

HOW TO prepare an exit strategy

Article supplied by Fred Tang, CA, CBV

The whole purpose of places like Starbucks is for people ... to make six decisions just to buy one cup of coffee. Short, tall, light, dark, caf, decaf, low-fat, non-fat, etc. So people who don't know what the hell they're doing or who on earth they are can ... get not just a cup of coffee but an absolutely defining sense of self." (Joe Fox played by Tom Hanks in the movie *You've Got Mail*.)

In contrast, entrepreneurs do know what they are doing but often find themselves stymied when it comes to making the myriad decisions related to their business once they are no longer involved.

For many it is because the business, not coffee, provides them with a defining sense of self.

But the lack of an exit strategy is the equivalent of dying intestate. Decisions are made by, or forced upon, others that might be contrary to the owner's wishes. The single benefit to an exit strategy is that it puts the owner back where he or she is most comfortable – in control.

Timing drives a successful exit strategy. Personal goals, a reasoned evaluation of external market conditions and company performance should be considered carefully before setting a date.

There are several options, including appointing a professional adviser or even liquidating the business. Two of the most common are succession and sale. In considering either, ask yourself:

1. Is there an obvious and willing successor?
2. Does cash need be withdrawn from the business to provide for the owner's retirement?
3. Is the business healthy and potentially attractive for sale?
4. What is the current commercial environment and what is it likely to be at the ideal time of exit?
5. What are the taxation consequences?

Succession

Only one-third of businesses in North America successfully transition to a second generation. In evaluating candidates owners should ask themselves:

- Are they committed to the mission of the business?
- Do they have the ability to move the organization forward?
- Can they think independently and exercise good judgment?
- Do they have the skills to motivate and lead others?

If the owner does have a willing successor, or successors, early planning is the key:

- Consider that current management style. Autocrats, or variations thereof, don't make good mentors, and some owners will have to look to training themselves before they can start training the future generation.
- Have a written succession plan providing a step-by-step approach to dealing with the practical and psychological transition. If the successor has not been chosen, then identify what needs to be resolved in order to make that decision.
- Encourage communication and resolve conflicts. Conflict has to be aired and resolved if succession is to work.
- Develop a training process. Work with them to identify what they need to learn or experience in order to give them the best chance of success.

Sale

If an owner decides to sell, then they are faced with an equally tough question: How much is my business worth?

A standard business valuation addresses areas such as financial reviews, facilities and equipment, information technology, management track record, market conditions and "intangibles" such as intellectual property or outstanding litigation.

Many owners are disappointed when

faced with the fact that valuations do not reflect the time and personal commitment to the building of a business. Early planning identifies the actual value and gives owners the opportunity to take steps to increase it. These might include:

- maintained revenue trends over time
- entry into/potential for new markets
- new management hires
- increased market share
- new products in development

Ultimately, the more unique, dominant and innovative the company, the more dynamic the sector, the more proven the management team, the more opportunities for growth, and the more the purchaser wants *you* and no one else, will determine the price. Value is in the eye of the purchaser. A smart business person knows that, and those looking at sale as an exit strategy will consider that there is no more important a challenge for their business than to ensure that they get top dollar.

Going forward

You now have a basic exit strategy, what next? Pick a good set of advisers who:

- have experience in selling private businesses in your sector
- have experience in acquiring private businesses
- possess appropriate qualifications
- understand all the taxation consequences
- have research capabilities
- are able to communicate and negotiate effectively
- are able to provide well considered and objective advice

After all, having done all this work you wouldn't want to fall at the last hurdle.

By the way for those who were wondering, Tom's coffee was "Tall. Decaf. Cappuccino." **H2**

Fred Tang leads BDO Dunwoody's succession planning team.



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