The exit strategy within a business plan

The Last portion of the business plan is the exit strategy. It may seem strange to develop a strategy this soon to leave the business, but potential investors will want to know the long-term plans. The exit plans need to be clear in your own mind because they will dictate how you operate the company. For example, if it is your ultimate aim to get listed on the stock market, then you have to follow certain accounting regulations from day one.

Recent research study has shown that 40% of all small business owners would like to exit their business immediately – but that only 25% have any sort of plan for doing so. A mere 7% of the people have a formal written exit plan in place – so although the desire is at the forefront of many owners' minds, there is no strategy to make it happen.

The sequence of steps involved in the exit strategy are

Timing and the market

Estimation of business worth

Improving business value

Selling the business

Concluding the sale

Timing & the market:

During last decade, capital markets around the world became abundant with funds. These funds primarily got accumulated through a decade of economic growth and prosperity. Low interest rates and low yielding traditional investments have driven the fund managers to seek alternative investment strategies that would maximise their returns.

Whether through expansion strategies of large corporates, consolidation strategies of private equity managers or purely direct investment, this money is finding a home in middle market privately owned businesses. No such opportunity had existed for business owners to accelerate their succession planning and considerthe future of their equity. But now, such a thing has become common.

Estimation of business worth :

Perhaps the single biggest factor that determines of the value of a business is its current and recent profit history. It represents the return to the business owner, and of course, the future business owner. The second major determinant of the value of a business is the " future risk". It is an assessment of the probability that the profit of the business will be maintained or increase. Factors to be considered in assessing this risk include:

- the dependency of the business on the promoters

- sustaining the competitiveadvantage

- intellectual property of the company

- growth and profit trends & projections

- business practices

- culture and professionalism of the company

- the market in which the business functions

While there is something called “ profit” and “ risk” trade-off, the Ultimate factor that determines the value is the strategic position of a buyer.” Beauty is in the eye of the beholder”. Factors such as economies of scale, Innovation of products and markets, market domination or even fast tracking of growth, can see particular buyers pay more for acquisitions than an accountant’s valuation.

Improving business value:

Business owners should consider similar steps when preparing to sell their business. Many businesses view their businesses as their “ Golden opportunity” . It represents a one-off opportunity to convert a lifetime of efforts into wealth. So often, the majority of the family’s wealth is tied up in the business, invariably all at risk and highly dependent on a successful exit outcome… that is of course, after tax, after debt repayment if any. Clearly a strategy must be set to maximise value. The Main aim is to get the business investment available.

Enough Attention must be focussed on those attributes of the “ future risk” described before. We can take an example, what must be done to reduce the perception that the business will no longer prosper without the promoter of the business ? so, what are the implications for the management structure, policies and procedures, reporting, ongoing innovation and creativity and ultimately, the drive behind the business? By taking factors such as these, the business becomes more mature and will usually be in a better position to grow and prosper without the business promoter’s influence.

Selling the Business:

The whole selling process is a procedural methodology structured to attract the right buyer who is prepared to pay a good price for a business which clearly demonstrates strategic advantage through acquisition. It must be capable of withstanding a due diligence process without any material concerns. Armed with an Information, an investment ready business owner can commence the next phase of selling… identification of a buyer. Not surprisingly, in around 60% of cases, business owners already know their future buyer. It may be a competitor, a supplier or even a client. A list of known suitors is easily assembled. Attracting the other 40% requires a sales program using mass marketing .

The various options that are available are

IPO

Acquisition

Merger

Liquidation

Concluding the sale

For most of their lives, business promoters have risked most of their wealth to be in this once-in-a-lifetime position. They know how to run a business, but how can they make the transition from a risk taker to that of custodian? Sadly, too many business owners get this bit wrong! What does this “ pot of gold” represent? It represents the future security, income and lifestyles for the business owner and their dependents for the term of their lives. It represents the opportunity to pass wealth to the next generation and beyond.

How can investments be structured to provide good returns but mindful of the risk profile of the family? How can taxation be legally minimised? How can the estate planning be properly structured to incorporate uperannuation, insurance, wills and trusts? How can the owner remain mentally challenged? A comprehensive wealth management strategy should bring together all of these components. Importantly, like planning for the sale itself, it should not be left to the last minute.

Impact on community:

Companies. impacts on the host communities where they operate do not abruptly end when they close down operations and go home. Rather, the way in which companies depart has a significant impact that can linger long after the mine or plant has closed. Three of the most common impacts on communities are:

Decrease in economic status. Often a company is one of few sources of income for a community, if not the only one. A company. s closure can represent a return to economic hardship for its host community.

Decrease in company-provided services. Companies often bring services that were not previously present, such as hospitals or road maintenance.

Decrease in social status. The departure of a company can lead to a decrease in a social status that corporate resources had elevated.

Most companies do not give enough attention to the impact that their departure may have on surrounding communities, or how to manage that impact. Some companies do not consider an exit plan until operations draw to a close. Other companies plan an exit plan early on, but do not revise the strategy based on ongoing analysis.

COMMON PITFALLS SURROUNDING DEPARTURE

1. Companies do not sufficiently prepare communities for what to expect when they depart.

2. Companies only strategy for ensuring sustainability of social programs is that the government will take over.

3. Companies decrease community relations budgets as time for closure approaches, but

the need for services does not decrease.

4. Companies leave behind infrastructure that is unsuited to community needs.

The Right strategy

Include an exit strategy in the design of any new project. the manner in which a company wishes to leave its corporate site behind after its departure determines the manner in which it develops a project, even if the departure date lies several decades ahead. Engage communities in discussing impacts and planning closure. Talk with affectedcommunities about the present and the future. By planning together, the community will understand the process, and can have buy-in on decisions made. Solicit a range of perspectives and views in order to assist groups in appropriate ways. Companies can identify surrounding communities. views of the future by engaging community members in planning closure. Use care when choosing language and framing exit strategies. The ways in which a company. s key events are presented and discussed will influence how those events are perceived.

Closure is no exception. Use tangible and visible short-term objectives that build toward goals for departure. While long-term vision is necessary, companies risk overlooking concrete, short-term actions that will be necessary to reach future goals.

Impact on Customers:

When a company is planning to make an exit, the society at large will get affected. The extent to which customers are affected can't be quantified. The kind of problems that the customers likely to face are

Unavailability of the product or service

No other alternatives available

Lack of customer support (for product or service)

There are various ways by which these issues can be tackled. Some of the possible ways are,

The company making a tie-up with other company which offers similar product. So, that similar products are being manufactured for the old customers.

Having a tie-up with companies to offer customer support services (even after companies' exit.

Creating a forum to address the needs of the past customers.