession plan enthusiastically negotiated a valuation that even afforded him participation in future gains.

However, he had a lingering question whether this was his best option and sought a second opinion from a broker who promised a much higher valuation for the business. Long story short, the owner declined the proprietary offer in favor of the sale process. When the broker's efforts produced no offers, the owner decided to retain his now improving business and identified an internal successor to share his responsibilities. 'Business will return to former levels and I'll have more time off', he thought.

Unfortunately his successor was an experienced operator but limited in marketing exposure and market awareness. Neither owner nor successor realized that several competitors had made significant adjustments during the downturn and were now enjoying strong revenue growth at the expense of the owner's market share. His market share and business value were on a downward slope in a growing market.

Hindsight is 20:20 now that recent health issues are forcing the owner to sell under less favorable conditions. He realized that his greatest misstep was to ignore the opportunity to **PLAN AHEAD**! An exit plan process would have made his business fundamentally stronger. He would have been able to recognize a good deal without chasing the lure of an unrealistic offer that, even if it had closed, could have jeopardized the future of his company and employees.

Unusual case? Not hardly. We have seen many such examples that would have just as obviously benefitted from planning ahead. We have found that business owners delay exit planning because they:

- are so busy running their business
- have limited knowledge of exit planning
- put it off because there is always time in the future to plan for exit or
- find it counterintuitive to think of exit while focused on business success.

Perhaps it's like whitewater kayaking where one finds it counterintuitive to lean downstream for stability. It is only when a kayaker breaks through that barrier that he or she makes real progress and learns to work with the river in a way that was previously unthinkable.

The same is true with Exit Planning. At its root is a process designed to improve business performance in ways previously not recognized: a comprehensive cross functional SWOT analysis and action plan for sustainable performance improvement. Exit Planning is not a one-shot burst that disappears once the ink dries on a sales contract. Exit Planning develops a stronger business that is able to command a higher price at sale and produce better outcomes in the face of unexpected events. Act proactively and avoid our owner's example. Consult your financial services provider or third party advisor and together develop a plan that will improve your business and your exit results.

Bottom line, the time to sell is when the owner can answer the question: 'Am I and my business prepared to make the most of this transition?'