



The Exit Strategies Newsletter

From Revenue to Exit: A Trend Forward

Most entrepreneurs follow a predictable trend when growing and managing the enterprise that they also own. The owner's mindset moves from driving revenue to achieving a successful exit. But there are many steps in-between. The question this newsletter seeks to answer is how the mindset of a business owner needs to progress regarding cash flows that will lead them to a successful exit. Therefore we desire to provide a guide to give you, the exiting owner, a better perspective on thinking about revenues, profit, valuation and how they will impact your exit.

Initial focus on revenues

In the first few years of a business, the business owner, almost always, is solely focused on attracting revenue to the new company. Simply put, revenue

is the gas that keeps the engine going and without it there can be no growth. So, the importance it plays in the mind of the business owner is very real – it is the businesses' survival that is at stake. At this stage in the business, and with the mindset of the owner, there is a myopic focus on revenue.

From revenues to profitability

Once the business is successfully growing, there should be a shift in a business owner's mindset from solely focusing on revenue to beginning to think about profitability. At this stage owners begin to think not only about the amount of revenue they are bringing in, but how this revenue is helping to drive and shape the business. Their vision starts to broaden and they start to become more strategic in their thinking, seeking to attain higher-quality, more profitable revenue.

From profitability to increased enterprise value

The next step in an owner's thinking is when that owner starts to ask themselves 'what is my business worth?' The focus at this point in time begins to look past revenue and profits and begins to look at the company as a whole and what value it holds. Here, an owner is thinking in terms of what a future owner would see worthwhile to continue to pursue. They are also thinking about whether or not the business is providing a good return on investment for them, relative to the risk assumed in continuing to own and run a privately-held business. When the owner begins to ask these critical questions about the value of the enterprise, they are only one small step away from asking the ultimate question in the lifecycle of a business, i.e. 'who will own and run my business in the future and how will I benefit and/or get paid for the transfer?'

The final step, from value to exit

Finally, when the business owner has successfully transitioned their thinking through this entire process they begin to focus on their exit. At this point in time, an owner begins to ask how and when they will be able to extract themselves from the running and owning of their business. Some owners want to transfer the business to family members, while some want a buyer to pay the highest price. Transfers to employees and managers are also possible. In any event, the

owner is now thinking not about revenue, profits, or value, but about how that value will be extracted from the business while the business continues on into the future.

Concluding thoughts

It is only when the business owner can successfully bring themselves to the highest level of thinking, are they in the position to plan their exit from that business. So, how many owners of privately-held businesses will advance their thinking this far? That is the ultimate question when considering how many business owners will be successful with their exits and we hope that this newsletter provides a bit of guidance for your thinking towards a successful exit.

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