Chartered Accountant.

Whatever your business vision, one aspect of it should include a variety of options for exiting. Knowing that plans are likely to differ once the rubber hits the road, it is more preferable to adapt a plan, than have no plan at all. Exiting your business is the same thing. So, we need to help you get a plan.

WHAT IS YOUR STORY GOING TO BE?

START WITH THE END IN MIND

If you were to roll your life forward by 5, 10, 15 or 20 years, what story would you like to be able to tell about your business and other aspects of your world? How big is your business vision? And more importantly, do you have a plan to execute this?

What Story do you Want to Tell?

We all have different motivations. Firstly for wanting to build, and secondly leave a business. Any reason is not necessarily better than another. The point is to know your 'why' for exiting. Do you want to make lots of cash, move onto more exciting things, retire, reduce risks, or simply have a change of direction to gain more variety? What legacy would you want for your business past your personal tenure?

The reasons for leaving can impact the method best utilised to exit. Part of your 'why' can be nurtured by the simple concept of having a 'story' (sometimes solely in your own mind) of the way you would like your business exit to play out.

How will you feel if you shut the doors, walking into retirement with nil cash return? This might be fine. More power to it. If not, we need to help prepare you. How badly do you want to get some cash out of a sale?

Please do not underestimate the likelihood of shutting the doors being an eventuality. Statistics around NZ business owners suggest many of them are aged 55 or over. So too is the percentage who believe selling their business will be a significant part of their retirement planning. Importantly, more than half NZ business owners are in this category.

One problem inherent in these statistics, is there are less people 'following' who are genuinely interested in buying. Less people in number, but also less people with the owner attitude. Owning your own business has a different level of interest in the Generations X and Y compared with times past. Simple supply and demand concepts arise, so many business owners are likely to not only not get the price they want, they may get no price at all. Only the best businesses will sell in upcoming times. Or at best, the sale prices may drop significantly.

So, how do we ensure your business is one of the best so you get what you want?

Being Prepared for Exit

The main reason a business owner will successfully sell their business, is fundamentally because the business deserves to sell. To achieve a premium price, it will likely:

- Have sound , growing, maintainable profits (good return on investment),
- Be well capitalised,
- Ensure it has appropriately low risks,
- Focus on its points of difference in the product/service offerings,
- Operate with a great team of people dedicated to achieving the vision, and
- Is likely to be systems dependent, instead of key person dependent.

These do not happen overnight. Preparation, execution and a critical path are needed to create the overall combination desired. Once a decision to exit occurs, improving the above would form part of any exit strategy (if achieving an optimum price is preferred.) Different if 'getting out at all costs' is a relevant factor.

> *Exiting your business should always preferably be a choice, and on your terms*

Key Things to Do Now to Prepare for Sale

These issues should all be addressed to maximize your sale price and chance of sale itself

- Have a plan for exit 3-5 years out so you can execute your plan well in time
- Work out the critical path of key steps needed to realize your vision
- Manage the profit growth to be sustainable and appealing to an investor
- Develop sound systems and processes to create /maintain simple but effective operations manuals.
- Remove the dependency of key people, growing competencies with others over time

Ways to Exit Your Business

There are various factors to consider :

Who to Sell to – an external independent party such as a competitor or aspiring business owner. One can also sell to employees. Or grow so big you have an Initial Public Offering (IPO). The differences are correlated to the extent of your 'why'.

How Much to Sell – You might exit completely or have a partial sale of your shares, keeping some involvement yourself. There are pros and cons of both, depending on your preferences. These include tax issues, a gradual approach to ensure goodwill transfers well, minimising risks of handover and other inherent risks.

Continued $$ Investment/Management – Do you want to have a manager involved in your business and keep ownership? This can occur sometimes by intent, but sometimes by default if there are no willing buyers at desired levels.

Setting a Business Maturity Date

Chuck Blakeman, in his book "Making Money is Killing Your Business" discusses a business maturity date. One sets a date which the business is no longer reliant on the owner, and also the time of day. Have a story to tell. It will help you achieve your vision and create a business that is worth selling.

Here's an example...

It is the 4th of July 2009. On 4th of July 2012 at 8.30am I am going to host a champagne breakfast with my team to celebrate them having run my business for the past six months. At 11am that day I am taking my Advisory Board to lunch. I head to the airport at 5pm with my family and we are flying to San Francisco to meet my sister who is travelling from Paris to help us celebrate. Due to the change in date line, we arrive on the 4th of July at 12.15pm and my sister arrives at 7pm. Together we are all going to watch the Independence Day fireworks at Fisherman's Wharf. The whole trip including accommodation, flights, tourist attractions and spending money is going to cost $18,445.00.

At the date of writing this, I don't yet have any staff.

The above may sound far fetched but I can tell you I met this author on his 'business maturity date trip' to New Zealand in March 2011. His story (different to the above example) was in his book. If his business had been up for sale, he would have a better chance of exiting because the business was capable of running without him. He doesn't need to choose to exit his business. The point is that he can if he wants.

My example above (about my own business) is not 100% accurate, relayed for the purposes of example. However the essence of my story is real. So my question of you is this… What is your story going to be? And how badly will you make achieving it necessary?

Exiting your business should always preferably be a choice, and on your terms (i.e. nobody else's).

Be compelling in the execution of your plan, so you won't be another baby boomer 'shutting your doors'.

Trish Love is the founder of Love to Grow, Chartered Accountants who specialize in providing internal Chief Financial Officer (CFO) services and financial literacy education, in addition to general chartered accountancy services.
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