EVERGREEN® EXITS

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OWNER BEWARE - DON'T CHECK OUT TO EARLY

Business owners who know that focus is key to their success often do not rely upon this basic premise when structuring their exit plans. Both during the exit planning phase as well as the execution phase, it is critical to not 'check out too early'.

Now, admittedly it is natural to let your mind wander when you approach a certain milestone in life. This happens quite often to business owners. They can get tired of the endless grind of running a business and having it weigh on their mind without end. They may have lost the passion and enthusiasm for it that once consumed them.

Further, it is not unusual to find business owners lost in the past, recalling earlier, perhaps more exciting or profitable periods in their business.

Or they may find themselves completely detached from the business and essentially thinking of all of the other things they want to do with their lives; traveling, spending time with their family, pursuing other interests and hobbies.

The problem is that all of these are symptoms of checking out too early which can be detrimental to your exit.

The Importance of being "Checked In"

Arguably the most important aspect of the exit planning process is an honest conversation a business owner should have with themselves about their personal and business goals. This conversation brings the owner back to the present and creates a deeper understanding of what really drives their decisions and their actions. Without this type of honest, 'internal' conversation, owners are too often left adrift with a solid plan for an exit and being to check out too early.

Now, in fact, this internal conversation can be very difficult for the business owners as it means confronting certain uncomfortable realities that may have been previously disregarded. In the case of a business owner that may have 'checked-out' this self assessment of one's personal and business goals will snap many business owners back to the present with a sobering realization that there is still a lot of work to be done to exit successfully.

It is crucial that the business owner be 'checked back in' to successfully execute the rest of the exit planning process. So much of a successful exit will depend on the owner's full engagement, particularly when one considers the different roles that an owner plays for different types of exits.

The Exit Planning Process

Perhaps the most critical time in terms of the business owner being fully engaged with the business is during the exit planning process. This is often a period of many months where the owner is actively learning about exit options as well as clearly formulating and articulating their personal and business goals. Only full engagement by the owner will produce reliable outputs. Further, it is during this planning stage that key, strategic decisions are made as to what direction the owner will head in for their exit.

Internal Transfers

For example, the three main types of internal transfers, Succession, Management Buyout and ESOP's tend to require a higher level of participation, i.e. being 'checked-in'. The owner's participation is crucial to the successful transfer of management of the company to the next team of leaders. In fact, one may argue that owners need to be more engaged during this process for two (2) primary reasons. First, the owner needs to serve as a mentor, not a manager of these future leaders. And next, in most cases, in order for the owner to get paid their exit price, the business must continue to produce successful profits into the near, mid, and perhaps even long-term.

External Transfers

With few exceptions, the business owner will need to stay engaged in the business even after an external transfer. For example, when considering a private equity group recapitalization as an exit option, the owner must show a full-scale engagement because few, if any, private equity groups will consider an investment of this type if the owner does not exhibit a complete grasp of their business. In fact, owners need to work concurrently with past data, present information and future planning. The private equity group is investing not only in future forecasts of business performance but also, in most cases, the active engagement of the owner in fulfilling these projections.

Even a sale of the business to an outside buyer – i.e. someone in your industry - generally is coupled with deferred and contingent payments. This often means that the exiting business owner must actively participate and be vested in the future performance of the company he or she has sold. For example, many business sales are based on an earn-out. In this situation, a significant portion of an owner's selling price is tied directly to the future success of the business. For certain in this situation the owner does not want to check out completely.

Conclusion

In conclusion, one the most dangerous aspects of the exit planning process is when a business owner checks out too early. This scenario leads to a decrease in the likelihood of a successful exit and may even take viable exit options off the table. Therefore, as they say, forewarned is forearmed – don't check out too early with your exit.

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