When is an 'exit strategy' appropriate?

Vancouver Business Journal- May 15, 2007

Whenever you create a business that's profitable, you most likely create something worth selling. If it's worth selling, many would argue it's worth protecting. The question is how? High quality protection begins with asking a few questions, which evolves into a confident, well-developed plan protecting both you and your family.

In business terminology, an ending for a business owner is called an "exit," while the planning of a defined ending is called an "exit strategy." Having an 'exit strategy' tells others you associate with that you are in control of your business and your destiny, that you're aware of the goal and focused on achieving it, and that you have a plan for an organized and profitable ending.

Business owners who do not plan for ownership transition are often faced with the inability to receive enough money in an ownership change to fund any retirement, let alone a comfortable one. This doesn't happen because such owners failed to create value in their businesses; rather, it's because they failed to do the preparation and planning that would have allowed them to build, keep and maintain that value.

There are many points in the lifecycle of a business when an exit strategy is important. If you are just starting your business and intending to seek angel investors or venture capitalists, most will require you to have a viable exit strategy in place before they'll award you a dime. Business owners who are approaching retirement may want to sell their business to a synergistic buyer in the industry, an independent 3rd party, a key employee, or to partner. Some owners may want to transfer their business interests to children or other family members. How can all of this be accomplished? You got it — with an exit strategy.

If you've been in business for years and are just now thinking of developing an exit strategy, don't despair. First, please do not approach this as a one-time choice, but rather as a process. We as business people work our whole lives to build our asset base, the preservation of those assets is something we need to consider carefully, not with a sudden burst of emotion and decision. Secondly, the higher the equity, the more critical your plan becomes.

So, what are the key points to an exit strategy? All exit plans should identify the following key topics: current valuation of your business, the factors that drive the value of your business (Value Drivers), methods to increase that value, the potential future value, the best option or two for an ownership change, plans to address the tax implications during your ownership and upon a sale, and income needs for retirement. (There are dozens of minor points, but these are key.)

Answers to any of these questions will be good information. Answers to all of them will help create a complete plan, which will provide you with the confidence and peace of mind you deserve as you plan for retirement. Equally important, solid answers will lead to solid decisions in your business, resulting in a higher yield, both at the point of sale and into retirement.

The picture should be a little less fuzzy. With a proper business valuation and some basic exit strategy planning, you can provide for a smooth transition and make the business more valuable and desirable. In the simplest terms possible, an exit strategy is created for two reasons, to minimize your risk and maximize your yield. (FYI, yield can be measured financially and by your degree of confidence as retirement approaches.)

With a clear view of your exit goals, you can then make decisions that will best position your business, both now and into the future. As business owners, very few choices are more rewarding than these.

Jeff Kraai is president of Exit Strategies, Inc., specializing in business valuations, confidential business sales and retirement transitions. He can be reached confidentially at 360.696.5812 / 503.577.5649 or at info@perfectexit.com.