When Should I Begin Planning My Exit Strategy?

By Ed McCormick, SCORE

The term "Exit Strategy" is perhaps the most misunderstood buzz term in the market today. When an owner considers an exit strategy, perhaps the one that is least understood is that of timing – i.e. when is the appropriate time to develop a strategy?

Most owners feel the exit strategy is something one develops after the decision is made to sell the Company. The fact is, it's too late then. Not only will your options be limited but you will have less than a 20% chance at successfully getting your price!

A builder doesn't begin building a home without plans. He first determines the size and nature of amenities to be included, which is based on the specific market and buyer profile. He doesn't build a 4,000' home in a 2,000' neighborhood or vice versa. In either scenario he'll have a house that is un-salable.

You wouldn't go on a vacation without first choosing a destination. You'll end up wasting time and spending more money doing so.

A well defined exit strategy provides a destination for the business. The destination then supplies the optimum route one follows to arrive in the shortest period of time with the highest market value. It means that revenue and profits are optimized and the business is properly positioned to attract the optimum buyer-type. A poorly positioned business is like a 4,000' house in a 2,000' neighborhood. It provides comfort, shelter and warmth for the owner but it isn't marketable.

Take a look at your business as it is today and ask yourself, "Does my company have value?" You might begin with some basic questions:

- Are revenue and profits stable, increasing or declining?
- Is the industry stable, increasing or declining?
- Is the nature of my business desirable?
- Do I understand why my customers buy from me – what is my competitive advantage?
- Could I leave the business or am I too influential with customers?
- Is too much of my revenue dependent on one or two customers?
- Is my employee base secure or constantly turning over?
- Do I have secondary management in place to smooth over an ownership change?
- Is my lease transferable?
- Would a bank lend a buyer sufficient money to buy my business or would I have to hold a note from a buyer?
- Are there other businesses that might find my Company a good fit – a natural extension to their expansion plans – maybe a direct competitor?

If you find that the majority of your answers to the above are either negative or "don't know", then your Company is already in the 80% of businesses that will probably never sell. The good news is that many companies in this situation can be fixed or as we refer to it, “re-positioned.” But you can’t wait until it’s time to sell; it’s too late then. You’ll need at least two three years of positive trends to secure an optimum price from the right buyer.

Perhaps it’s time to have a Business Evaluation done. Find out what’s right and what’s wrong with your Company. What are the risks that will most affect your ability to sell the business or receive the highest price? Find out what your business is worth and what it could be worth? After all, you didn’t work this hard, sacrifice this much, to receive so little in return.