2015

Planning An Exit Strategy For Your Business

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Far too many business owners do not realize that, as your business grows, careful strategic planning to sell your business is just as important as a business plan to launch and grow your business.

In addition to an independent lifestyle and personal fulfillment, a successful exit is the primary motivator for business ownership and entrepreneurship.

Because acquisition is the most common exit for an entrepreneur / business owner, here are nine tips to better prepare you to sell your business.

1. Don’t Wait Too Long To Sell

Many business owners wait until the last minute to try and sell their business. They wait until the business is stagnating, or they are exhausted with running the business. In fact, the best time to sell is when business is booming.

2. Take Your Time – Don’t Be in Too Much of a Hurry

If you are in too much of a hurry to sell, you will probably leave a lot of money on the table. Buyers – especially sophisticated larger corporations – will likely sense your urgency and will take advantage of it in the negotiation period.

3. Start the Process Early

It’s a good idea to begin preparing 2-4 years BEFORE the sale. It’s much more expensive and time-consuming to rush and prepare all of the necessary financial and other information in a few months than it is to consistently record and compile records over a period of years. This record-keeping is also important for your business’s growth, since it provides more perspective on your company’s performance.

4. Get Your House in Order

Make sure that you have been keeping accurate financial records and that your assets are ready for sale. This includes both tangible assets such as equipment and inventory, as well as intangible assets such as contracts, leases, patents, trademarks, etc. Make sure that everything is assignable to the buyer and be prepared for extensive due diligence.

5. Try to See It From the Buyer's Point of View

A buyer's motivations are often different than the typical business owner's. While the entrepreneurial business owner may get excited about innovation and creative strategies, the buyer cares much more about the potential for stable revenue streams and growth potential. Take time to understand your potential buyer's point of view, interests, and motivations.

6. Make Yourself Less Central to the Business's Success

The buyer wants to buy a business – not you or your job. From the buyer's perspective, it's better if the current owner is not important to the success of the business. Therefore, in planning for the sale of your business, you should begin training your management team to take over critical business functions. If all of the key decisions revolve around you (the owner), then the value of the company will be limited without the owner – and therefore, the business is less attractive to a buyer.

7. Keep Focused on Running and Growing Your Business

When starting the sales process, you must keep a laser-sharp focus on your business's operations. It's important that you do not get too wrapped up in either the sales process or in the romance of any particular sale offer. As difficult as this is, it's best to act as if any deal can fall through, even if you are in the final negotiation period, because any deal can come unraveled at the last moment. Keep your focus on growing your business until the check has cleared and is in the bank.

In addition, you should do your best to keep the sales process confidential so that you do not endanger relationships with any key clients, employees, or partners whose departure could threaten a transaction or the operations of your business.

8. Get Professional Assistance

If you are a business owner seeking to sell your business, you can benefit from outside advice and assistance. As the old saying goes, "The attorney who represents himself has a fool for a client." The same applies for a business owner selling without an advisor. Your advisor will provide you with guidance regarding valuation, due diligence, and the marketing of your business opportunity. Without a competent advisor, you decrease your chances of selling your business at its maximum price.

9. Even if a Deal Comes, Be Prepared to Say No

If you have invested a lot of time and energy into the search, negotiation, and due diligence phases, you may be reluctant to reject any deal that comes across the table. However, just because you have a deal in front of you, you do not have to take it. If the price is not attractive or if the deal is not right for another reason – and it cannot be mended – you may be wise to walk away and consider the next opportunity.

Sometimes, during the process of preparing their business for sale, business owners will find themselves at the helm of a much more profitable, attractive business. If you have a profitable business, keep in mind that you have other options at your disposable. In addition to selling your business, you can continue to grow organically, raise growth capital, and/or explore strategic partnerships.

It’s important to continually evaluate your options throughout all phases of business growth to ensure that you are making the best decisions for the long term.

10. Don’t forget about taxes!

This may be the largest transaction of your life and it would be shame to let up to 40% of it (or more in some states) go to the government. Get an adviser experienced in both transactions like yours and the various ways you can reduce the tax bill on the sale. Even if you have never been charitable in your life, this is a good time to learn to do well by doing good with some advanced gifting techniques. In some cases you reduce your taxes by 90% while controlling and investing all the sale proceeds. But like anything, it pays off to start well before there is a potential deal.