Upcoming Events

The Sport of M & A
January 19, 2017
9:30 AM to 6:00 PM
The Drake Oak Brook
Oak Brook, Illinois

Networking Event
February 7, 2017
4:30 PM to 7:30 PM
Saz's
Milwaukee, Wisconsin

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MIDWEST BUSINESS BROKERS AND INTERMEDIARIES

MBBI Newsletter January 2017

Exit Plans: Having One in Place is Vital

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Starting and running a business can be challenging. But most start-up owners don't even consider an exit plan. I know I didn't when I started a family diner five years ago with some close friends. I was intent on getting the day-to-day, month-to-month, year-to-year tasks done. Making money in my business meant ultimately showing positive cash flow and a bottom line profit. With that mindset, I figured I would have time to create and carry out an exit plan at some indefinite time in the future. Little did I know, working with clashing personalities and in the highly competitive world of food service would lead to needing an exit plan sooner than later.

It always pays to be proactive in business. I was always good at meeting deadlines in my previous job as a reporter, but with a new venture I thought my partners and I would have plenty of time to develop an exit plan – like years down the road.

Do you remember the time you saw an item on sale for a large amount off and you didn't buy it only to realize a month later you should have stocked up? Alternatively, have you ever owned an item that was more valuable to a buyer a month ago than today. Having a plan that looks to the future will let you make those decisions much easier.

My partners and I spent months preparing the new diner – developing a menu, divvying up duties according to our strong skills, remodeling an old George Webb into a modern, American diner that would be attractive to young families and urban professionals. But we forgot that we might need to sell or get out of the business quickly if circumstances changed.

Unfortunately, the loss of a managing partner due to personality clashes and a primary partner not understanding that a new business, especially a restaurant, doesn't allow for immediate pay-out for salaries until more established led to the need for an exit policy almost immediately.

If only we could have anticipated the situation coming, we would all be economically better off today. It is a fact that none of us can predict the future, but having an exit plan in place from the very beginning that anticipates the future can help gain economic advantages that will predictably come up in the future.

This rule holds true for the sale of businesses. When the business owner(s) has an exit plan in place, opportunities might not be overlooked as easily as they could without a plan. The exit plan is intended as a device to get the owner to think about the future. It also serves as guide once arriving at the point of exiting. This is why having a written exit plan is always important, right from the beginning.

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Here are some of the different types of business exit plans or selling arrangements that can be set up:

- **Initial Public Offering (IPO)**: This exit involves selling stock to inventors on a stock exchange. This is something attractive to larger M&A businesses with stock options. In doing this strategy there is a possibility of a high rate of return on your investment. The downside is that all the records of the company become public record. It is also very expensive and time consuming to start and issue an IPO.

- **Succession**: Selling or bequeathing our business to a family member(s) at the time of retirement or death. However, your successors must be qualified, willing to take over the business. This type of exit plan typically results in a lower cash draw from the company.

- **Merger**: In this type of exit, the business joins with an existing company. As with a sale of a business, you get cash, stock, or a cash equivalent, but you join in with new partners and may suffer a partial or complete loss of control of your business.

- **Acquisition or straight up Sale of the Business**: This type of exit usually involves an outright sale to another company or another entrepreneur. You may receive cash right away, but you must find a ready, willing and able buyer. It is also important to note that businesses in some industries are able to exit easier than others.

An Acquisition or sale of the business may work better in non-capital intensive industries such as service sector businesses with relatively low values. If the business value is higher, as with capital intensive industries, such as manufacturing, retail, etc., it may be better to develop a merger or IPO type exit plan, considering most individuals can't readily come up with a few million dollars to buy a manufacturing plant.

However, many individuals can come up with $50,000 to $500,000 to buy a service sector business. Luckily, that is what happened to with my restaurant. We were lucky enough to quickly find a gentleman who had been working in the restaurant business for a number of years who wanted to go out on his own. Unfortunately, due to ownership infighting and the loss of the member of the ownership team, we settled for a price to cover some of our major debts. However, to this day the primary owners are still paying off tax shortfalls and unemployment claims which could not be designated to anybody's specific duties.

This is why an exit plan would have been necessary – it could have spelled out the specific duties of the partners, their liability if the business closed or sold and what the business was really valued at - not just what the debt was that needed to be covered.

With my experience in mind, take one thing away from this article – develop an exit plan by choice ahead of time, not when you have to.

And if you don't have an exit plan in place and are thinking of moving on from your business, contact a certified business broker, such as Sunbelt Business Brokers to help you with valuation, debt planning, properly marketing your business and yes, exit planning.

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