STRATEGIC ADVISORS

# The Exit Strategies Newsletter

*EXIT TURBULENCE: EVERY EXIT DIES THREE (3) TIMES*

Owners who are thinking about an exit from their business are always better off knowing more about the possible future transaction so that they can anticipate problems that may arise. If there is one word that can encapsulate exit transactions it would be 'turbulence'. And, one of the things about exit turbulence is that it comes in many forms and all too often tells an owner to simply 'forget about the whole thing'. Therefore, it has been said that 'every deal dies three (3) times' [before getting completed]. Because so much is riding on a successful exit for millions of baby boomer owners, let's take a look at some other sayings and truths about the disruption the exits can cause.

Remember that it is not only you, the owner, whose life will change, but also all of the people around you including your employees, your managers, your customers, your suppliers, your family, your friends, as well as your community. All of these folks are looking for your decision in this critical area. And without some forewarning about the landmines that can be stepped on, your exit transaction may not proceed as smoothly as you like.

Let's take a look at some infamous terms from the transactional world as a guide to setting your expectations for your exit.

## 1. Every Deal Dies Three (3) Times

This one is the easiest of them all and maybe the most powerful. It says that the transaction will meet with many twists and turns, similar to a roller-coaster ride. And, for those owners who are prone to motion sickness, it often feels like the best thing to do is to get off the ride. In fact, on average, owners decide to quit on transactions three (3) times before an exit transaction is actually consummated. Just like a cat with nine (9) lives, your exit transaction may die three (3) times before it is completed. The key point here is not to get upset or surprised but to know that this is a normal part of the process.

## 2. Every Deal Takes Three (3) Times Longer Than Expected

While exit transactions are busy dying multiple deaths, the parties involved are put on hold and have to be disbanded and reassembled over different time intervals. As parties lose their focus with each death of the transaction, the motivation seeps away. And, even when transactions are moving along smoothly, they take longer than expected. Think of it this way, most owners see their exit as a transaction similar to selling their home. The complete sale of a home might take four (4) months, from decision point, to preparing the home for sale, to achieving the financing and closing on the transaction. The average sale transaction for a business takes twelve (12) months and this does not leave time for the planning and the pre-sale work. Key point – expect delays and give yourself a number of years for proper planning and execution.

## 3. Momentum is the Key to Keeping a Deal Moving Ahead

If we now know that deals die three (3) times and each transaction takes three (3) times longer than estimated, we can mitigate some of these risks by understanding that maintaining transaction momentum is extremely important.

What this means is that once you begin to bring parties into your transaction, whether they are buyers, managers, employees or advisors, these folks are being asked to focus their attention away from something else and on your transaction. A certain momentum builds in the communications process. And, when one party – usually the exiting owner – delays a transaction, the momentum is lost. After a short amount of time, the other parties to the transaction sense that 'not much is happening' with your transaction and they begin to feel like it is permissible not to make your transaction their priority. When enough time passes, many wonder whether the transaction is even still happening. Avoid this by educating yourself in advance and by knowing that delays are deal killers. This knowledge alone and your ability to keep people focused may be the difference between exit success and failure.

## 4. The Number One Killer of Deals is the Failure of the Owner to Remain Focused on the Financial Performance of the Company During the Exit Transaction

Speaking of keeping your attention focused, it is very helpful to know that the number one killer of successful sale transactions is when an owner loses focus and the company's

performance begins to slip while the transaction is moving towards a closing. When this happens, the future owner – particularly an experienced buyer – will sense that perhaps the deal is not what they thought and they will often get nervous about how much further the company profits will drop once the transaction is done. Given that a buyer is purchasing a future stream of cash flow, it often leads the buyer to make adjustments to the purchase price or terms or, worse yet, walk away all together.

Legitimate Distractions Versus Mentally Checking-Out

Owners fall into two (2) categories in terms of losing focus. The first is the owner who is too involved in the transaction and is not doing their job as CEO of their company. This is understandable but also avoidable by hiring the right people to handle the exit transaction. The next type of owner is the one who sees the proverbial light at the end of the tunnel and mentally checks out of the business. This owner is already sitting on the beach in their mind and they lose focus. When this happens, that light at the end of the tunnel often turns out to be another train and the owner needs to get back and focus on their business. Keeping your focus and finishing strong is key.

**5. Every Successful Deal is 'a Little Miracle' & Deals Get Done When Parties are 'Equally Unhappy'**

The final two (2) sayings highlight the others mentioned already. The reality is that each successful transaction is really a 'little miracle'. So many things need to happen for a successful transaction that when you experience one you should truly be grateful to those who have assisted with your successful exit. This is particularly true because deals do not get done until each party is equally unhappy. This means that compromise is tough for exiting owners. However, in order to make a successful deal, you have to let the buyer believe that there is more upside to the business – you may have to work to compromise to get your exit completed. And, the more planning you do around this exit, the better you will know whether what you get is sufficient to meet your goals.

**Concluding Thoughts**

These sayings from the transactional world contain the wisdom of thousands of transactions. Don't be unrealistic in thinking that your exit will be radically different and that everything will go smoothly. Rather, prepare for the event by investing in an exit planning exercise that brings you advance notice of these issues and assists you in reducing your overall exit turbulence and disruption. We hope that this newsletter is a first step in helping you achieve that goal. It will be your job to find the delicate balance between the levels of independence that you must rely upon when transferring operational control, and eventually ownership, to the next generation. Starting today gives you the best opportunity for success with your succession planning.

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