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Seven steps to exit (your business) stage left

By Larry Turner

YOU HAVE WORKED MOST OF YOUR LIFE at business that has been a key part of your life and now it is time to sell the business and retire. As an owner of a successful business you are probably thinking that managing your exit will come naturally. This cannot be further from reality — running and growing your business is much different than selling your company for a final exit. You have build the business, but selling the company is different than running a business on a day-to-day basis. There is a need to look at your company differently now that you are contemplating an exit. The following items outline some key areas you need to think about and plan for as a part of your exit plan:

1. You are leaving

It doesn't matter what the new owner does with the business, because it is now their business and no longer yours. This is probably one of the most difficult areas to deal with for an owner who is planning on leaving the business they built. While it is nice to look for owners that will foster the same direction you managed, it is unlikely and potentially unreasonable to expect that this will happen.

2. You have been financing a lifestyle

Most small business owners finance their lifestyle through their business. An example is travel for you and your spouse; it is financed through the business since there was some level of business transacted during the trip. These types of expense reimbursements go away once you sell the business. You need to understand what your needs will be during retirement and plan accordingly to meet those needs. It is advised to have a financial planner help with your future planning to accommodate the lifestyle you wish to lead once removed and retired from the business. This does not mean that the price of the business is tied directly to your desired retirement lifestyle — it does mean that you should get financial planning help from a professional to assure your needs at retirement are met.

3. Your business is not worth as much as you think

Many small business owners place too high a price on their business. Many times it is because they lack the knowledge of valuation techniques and in almost all cases it includes some level of emotional value attached to the business. You need to be prepared for offers to come in significantly lower than what you believe the company is worth. In preparation you can contact an outside firm to help you understand what valuation methods may be used to understand what price range can be expected once you start negotiations.

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4. Do you really want to leave?

When it comes right down to accepting an offer and turning over the keys to your company — are you ready? The company has been a large component of your self-image for many years and many times there is a realization at some point during the transaction that the company will be gone. Sure, the headaches are gone and the day-to-day grind is gone, but so is the business. You need to be aware of this and be completely ready to hand over the keys of the business over to a new owner.

5. Demands cost you money

Any demand you put onto the buyer of the business will at a minimum cost you money in the deal and in some cases kill the deal. An honorable focus for your exit is to make sure the buyer keeps the jobs in the plant that you build as opposed to sending some/all of the production off-shore. In making this type of stipulation you are limiting the buyers that may otherwise be interested in purchasing your company and it will cost you something in the final negotiation.

6. Buyers have their own interest to protect

The buyer has a plan for your business and that is what they will be focusing on during the acquisition process. This might be a consolidation with another company, or it could be to reduce costs by outsourcing some of the activities that are in the business today. The buyer may also have more acquisition experience that you, as well as their legal staffs may be savvier than the business attorney you have used for years. An attorney with merger and acquisition experience can help you explore alternative structures to the sale, provide the most protection for you, as well as maximizing the return from the sale.

7. Buyers will not pay for work they have to perform

You may look at the value of your company from an aspect of what you will or may receive financially from the business in the future, while buyers are looking at what the business has done in the past. The buyer will have a plan for your business, but they will not pay for work they have to do in order to increase cash flows or revenues. You may see the future as bright due to new products that you believe need to be developed or are currently in development, or by synergies that can be gained by the new owner with another existing business. These situations require the buyer to successfully integrate your business with theirs or complete development on products in the pipeline. While the buyer may realize these areas of benefit they will normally discount the future benefits because it is work they have to do once they own the business.

Proper planning and the right partnerships are key in successfully divesting your business and maximizing the realized return from the sale. Find partners that you trust and have the experience in helping you position your company for the sale porior to putting the business on the market. You will maximize your return if you have 12-18 months to reposition your company. This process can include a marketing communications plan, documentation of processes, evaluation and upgrade plan for infrastructure items, product line expansion through partnerships, and establishment of boards of directors and advisors.

Keep in mind this process and planning is a means to an end, and you need to focus on the end game. Don't get caught up in changing the way you are doing business, but rather look at the changes as a way of making your exit happen. ■

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