
EXIT PLANNING IS A FLUID PROCESS



As an owner of your privately-held business, you are the captain of your ship, so to speak. You control the rudder and the helm, steering your business in the direction of opportunity and profitability while also avoiding dangers that could 'sink' the enterprise. However, all sailors recognize that they do not control the winds and the tides. The best that one can do is to understand these external forces and work with what they give you.

These external factors are a good way of viewing the same external events that you cannot control with your exit planning. As these factors change you need to adjust your plans to accommodate what you cannot control in order to achieve a successful exit from your business. You see, exit planning – like sailing – is a fluid process and these external

factors, the winds and the tides, will more often than not, be the largest determinant of success with your exit. Therefore, this newsletter is written with the intention of helping business owners better understand how to reconcile their internal and external transaction motives to achieve a successful exit.

A Simple Example

Let's begin with an owner whose business is doing well with record profits, and that owner is looking to exit. Well, that owner has done a good job controlling their business results.

However, if banks are not lending because of the poor economy, or buyers are not buying, or global

events are creating panic in the markets, or a recession has caused fear in the markets then some or all of these external factors will impact your exit plans. So, it is helpful to develop an opinion of these outside forces and adjust your exit planning around them.

Start at the Beginning – A Plan is Needed

Using the same sailing analogy, most sailors would not set sail for a destination without first charting a course to know where they are going, what path will get them there, and when and where they will arrive. Business is not too different – at least in theory. However, if you are a privately-held business owner who does not know who will own your business next and when that transition is likely to take place, then you are in the majority – most owners have not done this type of planning. There are many reasons why owners do not plan for their exits but like the sailor who is cast adrift without a map, you and your business can certainly regain your ground and position yourself within a solid plan.

Your 'Internal' Perspective

Let's begin with your internal view of your business and your role

within it. In all likelihood, you are running a business that provides you with a job that you like and with an income that supports the lifestyle that provides you with a job that you like and with an income that supports the lifestyle that you want to live. Again, you are controlling your own 'ship'. And, after all, you've earned the right to think and act this way because you've overcome tremendous odds that were set against your business success. However, if you want to cash in on the value of what you have built, you'll need to look outside of the confines of the walls of your small business and wander into the ever-changing world of the global economy and the market for buyers and sellers of businesses.

Developing an 'External' Perspective

As a business owner who wants to monetize their privately-held business it is important to develop a view of the world of buyers and sellers of businesses. Further, it may be equally important to research the manner in which privately-held businesses are transferred to insiders, such as managers and family members. This 'external perspective' is critical because the person who is going to own your business next may, in all likelihood, not currently work at your company. Worse yet, only a little bit of research is needed to find out that the future buyer of your business is a part

of an ever-changing acquisition world that is altering its focus on a regular basis. So, where your company did not appeal to these owners yesterday, it may seem irresistible today. The question is, 'how will you know any of this without an informed view of these buyers?'

Demand amongst buyers of businesses

One of the first things that you should consider when it comes to buyers is 'what type of demand exists to own a business like yours?' One the one hand, many individuals would like to own a steady, positive cash-flow generating business. However, in order to achieve the maximum selling price, you may want to know which competitors are in a 'buying mode' as well as which investment groups would have an interest in looking at your business as an acquisition.

The Entry of Private Equity into your Market-space.

One of the most interesting developments in the past ten (10) years has been the emergence of private equity groups as leading buyers of privately-held businesses. Now it is not enough to ask simply whether or not private-equity is

interested in buying your company. Rather, it is equally important to know whether they are buying your competition. You see, the old world was a time when your competition had the same limited resources that you had. Now that private equity has entered your space you are competing with a much more formidable foe with both cash and professional management at its disposal. This higher level of competition is 'the winds and the tides' that exceed your control and will force you to make adjustments or face the consequences of being blown adrift.

A Summary of External Forces

To summarize the 'external buyer' marketplace today, it is vibrant and seeking opportunities to invest in successful businesses. The main drivers that are creating this demand are low interest rates, pent up demand to purchase good companies, large amounts of cash on 'the sidelines' waiting to be put to work, and a general feeling that the economic recovery is taking a stronger hold each year.

Now, since the demand for acquisitions is so high, we need to ask about the 'supply'? As it turns out, most privately-held business owners are either still fixing their businesses from the recession or they are not yet feeling like they have fully returned to

their maximum profitability. In either case, the 'supply' of sellers is very low right now.

So, given that exit planning is a fluid process, you likely want to understand that the current 'seller's market' is likely to last awhile longer. However, you should gather your own additional information to see how your company and personal plans fit within this cycle. If you are of the mindset that you would like to exit your business in the next few years, now may be the opportune time to begin gathering additional information on this ever-changing 'external' marketplace.

Developing a "Market" View That Fools With Your World View

You do not have to do all of this research on your own – arguably you should not be. In all likelihood you are successful because you've built a good team around you. For example, you have likely hired a financial advisor because they shared information with you that made sense and informed your investment decisions. You may have also hired a tax or legal advisor who, in a similar way, provided you with insights and opinions that either helped your tax situation or aided with your

risk management. As an owner thinking about an exit plan, you are well served in seeking the counsel of advisors and consultants who have training and certifications in exit planning so that they can share with you their views of the ever-changing small business market that we discussed here today. Consulting with such a professional will help you see how fluid a process your exit may be and give you confidence that your plans for an exit are timed well both from 'internal', 'personal', and 'external' perspectives.

If you have questions or would like to explore these ideas further, we'd be happy to connect. Reach out to Ed at ed@egwealth.com



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