THE EXIT PLANNING REVIEW™

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Business Owners Who Take Time to Plan Exits Increase Chances of Success

"To will is to select a goal, determine a course of action that will bring one to that goal, and then hold to that action till the goal is reached. The key is action." — Michael Hanson

If the thought, "Why exit plan when I can't sell my business now or anytime soon?" has crossed your mind, consider the case of fictional owner Rudolfo LeMonde.

Rudolfo LeMonde's hospitality services business had grown steadily until the last few years. Although revenues had flattened, Rudolfo maintained profitability by reducing overhead and working more hours.

This was Rudolfo's situation when a would-be buyer approached. At age 55, Rudolfo hadn't actively considered selling his business, but was beginning to think that life after work might have something to offer. His business wasn't providing as much fun as his other activities, especially since business growth (and more importantly, profitability) had been slowing for the last two years.

Rudolfo scheduled an hour to talk to that interested buyer and in 60 minutes, his eyes were opened and his priorities turned upside-down.

The buyer, a large national company seeking to establish a presence in Rudolfo's community wanted, like most buyers, to acquire a business that could grow with little other than financial support and the synergies it brought to all of its acquisitions.

This meant it sought companies with a number of characteristics that we call Value Drivers. In future newsletters we'll discuss all the Value Drivers, but for now some important ones are:

1. **Capable management** apart from the owner. Rudolfo's buyer (again, like most) did not have its own management team to insert into the business. Rudolfo had not attracted or retained solid management (nor had he created a plan to do so).
2. **Strong and increasing cash flow**. Unfortunately, Rudolfo's company had been experiencing declining cash flow.
3. **Sustainable and comprehensive systems** throughout the organization (from human resources to marketing and sales to work flow). At best, Rudolfo's business was a hodgepodge of stand-alone, as-needed systems created over time to respond to particular emergencies, and positioned Rudolfo at all decision points.
4. **A plan to grow** the business focused on enhancing a company's unique position in the marketplace. Rudolfo had never created a written plan, let alone identified or clarified his company's competitive advantage.

When Rudolfo failed to satisfy the buyer's concerns about his company's Value Drivers, he understood that his company's value, management systems and growth all depended on his active and continued presence in the business.

While Rudolfo had naively steeled himself for a lowball offer, the buyer instead disappeared. In today's financial and economic climate if a buyer is willing to acquire a company that isn't a turnkey operation, it will not do so without the owner's continued involvement. Buyers do not have the time, the risk tolerance or the in-house talent to correct deficiencies.

While too many owners of outwardly successful companies share Rudolfo's fate, the heart of the problem lies in their failure / inability to do anything about it.

How long will it take you to avoid Rudolfo's fate and prepare for the sale of your company for top dollar? We don't know. But we do know that it's a lot easier to bury your head and go about working in the business than it is to devote the time, energy, and resources to prepare for your exit.

If you spend your time waiting passively for improvement in the M&A market or for a rising economic tide to lift your boat, those events may occur. But if they do *and you have not actively used your time to make your company attractive to buyers* (by installing Value Drivers) your business will still not likely sell, and if it does, it will not sell at a premium compared to other companies in your sector. Creating Value Drivers takes time; time buyers are not willing to take.

For Rudolfo and for most owners, it takes at least five (and often as many as ten) years to execute an Exit Plan to make a business saleable. Factors that lengthen the Exit Planning Process include:

- Unforeseen threats posed by downturns in the economy, your health or in the composition of your management team;
- An owner's overly optimistic assessment of how rapidly the company and its employees can adapt and embrace change.
- The likelihood that you are more motivated than either your advisors or your employees to work toward your successful exit.
- The probability that everyday business crises will divert your focus from long-range planning.

Given that it takes time not only to create the plan but also to implement and to achieve measurable results, is it not time for you to start planning the most important financial event of your life—your exit from your company?

The examples provided are hypothetical and for illustrative purposes only and do not represent actual client experiences. Subsequent issues of The Exit Planning Review™ provide balanced and advertising-free information about all aspects of Exit Planning. We have newsletter articles and detailed White Papers related to this and other Exit Planning topics. If you have any questions or want additional Exit Planning information, please contact us.