



Preparing your business for an exit

If Stephen Covey tells us that to be effective we should always begin with the end in mind (Seven Habits of Highly Effective People) then few businesses Owner/ Managers seem to pay heed!

Most start their businesses because they have developed a product or service that they believe to be best of class and want to make a success of this. Why? Personal recognition? Possibly, but, mainly, they want to create a vehicle to sustain their lifestyle in the present and future.

But how many actually start with planning for their perceived needs? My experience of working with many Owner/ Managers is - few.

Fewer still the ones that see their businesses as this vehicle, one that can be managed for a long term regular revenue stream and for real financial earnings at any appropriate time.

Whether they have started with this long term plan or not, the fact is that if they have no exit strategy then it is time to start planning one now. Remember that any plan is exactly that, a plan. This can be managed up or down to reflect changing needs but without it they will never be able to maximise their return.

So what focus is needed to maximise on the exit strategy?

- **Analysis: Who would be interested in approaching or being approached?**

Regardless of the size of the business being sold, the usual sales focus applies – what is the potential target looking for?

Typically amongst these can be counted:

- Competitors – looking to acquire a bigger slice of the market or for more dominance in it.
- Corporates - Not necessarily in the same sector but looking to diversify or to acquire the Client list that they can market other products to.

- New Ventures – Organisations or individuals that see the potential in the current or future scenario and feel it is worthwhile exploiting.

There must be an answer to: who will want to buy the business and why?

- **Financial: All present and correct!**

Nothing, but nothing, is as important as having the right numbers. Whoever is interested in buying will be poring over the P&L and Balance Sheet and will be drilling the numbers. Regardless of the outward appearance of the business, everything will be apparent here or, at least, will be seen that way. There is potentially more to explain here than anywhere else so there must be appropriate:

- Audited accounts, for as far back as possible
- Three to five year Strategic plan projections
- Cashflow projections

Analysis of the sector, market size, product or service and its positioning, sales, marketing, organisation amongst others should all be included in any business plan and never more so than in the Strategic Plan. Without it will any prospective buyer have any comfort in how long the business will last?

- **Product/ Service: how 'clever' is it, how long will it live?**

Business owners start their businesses believing that they have a market offering that is, in some way, competitive, if not earth shattering. How many, though, will approach the market in an analytical mode and understand where their product/ service is best placed? Who their 'real' clients are?

Anyone looking at an acquisition will be very focused on the answer to this and how they can best exploit the current positioning. If this is unclear or has not been adequately followed up they may not understand the best value of the business.

Similarly, few business owners have a feel for how long their offering will have a market. The recent news about HMV going into liquidation proves that even the best 'corporates' have little idea of how long they can service their market or if the market exists any longer.

Preparation for exit, which should begin from the offset should have business owners answering questions like:

- How long will the product have a market?
- How are technology and client population requirements going to determine the ongoing success of the current product/ service line?
- What plans exist for follow on or add-on products to ensure a long-lasting opportunity?
- What is the strategic product/ service plan for the business?

- **What is the market? Who are the Clients?**

Niche marketing and selling is not new but in the hunt for business many companies rush for the revenue without focusing on the 'sweetspot'. The result is a widely disseminated client base that is then more difficult to onward sell to and less branding than is right. If the business is not distinctly positioned then the prospective buyer will appreciate its value less.

An ongoing, successful business will be running with hundreds if not thousands of clients. Who are they? Why do they buy the products/ services?

Ideally, there should be a template of who buys. This can be as defined as – 'A' class consumers living in five bedroom, gated properties with an SUV and an executive car in the garages, 2.2 children, pets and extended family who all go on holidays and long weekends three to four times a year or manufacturing companies within specific revenue bands that are focused on external markets within the food beverage sector.

These types of statements need very clear understanding at the beginning and continual analysis through professional CRM systems. The sort of systems that allow continual investigation to ensure that business is focused on and coming from the target client population.

What is the vision and mission of the business? If the business owner does not know then how can the business achieve its potential?

- **What is the business?**

Beyond the client set and products/ services any business is made up of people.

As a business grows, so does the number of people employed, simple as. Whilst investment in machinery, product development, marketing etc. is always seen as key , so should the investment (note the use of the word investment) in people.

Businesses describe the growth of employee numbers as 'topsy-turvy'. This is a fearsome word because it implies little or no management.

- How does the business operate?
- What is the organisation like?
- How many people are deployed in each area?
- What is the per capita revenue?
- Does every employee know what the company does? What it is hoping to achieve?
- How are employees measured? Do they all have key objectives or Key Performance indicators against which they are regularly appraised.
- Is there a real growth plan for every employee? Where is the succession planning?

Most important: are all employee procedures properly documented, no matter the size of the organisation?

- **The 'Business in a box'**

When anyone buys anything there is usually an 'instruction manual' – why should it be different with a business? The less due diligence any prospective buyer is forced to do then the higher the price of the acquisition.

Every business action is usually related to a business process. Without knowledge of the specific, in detail process then most employees will not be as efficient as they can be across all areas of the business.

Any buyer will be asking: what happens when the present Owner(s) or management team leave the business? Some businesses operate as a result of the Owner- many times the person who first started the company. What happens when he/she are not there? Will the clients continue buying from someone else? What will be the impact?

Every business owner should be prepared to have his/ her business 'in a box' (departmental procedures) where anyone from the outside can read exactly how the business is managed, transacted and clients acquired.

With this any buyer can be comfortable that the risk is mitigated. Without it the risk is higher and surely the price will suffer.

Few people ever engage in any activity without knowing what is going to be happening after. From the simple visit to the cinema to personal financial investment and yet few business owners ever start a business thinking about – what happens after?

Exit strategies should be as much a part of the Agenda at the beginning of any enterprise as at the middle or end – this is the best preparation. If that is not possible, then focus on the above. In particular think about who the prospective buyer is going to be and help yourself by acting on it.

Good selling!