

## Your business needs an exit strategy

By JACOLINE LOEWEN, January 2006



**Leading business owners use Exit Strategy to make better decisions for the long-term value of their enterprise.**

with passing on their business only when they have to – the buyer is at the door or they need to retire. Tragically, this means that all the blood, sweat and tears expended by the entrepreneur in his business could fade away into oblivion without much value. With a bit of decision making today, however, the smart entrepreneur can maximize the return for his hard work.

As a business owner, the long term legacy of your company should be a fairly important consideration. Yet, according to a Queens University SME study, an astonishing 82% of owners do not have an exit strategy. In other words, only 18% of CEOs have planned their choices to recoup their investment of hard work which impacts on retirement or organizing the transition of their business to others. The lack of a solid exit strategy demonstrating how investors can recoup their initial investment can turn off sources of money.

Most owners rely on the old hit-and-miss, fly by the seat-of-the-pants approach of dealing

### ***From Wishful Thinking to Reality***

Loewen & Partners addressed this issue by sponsoring the Canadian Innovators Forum 2005 conference: Diamonds in the Rough: How to polish your business for greater exit value. The following is a brief summary to help kick-start your own personal exit strategy:

### **An Exit Date Forces Action**

Close your office door, get out a pen and paper and write down the exact date and strategy of your exit, it may be 5 years or 10, and state if you would be selling to a competitor or having your daughter take over. The specific details and timing are not important – it is the psychological power of having a date and a rough plan that will wake you up to the fact that one day you need to exit your business. A written plan and potential exit date will assist your management team and advisors in a course of action.

Example:

With a long view to the finish line, a good tax accountant will be able to assist you with minimizing your taxes. Maybe you will not reach that dreamed level of the IPO, but you can be assured you will be further along in organizing for the best sale value.

## **Put the Focus on Talent**

Identifying a destination date also deals with one of the most common problems of successful entrepreneurs - ensuring the company can operate without them. Too many business leaders cannot step away from the business without it falling apart, which only reduces the value of their company. This common trap of micromanaging squashes the development of management skills as human beings learn from making decisions and mistakes. With an exit date fixed, the gaps in talent will become obvious, encouraging owners to deal with issues sooner than later.

It is a common observation that children of entrepreneurs are often overshadowed by the owner/parent. If you are interested in passing your business to your children, the setting of an exit date would encourage an earlier transition.

Example:

An exit date delivers a clear path for the next generation, showing the opportunity, instead of a vague promise of "Someday all this will be yours...or your brother's." Once family members are let in on the timeframe, the dynamics will change rapidly and entrepreneurs may be surprised at who steps forward with an interest in taking over the reins. The second generation can trust that there is a role for them and begin to take more risks, learning from mistakes while the expertise of the founder is still easily accessible.

## **Link the Personal and the Business**

When you own your own business, personal issues are closely linked to with the business and, for true success, you need to manage both. By sharing your vision for the business with your spouse and children, family members will get a better grasp of the legacy you want to create. They will become more accommodating about the amount of time you are devoting to work once they know your time frame to leave the business.

You can also get your personal life more co-ordinated. Perhaps it is time to buy that smaller home in the location your spouse always dreamed about and get the new life going. Too many owners sell their business and then experience a massive shock from loss of a huge part of their lives. (Spouses also suffer!)

Call your doctor and make the time to have your annual medical tests. This may seem an obvious statement that has nothing to do with exit strategy, but your health impacts on the business and you should catch problems early. Do your family a favour and keep informed about your health as it affects their life too.

Example:

Remember that bumps in the road can change plans in a dramatic way but, with an exit date set earlier, management can be the little bit more prepared. Being diagnosed with cancer can move your sell point or 'access point' from five years to three months. If you prepare for an exit within five years time, even as a simple exercise, you can reduce stress at a time when your family needs you the most.

## **Know your Role in your Business**

Michael Gerber, author of *The Entrepreneurial Myth*, says too many entrepreneurs are looking down at their desk when they should be looking

outwards for new opportunities. Your job as the owner is to work on the business, not in the business.

Ask yourself if you are one of those business owners who prefer to focus on building the profit and cash flow? Be warned - this is tactical. Instead, you should be overseeing the managers and not doing the work.

### **Push the Vision to Produce Results**

Golf or sailing at Muskoka can inspire flashes of brilliance on how to improve the value of your business. It is astonishing how many business owners tell potential buyers what would boost the worth of the business considerably, but have not executed these clever ideas themselves. Don't wait for someone else to make money on your vision - do the activities now that you know will add value to the bottom line. When you have an exit date, you will be surprised at how it turns up the heat psychologically to get more done. Maybe you postpone a golf game or two, but in the time frame of your exit strategy, the pay-off will be very worthwhile.

Example:

If you are imagining an IPO in five years, you will see the tremendous growth required to achieve this goal. Perhaps you will look at other options such as merger, buy-out or franchising.

In summary, with short term vision, it is no wonder that many businesses struggle to get the recognition and financial backing they richly deserve. An exit strategy can make sure you do retire rich, and surely that is worth a little bit of effort now?



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