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Exit strategies: How business owners can prepare for a sale

by John Gledhill

Every business sooner or later will be sold or transferred to someone else. Whether that someone else is an insider (e.g., a family member or key employee) or an outsider, certain steps can be taken to ensure that the transfer achieves the goals of the business owner. This process is known as exit planning. Unfortunately, the majority of business owners do not take the proper steps to maximize the proceeds they'd receive upon the sale of their company and/or achieve their overall objectives.

Set goals for yourself

You may have put together a business plan when you started or acquired your business, but how often have you updated it? I'd recommend that you annually sit down and reevaluate your strategic plan for yourself and your business. Project the business three to five years into the future. Will you be entering new markets or introducing new products?

Also, how do you see yourself transitioning out of the business? Will you sell to a third party or keep the business in the family? Do you plan to retire upon exit or will you be starting a new career or buying another business?

Assemble a solid team

There are numerous professionals involved in successful exit planning, many of whom are probably your current advisers. Your team should include: attorney; accountant; wealth adviser; mergers and acquisition adviser/business broker; insurance professional; and any other trusted advisers. Each of these professionals brings vital skills to the table.

Watch your expenditures

Be careful where you spend your cash. Clean up your income statement and eliminate unnecessary expenses. The most likely valuation of a profitable company involves the capitalization of a company's cash flow; so every dollar saved on your P&L equates to two to four dollars of value in your company.

Also, make sure that you earn a good return on investment on capital expenditures. Put yourself in the potential buyer's shoes – what about your company is valuable? Make sure the capital and time you invest in the company enhances that value.



Make sure your information systems are up to date

Owners and managers should have systems in place so that information received is timely and accurate. These systems need to be transferable to the buyer. While a spreadsheet of financial data may work for the owner, would a new owner be able to understand it? Bookkeeping should be performed using standard accounting software such as QuickBooks. The same goes for any other system in the business – if the industry standard is to have certain software to handle inventory or project management, then the company should have that software in place.

Management and/or trained employees in place

A business is difficult to sell if the owner is too embedded in it. A buyer will want to be able to step into the business and take over from as close to Day 1 as possible. (Often sellers stay on for a finite transition period after the sale.) Talk to members of your exit planning team regarding creative ways to create incentives for key employees to stay.

Manage the relationships with customers and suppliers

Your goal in selling to an outside party is to minimize the perceived risk of buying your company. A key component to this is customer diversification. If any one customer comprises greater than half of your revenue, you're at risk of that customer leaving and inflicting a potentially mortal blow to your business. The same risk exists if any one supplier of a key material or service has too much power.

Perform pre-transaction due diligence

Review with your advisers all of the items a potential buyer would want to review, including contracts, leases, equipment lists, etc. Additionally, you'll want to ensure that you have up-to-date financial statements from the last three to five years available, prepared by your CPA. It may make sense to pay for more in-depth financial statements such as reviews or even audits if your company is large enough. Lastly, make sure that these items, as well as any potential "skeletons in the closet" are documented and presented to the buyer. Obviously, if the skeletons can be removed then do so, but definitely make sure that a buyer isn't surprised. That could kill the deal.

These are certainly not the only things you can do to ensure a smooth exit plan. Most of all, heed the advice to hire professionals to assist you. With the right help, you greatly improve the odds of achieving your goals!