The Exit Strategies Newsletter

YOUR EXIT IS SOMEONE ELSE'S BEGINNING

When giving consideration to who will own your business after you, it is critically important that you are able to see that your future owner will face the same challenges that you face and will be looking for the same reward that you are looking for from the ownership of your business. Buyers do not come with all of the answers to your problems. At best, they come with more money and perhaps some professionalized systems that will help your organization run and grow into something larger. Buyers will not have an effortless ascent, taking the business to heights that you could not. In fact, reaching new highs will be a time-consuming, considerable challenge. This challenge is magnified by the idea that the business must first survive without your active involvement. Therefore, it is very accurately stated that your exit is truly someone else's beginning.

Exit Planning Options – Who Will Own Your Business Next

One of the challenging concepts around exit planning is that your plan needs to be customized to both your personal situation as well as to your specific company. In addition, your industry will be going through certain changes that have to be navigated as well. Therefore, the decision as to who will own your business after you needs to be carefully evaluated. In short, you are faced with two paths: (i) either an internal buyer will own the business, i.e. your managers or family members, or (ii) an outsider will come into your business to own and run it into the future. That's pretty much the story for most privately-held businesses that do not want to simply close down and liquidate. Therefore, the question of who will own your business next is of paramount importance for you to investigate, analyze and decide upon.

Why Your Future Owner is So Important to Your Planning

If your exit is someone else's beginning, then it is only logical to begin to plan for that future owner's success today. For example, if you are going to sell to a competitor, it makes sense to think about your key managers and how they are empowered to run the business without you because very few entrepreneurs end up making good employees. This simply means that your future buyer (likely your competitor) may not have a need for you once you have sold and, rather, will be looking to acquire and retain your key people that made you such a formidable competitor over the years. The beginning for these new owners is the relationships that they are developing with your key people and the growth plans that they have once they acquire your business. By contrast, if you are planning to sell (and / or gift) the business to your management team, it is critically important that you are prepared to stay with the business for sometime as the day-to-day decision making is transferred to this valuable team. In the majority of cases of management buyouts (at least those funded with future profits of the business) the managers will not have cash at closing to pay you for the business. And if you do not have enough assets outside of the business to support your lifestyle after your exit, it may be necessary to stay with the business longer in a phased-out transition. In this case, your longer-term exit is a different kind of new beginning for your managers – it is a maturity into the reality of business ownership and a transition from managers to leaders and then to owners. This maturation process needs to be given the proper amount of time. And, your exit means a whole new type of relationship with the business for your managers.

The Mixed Emotions of Investing for Someone Else's Benefit

It is not an uncommon thought for an individual selling their home to think 'the house never looked as good as it did the day we sold'. The concurrent thought, sometimes, is 'I wish we were able to enjoy the benefits of the improvements that we made in preparation for the sale'. Despite these two thoughts, one reality remains, if you do not fix up the house for your next owner, it will sell for less than you want (or it may not sell at all). Therefore, if you are thinking that your future owner will bring all of the 'fixes' to your business and that you do not need to prepare your company for sale because it is the buyer's responsibility to repair the business, you are heading down a very uncertain path. No future owner wants to begin their tenure with a business badly in need of repair (at least not the type of future owner that you want to attract, i.e. one who pays a fair price for the business). Help your future owner begin their stewardship of your business by preparing the company to be owned by someone else.

Concluding Thoughts

Remember that your exit is not all about you. Your future owner will need to generate profits from your business and will need to [eventually] do this without you. Picture yourself explaining how your business runs to your future owner. Can you see a clear path to explaining the profitability and future potential of your business in their hands? Can you do this with a straight face and make it believable? If so, then you are heading on the right path. If not, don't expect that all of the bruises and warts on your business will be overlooked by your future owner. In all likelihood, you will be sharing the risk and the cost of those imperfections. Isn't it better to account for the fact that your exit truly is someone else's beginning?

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