How will you exit your business?

Exiting our business is something that will happen to all of us at some point. The stage in our lifetime may be different to others, but it will have to happen.

How are you planning the exit of your business? Those that do not plan their exit often just close the doors and shut down the business with disappointment

When do you want to exit? If selling, what cash sum do you want or need for your next project or retirement? Who are your likely buyers or who will takeover the business?

If you plan your exit, then it is more likely to happen as expected. Too often when business owners are ready to sell, they are disappointed the business is not in the position to sell and unable to attract the valuation they hoped for. The exit is delayed and can become a frustration, which sometimes can be a bad negative spiral.

Planning your exit now also enables you to be in a better position to control and react if an opportunity arises in the interim.

Compared to a few years ago, it is not so easy to raise the finance to buy a business today, so consider who will be your ideal buyer/s and look how you can groom them with interest. This may be your existing management team, an investor, a competitor or perhaps a business with synergy and the same clients.

If you are in a partnership or have co-Directors, then are your exit plans aligned and are you even aware of each others preference?

This week, I was asked to facilitate a workshop for business owners in Oxfordshire who wanted to consider their succession planning.

It is always of interest to hear the factors that are important to people when they look to exit their business. It is not always about the money. Often there is a consideration to those that helped them get to the position they are in today, be it the team or customers. Continuity and security for them is often a consideration. An ethical buyer with similar values is also often a consideration mentioned.

Another factor is what will you do after the exit? You may wish to stay involved in some way, so is that possible? You may just wish to walk away as it is no longer ‘your’ business.

There can be many obstacles that hinder your opportunity to exit the business. Your mindset of ‘being ready’ and the price expectation are just a couple of reasons. A common response is “the business is too dependent on me”. This is a prime example of where your planning can help. What systems and processes can you introduce to make the business less reliant on you? Who can you train or bring into the business to fill a skill gap or a role that you are currently undertaking?

If you are selling the business, then one area of discussion that is also of interest, is whether you look to receive all the value upfront or in stage payments as part of an earn out. Of course, there is less risk with receiving all the money upfront, plus once the deal is done you can move on. The risk of an earn out, is that it is often related to the performance of the business and its profitability. The future performance or accounts declaration may be the risk here. However, an earn out that reduces the risk of the buyer can often increase the valuation. Personally, I would link any earn out to turnover rather than profits.

There are many other considerations including when you start to tell people, but I hope this snippet provides you with some thoughts and encouragement to start the planning of your business and be in control of the exit you desire.

Finally, when you are planning you exit, then I would recommend getting all your professional advisers around one table and thrashing out the right structure and deal that everyone is comfortable with. Too often the separation of advice can delay the process, as one structure suggested by the solicitor may not be the best from a tax perspective proposed by the Accountant.

Plan what you want, when you want it and then you can take action in the interim to make it happen.