



You Can't Take It With You - So Develop An Exit Strategy

Someday you will have to exit your business, one way or another. You will either turn it over to an outside buyer, a family member, or an employee or you could create no plan what so ever and let it be someone else's problem. Death, divorce, poor health and bankruptcy are just the top four reasons you may exit your business – plan or no plan.

Many times, people do not chart a path to exiting their business because of the reason why they started their business. The story generally goes like this. You are working a job and you are tired of “The Man” telling you what to do. However, you are a great technician at your trade or profession, so you decide to quit your job and go out on your own. Unfortunately, there is more to running a business than just being good at your job.

Michael E. Gerber, in The E Myth Revisited, points out that you should start a business for three main reasons: 1.) to create a job; 2.) to pay yourself dividends from the money and time you invest in the business; and 3.) to reap the equity out of the business when you exit it. Remember that a business is profitable by definition. If a company is not profitable, eventually it ceases to exist. Therefore, when there is profit, these three goals can and should be achieved.

You expect dividends and equity from your investments in the stock market and you should also expect it from your business. Having a job is just another perk of owning your own business, not the only reason. To achieve dividends and equity though, you have to make sure that you truly own a business and not just a job.

For instance, if you are gone for two weeks and your business ceases to function, then you have just discovered that you have only created a job, not a business, and therefore, you cannot reach your goals of dividends and equity.

To obtain dividends and equity, you need a business plan that also includes a succession plan. The business plan directs how you will make dividends and the succession plan maps out how you will reap the equity of your investment - the business.

The Business Plan

Generally, companies create a one-year plan that many refer to as the annual budget. However, you want to at least be thinking about where you want the company to be

positioned in the next 3 to 5 years. Naturally, you will have to change your thinking somewhat with the passing of each year, but looking farther out into the future helps you develop a more efficient path from leaving point A and arriving at point B.

The business plan deals with all the nuts and bolts but what it does not cover is the transfer of ownership at some point in time. This transfer is inevitable, and needs to be dealt with in order to provide for the survival of the business. This is where a succession plan comes in to being.

The Succession Plan

Regardless of whom the new shareholder(s) will be, the company transfer should be based on basic business principals. Profitability for the buyer, the seller and the business is key. Notice that I am using the word “profitability” and not “greed”. This method will give you the highest level of equity that will keep you out of the court room and out of the hospital. The transfer of most privately held businesses is an emotional process. If you do not believe me, just ask someone who has sold their company.

You want to make sure the company is structured so that it can run smoothly without you being there on a day to day basis, or at least is easily transferable to a new owner. Here are five items to achieve: 1.) Develop good, clean and organized books and records; 2.) Create a track record of stable growth of revenue and profits for at least a 3 to 5 year period with a rosy future of earnings 3.) Make sure your customer base is spread out over a large number of customers with no one customer representing 10% or more of your total revenue; 4.) Establish a strong organizational structure with good management depth allowing for an easy transition of ownership should the current owner wish to leave immediately; 5.) Make sure you have a diversified list of services/products; 6.) If you have inventory, make sure it is not obsolete; 7.) Your employees should have signed non-compete agreements and not be in jeopardy of leaving any time soon; and 8.) Work on keeping the competition out. If you cannot, then you may have to sell to someone who can ahead of schedule. This is not an exhaustive list, but it is a good start.

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