Business Exit Strategies

How to leave your business in good hands

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BUSINESS EXIT STRATEGIES

How to leave your business in good hands.

A business exit strategy is a plan for what will happen when you want to leave your business.

A lot of people think of an exit strategy as a plan to guard against disaster or something that has to be carried out right away after its conception.

But this usually isn't the case. Instead, it's a plan you put in place to work out how you're going to enter the new chapter of your life without hindrance. It's your way of ensuring that the future of the business is guaranteed even without you, if that's what you want.

While a lot of exit planning is to do with how you will leave the business, you'll also want to consider other factors that are involved in the process.

For instance, you need to think about whether you want to profit from your exit by making some money. If you do, is this enough of a reason to go for one strategy over another?

You also need to consider what will happen to the business after you leave, whether a family member keeps your legacy alive or another business acquires yours.

Then there's the length of time your exit will take. People usually like to have transition periods, but you need to think about that carefully.

Remember, though, that there is no right or wrong way to leave your business. There are only options that may work better or worse for you than others, depending on your particular situation.

CONTINUING THE FAMILY LEGACY

Keeping the business in the family is an attractive idea for a lot of entrepreneurs, as it allows them to prepare their potential successor over time and gives them the exciting prospect of carrying on their legacy.

Although keeping the business in the family may be one of the best ways to preserve your name in the business, you need to be practical about who is really the best person for running things – rather than assuming a family member will want to take up the mantle. Nothing will complicate your plan more than your successor changing their mind at the last moment, so you need to plan for that unfortunate eventuality.

You will also need to make sure your potential successor is up to the job if, as is safe to assume, you want the business to endure and thrive. You need to be objective in your assessment of your successor, even if they're a close family member. Again, have a backup plan, whether that's another family member or someone from outside the business.

Such an occurrence will be difficult to navigate without flaring emotions too much, as will choosing between two family members who equally want the opportunity to lead the business. Therefore, having clear communication and starting the process as soon as possible is imperative.

With this in mind, you'll be able to make it clear to your preferred successor what it will take for them to get the job, create a workable system if multiple family members want to get involved and sort out how conflicts will be resolved without spilling into your private lives.

Furthermore, the earlier you start planning, the more likely you're going to be able to set up a transitional period where you aren't completely separate from the business, but acting in an advisory capacity.

MERGERS AND ACQUISITIONS

Through a merger or acquisition exit strategy, your business is either purchased by or merges with a company that ideally has similar or aligned goals to your business.

Some buyers will be looking to make a financial merger or acquisition in the sense they are looking for a business that can generate a large amount of cash in a short period of time on its own after an external cash injection. Ultimately, these buyers are looking for a quick return on investment.

Other buyers are more strategic in their acquisition, targeting a business that is their competitor, supplier or customer to improve their standing in the market. It's not uncommon, however, for buyers to merge with firms unrelated to their primary business activity if they want to diversify their revenue streams and strengthen the value of the business to their shareholders.

Perhaps the best thing about this exit strategy is the ability to negotiate the price, whereas selling to the public through an initial public offering would fix the value of your business to whichever industry you're in.

The sale can take a long time, however, if it happens at all. The Office for National Statistics only keeps a tally of mergers and acquisitions worth £1 million or more, but with its data, we can see there were 371 transactions in the first quarter of 2022, down from 570 in Q4 2021 and 610 in Q1 2021. So, if you want your business to merge with another or get acquired, you might want to have a backup plan just in case.

SELLING YOUR STAKE TO A PARTNER OR INVESTOR

If you aren't the sole proprietor of your business, it's possible to sell off just your stake to a business partner or other investor. This can be a relatively 'business-as-usual' exit strategy, depending on the buyer, meaning your exit should be hassle-free.

Your legacy will remain intact and for the most part, your business should continue to function as usual, ensuring its survival without you in the short term. You'll be able to exit the business fully and earn a profit on the sale of your share.

If you're dealing with a buyer you already know and work with, the process should also be an easier and more comfortable process than something like a merger or acquisition.

Of course, you need to work hard to find and convince an investor or buyer to purchase your share, which could make the situation between the two of you contentious – leading to a range of potential problems.

MANAGEMENT OR EMPLOYEE BUYOUT

An employee or management buyout sees a business owner sell their business to people who already work for them and are excited about becoming business owners themselves.

It's a great exit strategy for people who want to pass their business into capable hands while turning a profit from the sale of a business.

Moreover, because these individuals are already part of your business, they'll probably know you well and may allow for flexibility in terms of your involvement – perhaps they'll even want you to stay on as a mentor or adviser.

This approach takes considerable planning, however, given the fact that management changes are difficult to implement and may have a negative impact on your existing clients.

You should also get started as soon as possible, given the fact that you might not be able to find an employee or manager who is willing to buy the business from you, meaning you have to take up a different strategy.

BUSINESS LIQUIDATION

As exit strategy plans go, liquidation should be the most final. If you liquidate your business you'll be closing the entire operation and selling its assets. It'll no longer exist and a chapter of your professional life will essentially end for good.

If you decide this is the best way forward, you'll need to use the cash you earn through the process to pay off any debts and pay out any shareholders. Liquidation affects your employees, as well as the clients and customers who rely on your service.

Compared to other strategies, it's one of the most efficient methods, but you're unlikely to get the biggest return on investment.

Get in touch to discuss your exit strategy.