

WORK BOOK FIVE



EXIT STRATEGY

LEARN WHY IT IS IMPORTANT TO DEVELOP AN

EXIT STRATEGY FOR LEAVING YOUR BUSINESS



COACHING ACADEMY SPECIALIST
Where Small Businesses Grow

Exit Strategy

“Your time is limited, so don’t waste it living someone else’s life. Don’t be trapped by dogma – which is living with the results of other people’s thinking. Don’t let the noise of other’s opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary.”

– Steve Jobs, Co-founder, CEO, Chairman Apple Inc.

- “The exit strategy mind-set” compels you to create Policies, Plans and Procedures.
- This makes the business operate efficiently, effectively and profitably without you having to be there to run it.
- As your skills, planning, systems and methods improve your work decreases and your results increase.
- The business then works on ‘autopilot’ and becomes Investor ready.

It is very easy for the business owner who starts off by working seriously ‘IN’ the business to carry on without giving any consideration to his exit strategy.

He will say I'm far too busy putting out fires and working in the operational side of the business to have any time to think of an exit strategy.

But in reality the efficiency of the excessive amount of time spent on the business can very often be seriously improved when he takes some time out to consider his exit strategy.

Your exit strategy?

This is another way of asking what's it all about? What is the point of all this work?

You're Bankers

If you are a good businessman you will produce a far greater return on bank borrowings than the bank charge you. And when you go for that big loan you will be asked what your exit strategy is?

The question is not asked in a negative way i.e, "When do you plan to escape from this hard work?"

The banker expects and hopes that you enjoy the business and better still he hopes that you have a passion for it. He now wants to know if you have given any thought to whether you are going to stay with the business until you are too old to be, agile, innovative or energetic enough to drive the business forward.

The banker is also checking, if you are in the real world.

If you are applying for a ten year loan and you say that you hope to be out of the business within two years, you will make him very nervous. The focus will then shift to whom the banker will be dealing with in year three.

The Six Main Exit Strategies For Your Business

1. "The Lifestyle "Strategy

This is a popular strategy whereby, you reward yourself with a substantial bonus and issue a special class of shares that only you own that gives you a multiple of dividends greater than the other shareholders receive. It is fashionable to frown on the management of public companies who behave in this way and yet acceptable in private companies.

However you should be warned that your bankers, lenders and shareholders tend to look very closely at the owners of these "lifestyle companies." In terms of risk.

Rather than reinvesting money in growing your business, in lifestyle companies, you keep things small, take out a comfortable chunk, and simply live on the income.

If you're in a business that must invest to grow, taking out too much money can hurt you down the road.

2. Selling to a Friendly Buyer.

It is easy to become emotionally attached to what you've built, and the option of passing ownership to another true believer who will preserve your legacy can be an attractive option. Interested parties might include Customers, Employees, Suppliers, Landlords, Friends, Brokers, or Investors.

The fictional Willy Wonka handed off his chocolate empire to a little boy who was a loyal Wonka customer, someone who was chosen with great care through a selection process designed to weed out all but the most dedicated Wonka devotees. Wonka was able to choose his heir apparent and ride off into the sunset a happier entrepreneur.

The Six Main Exit Strategies For Your Business/Continued

3. Sell to your hard working staff

Of course, the buyer needn't come from outside. You can also sell your business to current employees or managers. Often in this kind of sale, the seller finances the sale and lets the buyer pay it off over time.

This can be a splendid win-win situation. The staff hold on to their jobs, jobs that they have learned to know and understand over the years. The customers are happy in that they will continue to be looked after by the 'same old faces'.

4. Sell or pass to Family

The purest friendly buyout occurs when the business is passed down to the family. But remember, the key to a "family business" is the word "family."

Is yours functional? No sooner than you leave the family business to the kids, it's likely they'll end up fighting over who got the larger share, who does or doesn't deserve the ownership they got, and who gets the final word.

They'll finger-point for a decade while the business slowly declines into ruin, then blame you for not leaving clearer instructions. If you decide to go down his route, you've got a lot of planning to do before getting out.

There are some clear cut advantages in selling to your family in that:

- You know them, they know you and there's less due diligence required.
- Your family will most likely preserve what's important to you about the business.
- The family will have a commitment to making it work.

The Six Main Exit Strategies For Your Business/Continued

5. The Acquisition

The acquisition was invented so you can sell your business as a going concern for the best market price. You may choose to leave your family the proceeds which is very different from leaving them a business that they might allow go to ruin. Acquisition is one of the most common exit strategies: You find another business that wants to buy yours.

In an acquisition, you negotiate the price. Your accountants and bankers may well set a market price on your business but in reality the buyer will pay their perceived value.

If you choose the right acquirer, your value can far exceed what would be reasonably based on your business income. You select the right company, by looking for a strategic fit: e.g. where the buyer wants to expand into a new market, or offer a new product to their existing customers, or critical capabilities faster than they could develop on their own.

There can be many good answers to the exit strategy question and one that goes down well with a banker is.

6. Exit by Installments

I would definitely have a strategy based on the following:

- I plan to build and grow the business to be worth £XXX net.
- I expect this to happen in Y years.
- I then plan to bring in a partner who has a 10% share.
- I expect this to happen within Z years.
- And gradually over a period of time I plan to reduce my equity in the business whilst developing my replacement.
- As I reduce my equity share I hope to simultaneously reduce my day to day operational role and responsibilities.

Success Story and Positive Mental Attitude

Lord Sugar

Alan Sugar was born in Hackney in 1947 and brought up in a council flat, he left school at 16 and after a brief spell in the civil service, famously selling car aerials out of the back of a van using savings of just £100. His earnings were soon outstripping those of his father Nathan, a tailor.

At the age of 21 he founded Amstrad, a name which came from his initials (Alan Michael Sugar Trading)

By the time he was 40 in 1987 Sugar was worth £600 million and was the 15th richest person in the UK At its peak Amstrad was valued at £1.2 billion.

However, the 1990s weren't quite so lucrative for Sugar. The launch of a range of business PC's was damaged by unreliable hard disks and Amstrad took the disk manufacturer Seagate to court.

Although Amstrad won the case, its reputation in the PC market was severely dented and the company moved instead into the games console market. But the Amstrad GX4000 couldn't compete with consoles by Nintendo and Sega which offered a wider choice of games. Another bad decision.

Diversification into the telecoms market followed in 1993 with a PDA called PenPad and later a combined device called the e-mailer. Neither sold well and in 2007 Amstrad was sold to BskyB for £125 million a fraction of its peak value.

As well as business, Sugar is a big football fan and teamed up with Terry Venables to buy Tottenham Hotspur in 1991, Although he helped the club out of a financial hole his involvement didn't go down well , he fell out with Venables. He sold his majority stake in 2001 and the remainder in 2007, citing his time at the club a waste of time.

Success Story and Positive Mental Attitude/ Continued

Lord Sugar

Alan Sugar is now Lord Sugar, he is a business magnate, media personality, and political advisor.

According to the Sunday Times Rich List, Sugar joined the “billionaire’s club” in 2015 and in 2016 they estimated his fortune at £1.3bn, and ranked him as the 95th richest person in the UK.

Sugar appears in the BBC TV series The Apprentice, which has been broadcast annually since 2005 and is based upon the popular US television show of the same name, featuring the American entrepreneur and current US President, Donald Trump.

Lord Sugar quotes

“To be a successful business entrepreneur, you need more than just a competitive edge. You need a hide like a rhino, the ability to operate way outside normal comfort zones, a willingness to invent the rules, and a total, utter, complete self-belief – against all odds. Self-belief is a critical skill for business success”.

“I’ve written books on advertising... cheque books”

“When I first started out, I wasn’t interested in making a million, I wasn’t thinking about getting a knighthood. It was about getting some wheels. I wanted a car – and I wanted to be independent”.

**DON’T FORGET TO WATCH THE “EXIT
STRATEGY” VIDEO.**