Preparing for Transition – Setting and Meeting your Goals

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Baron Rothschild, when asked how he became rich replied, "I always sell too soon." By that he meant he never waited to get out of a business at the very top price. He sold while the price was still rising, and by doing so, minimized the chances of losing money on any of his investments and businesses.

Every business owner has an inevitable day when they will no longer own their business. Ben Franklin wrote "Nothing is certain but death and taxes," and he was right. By planning your exit from your business, though, you can leave at the best time for you, your family and your investors.

What is an exit from a business? It can be as emotionally violent as a bankruptcy, or be a quiet closing with all debts paid. You may get an offer that you can't refuse and be set up for life or your next business. You can plan to sell at a good time; take the money and run. It can also be passed on to your heirs. An exit strategy means simply that you have planned that transition and you are ready to take advantage of good opportunities.

What's your business worth? What do you want it to be worth? How do you recognize when it's time to leave? Your business plan is the blueprint to get you to that level, and your exit strategy guides you on when to cash out.

It takes a lot of time and dedication to build a business that will be profitable, even more if you want it to grow very, very quickly. Although it is possible for people to sustain 80 - 90 hour weeks for a couple of years, most people function at their very best with no more than 55 - 60 hours a week at work. Beyond that, they start spinning their wheels and are not as productive as they should be. Once you have built your business to a certain point, and that will vary from business owner to business owner, consider making changes that will allow you to sustain growth without dedicating every hour, waking or sleeping, to your company.

One of those changes will be to start delegating a lot of your operations to someone else. This is good for you, because it will give you the opportunity to focus on your business strategy, your management team, your customers and the "big picture." It will also help you position the company so that you can take advantage of any opportunities that may occur and prepare to stimulate opportunities as well.

What are typical exits for business owners? If everything goes well, for the typical small business, it provides a nice income for the owner and is then sold for a good price. The key to a successful exit here is to make sure that your business will bring a top price for its category and location. Small business owners with an eye to exit can manage the business' income for a couple of years before seeking a sale. Boosting income can be accomplished in a number of ways. One way, of course, is to boost revenues. Top line growth is best, if you can maintain or improve your profit margins. You can also reduce expenditures by deferring capital expenditures, reducing training and business travel and entertainment. Use a reputable accounting firm, even if you have never before done so, because financial statements that have been audited by a CPA firm have credibility. The offers given to small businesses often discount valuation if there is a chance that the financials are inaccurate. With a clean audit by a good CPA firm, you prove your business' past performance and can justify full valuation in your asking price.

Sometimes, it makes more sense to exit by closing the business at the end. This often happens when the underlying real estate has become valuable, which is good for you if you own it, bad if you are leasing and the landlord declines to renew the lease or proposes such a change in rent that your business cannot continue to be profitable. A planned store closing can be very profitable. The moderator of the Rules for Revolutionaries list posted recently about a company that left the bricks-and-mortar world two years ago to reposition as a virtual company. They had a "Going Out Of Business: 0% Off Sale" and sold out. Companies that specialize in liquidation sales are very profitable and usually buy high-margin, cheap stock specifically for the "going out of business" sales. If you are running your own sale, that may not be how you wish to be remembered in the business, but you should consider stocking up on items you know will sell based on past experience.

Bankruptcy can, in some cases, be a good exit from your business. A bankruptcy can be used to reorganize the business and allow you to continue operating it. It also works to salvage it and allow someone else such as a creditor to operate and sell it. Finally, it can be a clean break from your old debts and obligations.

Another good exit is to develop close relationships with other businesses that may be interested in acquiring you in the future. Although they can be competitors, it's usually best if they are not exactly in your market niche. Your most promising opportunities will come from businesses with which you have a strategic fit, where your business makes theirs stronger and vice versa. Those are also companies you may decide to acquire if you have the resources and they appear to be available. The closer the relationship that you have with them, the better that you can value each other.

If your company is growing and needs ready access to large amounts of money to continue that growth, you may want to consider positioning it for an IPO (initial prospectus offering). This is a very expensive and involved process that allows your company to sell stock to the public. For the past few years, some Internet firms were brought to market well before really being established businesses with real revenues and profits. When the cash window is open at the stock market, you may make a great deal more money selling stock in the company than you can in selling the company itself. An IPO is also a very valid strategy to use if you need to raise a lot of money and have access to the capital markets on a continuing basis. One thing to consider, if your company does IPO, you will have to follow very stringent accounting rules and meet Securities and Exchange Commission requirements. A lot of information about your company will be filed with the government and will be accessible to the public, including your competitors.

A great way for someone who has built a business over the years to cash out is by selling it to someone who intimately understands all of the operations and realizes the company value. In a small business, you may have an assistant who would be interested in buying your business. It is often good to offer them part-ownership to start, and then sell them more of the business until they have full ownership. There are a number of ways to finance this. If you know that they are good and that the business is solid, you may consider carrying the financing for the purchase. It's worth spending some money on a good lawyer when drawing up the sales contract. An enforceable contract can protect you from unexpected business problems.

Larger companies often require more cash and a good source of buyers is the company managers. Often they will not have the money to buy you out, and you may not want receive steady payments. These buyers, with a proven industry track record and your company's solid assets, may be able to get the money from investment bankers or private equity companies. This process is known as an LBO or leveraged buyout.

The end for many business owners can actually be their own "final exit." If it is unanticipated, a number of unpleasant things can happen to your business and your heirs. At the very least, no matter how young you are, you should know who is going to end up with the responsibility for running the business and who will get the benefit for owning it. Often these will be family members but they can be trusted associates or organizations that provide needed services. You can even set up your own family foundation and leave the business or its proceeds to support purposes that you have specifically chosen. The key to success here is to pick trustees who will follow your wishes as well as your will.

If you do intend to leave a profitable business to your heirs, rather than to a charity or foundation, it is a good idea to transfer ownership to them in an orderly way that will minimize your tax liabilities. A good estate attorney will be able to help you structure the transfer so that taxes and other liabilities will be reduced and you can feel safe that the government will get what it is owed and not a penny more.

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