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Chartered Accountants

Planning your exit strategy

Whether you complete your business objectives in a year or 20 years from now, or you just feel like you need a change of scenery, leaving a company you built with your own two hands is never easy. You've got to consider your employees' futures, commitments to financial partners and even family – not to mention your own business legacy.

Needless to say, you'll also want to make sure you exit with a nest egg that reflects all the hard work and investment you put in.

To get the most out of your investment in your business, an exit strategy is something you should begin planning from the outset.

Selling up

You won't necessarily be offered significant cash up front and you don't want your business to go under before the transaction is completed. If you're selling to someone you wouldn't necessarily invest in yourself, then make sure no money is still owed by the time they take over.

In some situations, buyers come with conditions that can include an extended handover period during which they shadow you to learn every element of the business's day-to-day running. Don't confuse this for adequate industry training or a safety net against the business failing under the new owner's leadership – showing them the ropes won't turn them into a good fit for your business.

Selling to the family is a common option if you want the business to be a legacy, but remember if your children, sibling, or close friend have any issues post-sale, they'll come knocking on your door first. So selling to someone close to you means doing more due diligence, not less, to make sure business operations don't turn into a boomerang and keep landing back at your front door.

Sell up if:

- You're confident of your business's ROI value.
- You like the idea of a straightforward sale with less red tape.
- You want to pass the business on to the next generation.
- You're not in a rush.

Be acquired

An acquisition is simply selling control of your business to a larger one. Such tactics are often lumped in with hostile takeovers when a larger company usurps a smaller business's founding entrepreneur by buying a majority stake from shareholders. However, the truth is many small business owners actively promote to larger companies to try to nab a big fish.

Finding the right business to acquire your company requires accurate knowledge of the market and investment in improving or maintaining performance so your business looks like a strong strategic asset. Some business owners go so far as to spend money angling the company towards a target buyer by developing a new product that could fit into their target's range, but this risks making the business less attractive to others.

Seek an acquisition if:

- You have a significant market share or strong product that larger companies might covet.
- You know your market like the back of your hand and you can identify a target.
- You're willing to change or reinvest in your business to make it a more attractive strategic acquisition.

Liquidate

Liquidating a business means you will have cash in the hand quicker than if you were to sell it as a going concern. However, there are significant downsides, which is why liquidating is more of an emotional act than a planned exit, taken by business owners who want to throw in the towel or have significant short-term debts to address.

The lion's share of a business's value is in its operations rather than its assets – so if you strip it for parts, you won't get a true return on your investment. On top of that, if you provide a vital service, a business's liquidation will come as a shock to staff and loyal customers – not to mention your investors.

You'll also be the last one to see the money from the sale of assets. Creditors with money owing will be the first to take a slice before your shareholders take their turn and you get to take home what's left.

Liquidate if:

- You don't have time to sell or arrange an acquisition.
- You don't have many debts.
- You own all or the large majority of your business.
- Your business owns an asset of significant value, such as premises on a highly sought-after location or specialist plant equipment.
- Few people (staff or customers) rely on your business continuing to operate.

Go public

Floating your business on the stock exchange with an Initial Public Offering (IPO) requires a lot of investment and due diligence but can provide the highest return for an exiting business owner.

As the initial share price made by the offering can dictate demand, companies going public normally contract an investment bank to underwrite it – in other words, to find a price not too high or too low for the market. However, a common tactic is to offer a low price in the hope of stimulating a rush on inventory that then increases share prices as they are traded on.

If all their time, money and effort pays off, the owners of a business making an IPO can make millions – but as the perceived value of IPOs is based on some very fast moving and fickle stock market trends, success stories can be rare.

Go public if:

- You have significant funds to prepare for an IPO.
- You maintain extremely high standards of accounting accuracy.
- Have the potential to grow from a small business into a large business.