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Exit planning: Reap the rewards of entrepreneurship

Thane Stenner
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I'm sitting in the meeting room of our office, on the 33rd floor of Vancouver's Bentall IV tower, overlooking Stanley Park and the North Shore mountains on a sun-drenched afternoon. With me is Bill, a client and long-time business owner. We're putting the finishing touches on a plan to sell the business he has headed for more than 20 years.

We started Bill's exit plan a little over three years ago. Now that it's time to review the offers (he's narrowed it to two with his lawyer/accountant), Bill has become reflective. He looks out the window, taking in the sea and sky. "It's the end of a long road," he remarks. "And the start of another one."

Bill's insight has stuck with me. For many owners, the sale of their business is both an end and a beginning. It's the culmination of years - often decades - of hard work, and the gateway to a life of fulfilment and greater meaning.

At least, that's the way it's supposed to be.

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The hard truth is, business exit planning is something many entrepreneurs don't do well. In my experience, there's often a lack of understanding, attention and urgency when it comes to planning a business sale. The result can be a good deal of frustration, and considerably lower sale prices.

One person who agrees with this assessment is Basil Peters. A computer engineer by training, Dr. Peters has successfully founded and sold a half-dozen engineering and technology companies. Currently, he's the manager of an angel investment fund that provides promising high-tech startups with seed capital.

Last month, he added the title author to his résumé, with the publication of *Early Exits: Exit Strategies for Entrepreneurs and Angel Investors* (early-exits.com). The book describes some of the insights he has gleaned from his own exit experiences, and provides detailed exit planning advice for other owners.

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"For most owners, selling the company is the biggest transaction of their lifetimes," Dr. Peters says. "Unfortunately, most owners get less than they could - often many millions less. The biggest reason is that they didn't have a good exit strategy. A well-designed and executed exit transaction often adds 50 per cent to the final selling price."

As he explains, owners are often too busy building their business to think much about leaving it. "Exits are the least understood part of being a business owner," he notes. "Managers will often develop and execute dozens of product strategies, financings or sales plans during their careers. But even veteran managers will only be involved with a few exits."

The solution is to think of the end right from the beginning. "In many cases - possibly the majority - owners wait too long to exit," he says. "Ideally, companies should have a written exit strategy before the company structure is complete, and certainly before the first financing. A clear exit strategy will literally affect business decisions made almost every day."

Someone who knows the power of a well-considered exit strategy is Eric Andrew. As the managing partner for private company services in Canada at accounting giant PricewaterhouseCoopers, Mr. Andrew has helped dozens of entrepreneurs exit their businesses in the past 30 years.

Not surprisingly, when it comes to exits, he's a big proponent of planning ahead. "It's never too soon to start the process," Mr. Andrew told me in a recent conversation. "It doesn't matter what industry [you're in] People just do not get down to focusing on it soon enough."

He identifies three critical actions behind successful exit plans:

Identify buyers

"The absolute first thing you have to do is figure out who is going to buy your business," Mr. Andrew says. There are many options: a family successor, a management group, a competitor, a private equity firm, a royalty group. By identifying potential buyers early, owners can start making the business more attractive to those specific buyers.

Make it attractive

Once potential buyers have been identified, owners need to make their business as attractive as possible. "You've got to get your head into thinking like a buyer," he explains. "What's a buyer going to look for? If [you]can tick those boxes, then you're going to get a completely different value out of the business."

Make it sustainable

Entrepreneurs usually take on several roles within their businesses. To buyers, that's a problem. "If the person who's the brains behind the show is leaving, then the business is worth very little," Mr. Andrew points out. Instead, entrepreneurs need to focus on grooming management and securing relationships with clients, suppliers and financers so the business can survive after they depart.

Exiting a business isn't easy. Nor is starting a business. In both cases, success is primarily a product of planning. The sooner that planning starts, the easier it is to travel the long road to financial success.

Thane Stenner is founder of within GMP Private Client L.P., as well as Managing Director, Private Client. He is also bestselling author of ´True Wealth: an expert guide for high-net-worth individuals (and their advisors). He can be reached at thane.stenner@gmppc.com. The opinions expressed in this article are the opinions of the author and readers should not assume they reflect the opinions or recommendations of GMP Private Client L.P. or its affiliates.

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