

# Your Exit Strategy



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## How to plan your exit strategy!

One day the inevitable will happen - "you will leave your business" - but will this be on your terms?

The risk in not having made a clear strategic plan is to allow circumstances to dictate your departure!

You may have a plan, but one that is kept locked away inside your head, nothing formal, just an idea of what you might like it to look like.

Starting with the end game in mind is key for many experienced and successful entrepreneurs, who plan how they will cash in and move on.

Stephen R. Covey in his book "The 7 Habits of Highly Effective People" proposed that business owners must **"Start with the end in mind"**. Is it not time you did the same?

A solid and bespoke exit strategy is as important as having a solid bespoke plan for your business.

A defined plan, written down, with key milestones which are **S**mart, **M**easurable, **A**chievable, **R**ealistic, and **T**ime defined.

So, what is a successful business exit strategy and how do you achieve it?

We will pose the questions you should be addressing now and as required we can help you define your successful plan, a plan you can achieve with confidence.

ACT Business Consultants are specialist consultants dedicated to the SME sector within Oxfordshire, Wiltshire, Berkshire, Hampshire, Buckinghamshire and Northamptonshire, helping business owners to define their objectives, build strategic plans and then to implement them with confidence.

Using proven consulting systems the mission of the company is to help business owners achieve their goals with confidence, in an timely and affordable manner.

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## What is a business exit strategy and what does it means for you?

For most of us it will mean a change at the top, either a change of owner or a change of management.

Building a well-crafted exit strategy can achieve many things:

- It can increase the value of the business at your point of exit, ensuring you maximise your return on the investment you have made building and running the business.
- It can also mean that the business continues to thrive and function in the way that you have built over years.
- It may also mean that the staff you employed can be looked after in a manner that is acceptable to you after you have moved out of the business.

As a starting point to building out and implementing your exit strategy you should consider a host of relevant questions.

## A business exit strategy?

This should be a carefully crafted plan to conclude your involvement in the business. In most cases this means that you should ensure you have positioned the business to be in the best possible state of health before and as you go through the exit process. The better the health of the business the more interest you are likely to get and the more reward you will be able to take.

## What is a succession plan?

Primarily this is to have the business operating at peak profitability. Having a clear, bespoke and documented plan for the business for the coming years, one that can clearly demonstrate the business can survive and thrive without you at the helm.

Selling a valuable asset needs clear thinking, clear strategy and strict focus to enable you to achieve your goals with confidence.

Starting to plan for your exit can never be started too early because it will take time, effort and resource to accomplish.

At Icon Business Solutions our experience shows that so many business owners leave it too late, often staying on in their business beyond retirement age with all of the associated risks from a business and personal perspective.

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## When is the right time to exit my business?

- Timing is a key consideration taking both business strategic and personal factors into account.
- Obviously subject to many factors but for sure you can reduce the time by having the business and yourself fully prepared with a defined time line to work to.
- An outright sale is often the cleanest way.
- A sale based on an earn out where a portion of the sale price is payed over by the purchaser and a balance paid on the business meeting certain future conditions.
- An employee/management buyout, again several ways to achieve this but if your staff are highly involved in your business, they will know its strengths and any weakness that has not been addressed.
- Business succession where family members can take over the reins from you.
- A sale to another business, a competitor, or an investor.
- A company flotation where expert advice will be needed to navigate your way through the process.

## How do I exit my business successfully?

What is the realistic value of my business?

- Ultimately the market is likely to decide this however there are a good number of things that you can do to influence this value.
- To have a clearly documented plan for your exit of the business itself including a SWOT analysis is a key.
- Looking closely at and understanding your numbers over a period of time will show you the trends, seasonality and the factors that make your business what it is. It is imperative to have a full understanding of the numbers and how you can influence them and improve them.
- As a note of caution, ensure you take advice on your personal tax position, You accountant may be able to assist or to point you towards a tax expert. This will help you understand the scenario and avoid any costly shock.
- Working through a Due Diligence process will help you determine the needs of your prospective purchaser / investor.

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## Are my systems and process working to their optimum?

- Understanding the nuts and bolts of your business systems and having these documented, will enable you to demonstrate how a new owner will be able to take over with ease and minimal perceived risk.
- A written manual for every procedure and business function will also prove to be an asset and once done will highlight the positive elements and also give you time to address any potential issues you uncover.
- Potential new owners will take reassurance in your systems and processes and will know the business will remain a viable entity once you have taken your exit and the same would be true if other staff were to leave the business.
- High owner dependency will only serve to be seen as high risk.

## There are three distinct levels that most business owners operate in daily:

- **Level 1** - the functions of the business:  
Sales, Marketing, Finance, Product, Services, IT, HR and Legal.  
Understanding how much of your time is spent within these business activities on a daily basis will help show how reliant the business is on you.
- **Level 2** - the management of the business:  
Time spent often managing those at level 1.  
Knowing where your management time is spent will help identify strengths and weaknesses in process and team.
- **Level 3** - the ownership of the business:  
where time is spent on the strategic direction of the business. Spending more time at this level is key to your exit strategy.

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## What attributes will improve the value of my business?

- There are many potential attributes that your business may have and that you should consider. The more you can add to your list the more potential you will build.
  - intellectual property
  - amazing/unique products
  - excellent reputation and customer service
  - strength of client and supplier contracts
  - market conditions
  - your team
  - your asset base
  - your location
  - your supply chain
  - business systemisation

## Potential new owners

- Members of your family – here a key criterion is to avoid conflict and family split as these can become very exaggerated and last for generations. Take into consideration who may be capable and who has the right skill sets and the determination to continue successfully managing the business.
- Staff – take into consideration the option of a buy out in staggered payments. An initial deposit followed by regular payments and here you may be able to link you exit to the final payment date if you so choose. Often this can result in a higher valuation but take time to realise the concluding payment.
- Competitors – a key consideration in identifying who may be interested to take your business on. The benefits are that they are likely to know a good deal about your business, your industry sector and understand the risk and rewards. They may be able to add your business in to theirs with the minimum of disruption, but also bear in mind they will understand the value of the business. Many competitors monitor other businesses to target a take over at a point in time that fits in with their own planning.

The more you can add value to these the more the business is potentially worth.

## How should I package my business:

- Plan your sale information – put yourself in a buyers position and build a package of information that you feel they would like to see.
- Use confidentiality agreements and NDA's (non-disclosure agreements) as these can protect your position. These are easily drawn up by your legal advisor and there are good examples online that you can review to get a feeling of their structure.

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## How should I negotiate?

- Again, with a realistic end game in mind you can work out what would be an acceptable agreement for you. Remember it is always easier to come down in price than it is to increase the price. It is like any sophisticated sales process and building a process is self-educating.
- You may wish to employ a professional sales agent or use one of many publications to advertise your business, or to go it alone. Here you should understand the firm costs of whichever route you take as well as the involvement and work that will fall on you to complete.
- A professional agent can be a good reference point and may assist you in a sale, but be mindful like every situation there are some good ones and some ones that you should avoid.
- What is key, is that if you have prepared prior to engaging an agent, you will be in a much stronger position as you journey to the desired objective.
- Understanding the professional fees for the work needed to complete your exit from the business is also key as it is likely that these may come from your pocket.
- Having completed due-diligence, arranged heads of agreements, non-competing clauses etc professional fees can mount up rapidly. The view here is that the best professional services relating to the size of the business and the exit strategy you want should be proportionate and fit for purpose, giving you the cover and protection you need to exit with confidence.

Bear in mind there will be a business, a financial and an emotional aspect to your exit and you should prepare for these with you in mind as the key person.

Statistics show that the vast majority of business owners regret the decision to sell their business one year after they exit. This is likely to have arisen if the preparation is not planned professionally.

Approximately only 5% percentage of business owners say they are happy with their net proceeds from selling their business having had time to consider their exit position fully. Again it is likely that the planning, objectives and execution of the exit strategy has fallen short.

Without successfully managing the whole end to end process the risks include:

- no sale
- no exit
- extended time spent risking business activity
- costs spent with no outcome
- under achievement of financial outcomes
- staff uncertain of future and demoralised
- family stress and missed opportunities

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We hope that you find this guide of help and that it will encourage you to plan an effective exit strategy so that you achieve your desired outcomes with confidence.

At ACT Business Consultants we are here to help you, as we have with many other business owners, and our expertise will enable you to build an effective plan, a bespoke plan that you can achieve with confidence.

As experts within the S.M.E business sector we have a team of highly experienced business consultants who can assist you to define and build your exit strategy, then execute it with confidence.

We offer a complimentary "Business Review" which will quickly identify areas of opportunity within your business where improvement through change management processes will build the value of the business.

Our complimentary review will assist you in understanding the options open to you and allow us to evaluate your business to address the questions we have posed within this guide.

Act now and contact us for an initial discussion or complimentary face to face meeting.

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