

MAKING A GRACEFUL (& PROFITABLE) BUSINESS EXIT

Lucio E. Dana, FBA Accredited Adviser

More attention should be paid to making a strategic and profitable exit from the owner-managed business.

The MGI Family & Private Business Survey 2010 Report (co-authored by Lucio Dana & Prof. Kosmas Smyrniotis of RMIT University) indicates that 45.0% of family business owners are actively planning the future sale of their business either *now* or *later*. Moreover, 61.3% would seriously consider selling their business, if approached. The Report concludes that approximately half of family businesses are less likely to become later generation firms, not as a result of any managerial failure on their part, but because their intentions, as well as their active plans, are to exit their businesses for various reasons via a trade sale. To that extent, it would be inappropriate simply to equate family business success with succession.

Not if, but when

Where will your business be in 5-10 years, or when you decide to spend your time doing something else? Exiting the business is not a question of if but when, and you can benefit from forward planning. Business owner-managers considering exiting their business have two options: transfer (continuity of the business) or termination (cessation of the business).

If you choose to transfer the business, you can:

- Transfer to co-owners or unrelated partners – a ‘buy-sell agreement’ makes it easier
- Transfer to related parties (usually family members) – succession planning is needed
- Transfer to staff (able employees with the sufficient financial resources) – consider the implications
- Transfer to third parties – making the business ‘sale ready’ is critical

Which of the above four options is most likely to apply to your business when the time comes for you to consider making an exit?

The main reason for exploring exit options and undertaking business continuity planning is maximising the realisable value of the business and providing business owners with some peace of mind. This applies whether the business is sold to third parties, partners or employees, or taken over by willing and able family members.

Do you have potential successors who are both willing and able?

To have a successful succession, you need to ensure that there are willing and able successors ready to take over the business based on agreed timetables and conditions. Transferring the business to successors is about creating a shared vision for the future of the business and working co-operatively during the transition period to achieve results that meet the parties’ expectations. Simply, it is about creating a ‘win-win’ strategy based on a genuine partnership between incumbent owner-managers and selected successors.

If selling the business is the main option, then there are several preliminary questions to consider:

- To sell or not to sell? What are the reasons for selling and reasons for not selling?
- Is your business your superannuation? Where will your financial security in retirement come from?

- Do you know what your business is worth? Try ‘buying’ it and you’ll find out.
- What creates realizable ‘value’ in your business?
- Who would buy your business and would they pay a premium price?
- What future value would they see in the business?
- Do you know how to make your business 'sale ready' to maximise its value?
- Would your business pass a due diligence process?
- Do you propose to get professional advice and assistance?
- Have you implemented risk management/contingency planning measures?
- What will you do following the sale? What does your ‘future diary’ look like?

Conclusion

Transferring a business can be accomplished more effectively if you understand the process fully and have planned it well in advance. The quality of the preparation in large measure determines the quality of the results. Planning the transfer process not only helps to maximise the sale price, but also increases the likelihood that you can make a timely and graceful exit. It enables you to feel in control because you have a clearer idea of where you are going and how you propose to get there.

What to do next? Take a few minutes and write a page in answer to each of these questions:

- What do I want for myself?
- What do I want for my family and what does my family want?
- What do I want for my business?

Then consider this quote: “The secret to success is doing the things we know we should do.”

***Lucio E. Dana** is an FBA accredited family business facilitator and advisor. He is the principal of *Family Business Dynamics*. Lucio is co-author of *Family Business Succession Planning: A 10-Step Guide*, 2000 CPD (Email: ledana@bigpond.com) Tel/Fax: 03 9841 5115