



The Exit Strategies Newsletter

HOW MUCH OF YOUR 'FUTURE STORY' WILL YOU SELL WITH YOUR EXIT?

Every business has a story. The story is usually the original idea or set of ideas that were pursued when a business began and grew. Then it was the marketplace acceptance of those ideas, evidenced by the exchange of money, which helped your business prosper. And then it was the systems, people, procedures, and the reputation that you developed which helped you expand that idea into other related ideas that your customers / clients purchased to make your privately-held business what it is today. However, how much of your 'future story' will you sell to the new owner of your business? Or, more appropriately asked, how much of the future story will your future owner believe and be willing to pay you for?

Business Sales are Predicated on the Future Potential, Not the Story of the Past

Whoever is going to own your business after you will be interested not so much in the past performance, but mostly in the future potential of the business. The past may or may not be a strong predictor of the future performance of your business. For example, if you are in a position of gaining new market-share and attracting new clients with new products, services and ideas, then your future may look brighter than your past. It is reasonable, given that you are demonstrating a trend of future performance that your new owner will pay for a portion of this future

because they can actually see that the marketplace is accepting your new ideas. However, many owners do not subscribe to this philosophy. In fact, many owners believe that the new owner of their business should pay for the future even if that owner has not currently demonstrated the potential of new ideas. And this is the primary reason that seller's price expectations end up being so misaligned with what the marketplace will pay to own your business.

Overcoming a Weak Past and Selling into a Brighter Future

Coming off of the 'great recession', many business owners are just now starting to once again see balance sheets and income statements that reflect a healthy and growing business. However, the trend lines for the past few years indicate many businesses that dropped in sales and, hence, in value – your business may also fit this description. As a result of the downturn for so many businesses, many owners would like to consider an exit but are keenly aware that they themselves would not pay for a business that is in decline or just pulling out of decline. Rather, there are a great number of owners who are now re-establishing their businesses and cautiously optimistic that the future will continue to bring more good than bad.

That being said, the way to overcome a difficult (and recent) past performance is to

be in a position to explain the recent past to your next owner while also creating a vision for the future of your business. Beyond simply articulating the future potential of your company, you must also demonstrate that such a future is achievable by taking the first measurable steps towards what you are presenting. In other words, a story without substance is just that – a story. However, a story of a bright future, accompanied by people, products, revenues, measurable metrics and initial profitability, is a strong foundation upon which your future owner can justify paying you to own that future potential.

The Power of a Five (5) Year Forecast

The first step in establishing the validity of your future story may be a fresh (or brand new) five (5) year forecast. Many owners are not in the business of building a five (5) year forecast for their businesses. Rather, too many owners of privately-held businesses view this activity as a waste of time because they assess that the future cannot be predicted. Owners know that numbers can lie when ordered properly by the presenter and they believe in the integrity of performance, not in projections. However, owners who hold this view of business are limiting themselves from telling the story of their company's potential future. And, in effect, owners who reject forecasting are relegating the future vision for the business to someone else. However, when a five (5) year forecast is presented to a future owner and the past story of the company reflects new products and revenue lines that are showing an existing trend towards executing on that plan, the [potential] future owner has a lot more confidence in buying into the future story, mainly because you are demonstrating that future today and showing them the potential for your enterprise once they own it. In the

absence of you performing this task, you are leaving the job of forecasting to the new owner and are in a weaker position because in the absence of your insights they will be forced to assume the worst scenarios and not a story of the best outcome possible.

Concluding Thoughts – Create a Future Story on Facts that Support a Great Story.

In conclusion, this newsletter encourages you to avoid trying to exit on a story alone. It is far better for all parties to an exit transaction to have the facts and stories straight and supported by actual (albeit initial) performance. When you as an exiting owner can provide this clarity to your future owner, you are in a position to substantially improve the odds that your future owner will buy more of your future story with the exit transaction, leading to a more successful exit for you.

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