The Exit Strategies Newsletter

An Exit Plan is About Getting More Out than You Put In

Business owners are successful because they understand the concept of ‘return on investment’. They know that they need to get more out of an investment than they put in so that they can have positive growth in their companies. This concept applies to employees, capital expenditures, marketing and sales budgets, and countless other ‘expenses’ that an owner chooses in the daily running of his business. And although there are countless complex and inter-related concepts that go into the development of an exit plan for a business, one of the simplest ways to view your exit is the same manner in which you view running your business – you want to get more out of the exit than you have put in.

Getting More Out than You Put In – the Concept of Productivity

The whole idea behind running a successful business is that your combination of efforts, ideas and the combination of financial and human resources all work together to deliver a bottom-line profit to your business. Without this basic measure of ‘productivity’, your business would not be in a position to survive. As an owner, you know this intuitively and, at any given time, you are working to improve your sales, processes, products, marketing, customer service and overall business performance to remain profitable. However, which parts of this productivity will be rewarded at the time of exit?

Profitable, Sustainable, AND Transferrable

Moving past the idea of being productive in your business, you need to ask the ‘value related’ questions that will empower you to get more out of your exit than you put into your business. You need to know if your business is (1) profitable, (2) sustainable, and (3) transferrable – let’s take them in order.

Profitability – One of the most important questions that you can ask yourself that will lead to you getting the most out of your exit is whether you are more profitable than your peers. You see, bottom line profitability is not enough when you are looking to get the most out of your exit. Rather, you want to be in a position to know that your levels of profitability exceed those of your competitors. You will be on a path to getting the most out of your business when you are confident not only in the fact that your business runs well, but how you compare to others in your industry and sector (NOTE, these benchmark studies are relatively easy to produce)

Sustainability

Beyond being more profitable than the competition, it is also important that your profits are sustainable. In this respect, we look at the riskiness of your profitability because not every dollar of profit is seen equally. For example, revenue that is recurring because it is on a contractual basis with a customer is more valuable than 'one-time' money, or a business customer that was won but will not stay with your company long. Recurring revenue is sustainable. And, because of its sustainability, it is worth more than other types of revenue.

It is also important to know your profitable products and services and how much and when you are able to deliver those to the marketplace. A business that is focused on it's highest value products and services will be sustainable because it is invested in those areas of profit.

Therefore, achieving profits alone is not enough. We now see that they should outperform the competition and should be measured for their own quality. This will help you get more out of your exit than you put in.

Transferability

The third element that will help you get more out of your business than you put in is if you can establish that the profits and highest value are also achievable without you personally needing to generate them. You see, most businesses (particularly the smaller ones) are profitable, and those profits may by sustainable, but without the owner present, they are not readily transferrable. Without transferrable profits, you will not get more out of the business than you put in. The reason for this is because it is necessary that you keep putting in the efforts in order to generate those profits. Therefore, to get the most out of your exit, your profits will exceed industry benchmarks, they will be of high quality, with low risk of achieving them in the future, and they will be able to be generated without your direct efforts.

Quantifying 'Sweat Equity'

Now, getting more out of your exit than you put in will also require a measurement of the 'sweat equity'' that you have built into your business. After all, how does one go about quantifying 20 or 30 years of concentrated effort into a single number to see if what they got out was more than they put in? Well let's look at it this way. Let's begin with your current salary and what you would pay someone else to do your job (the market rate for that position). Then, let's take all of the excess salary that you've taken over the years. Then, let's add to that the personal expenses that you've taken out of the business over the years. And then let's add to that figure all of the distributions that you have taken out of the business. When all of that is added up, you can look at your initial investment in your company and see how much 'return' you got and what you anticipate getting – in addition to all of those benefits – at the time of your exit.

Keeping your Eyes on the Stars but Your Feet on the Ground – Be Realistic Or You'll Be Alone

Now, at this point in this exercise, you may be facing a deficit. In other words you may be in a position of seeing that you were not adequately compensated and did not take excess personal expenses and distributions out of the business. Well, if that is the case, it is often also the first reaction of an exiting owner to think, 'well I'll simply get it all back at the time of my exit'. This is a dangerous mindset because it leads to the most common reason for failed business transactions – an unrealistic value expectation set by the owner. Remember that in order to get more out of your exit than you put in, someone else still needs to see the value that you believe it is worth.

Understand that your next owner will pay you for what they expect to benefit from future ownership, so it is helpful to know that number in advance and how you can work to improve it in the years leading up to your exit.

Concluding Thoughts

All owners are in business to get more out than they put in. Don't make your exit an exception to this simple rule. Remember that the next owner of your business is best served when they are purchasing an investment from you, and not just a job. When your company reaches this point, you'll be in a position to truly get more out of your exit than you put in.

Bobby G. Biggerstaff
Managing Partner
Strategic Advisors, Inc.
P O Box 41200
Greensboro, NC 27404
336-255-7072 (c)
336-854-9006 (o)
bbiggerstaff@strategicadvisorsnc.com
strategicadvisorsnc.com