Announcer (0s):

The maximize business value podcast. This podcast is brought to you by Mastery Partners, where our mission is to equip business owners, to maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over 100 business transactions, which feels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host, the CEO of mastery partners, Tom Bronson.

Tom Bronson (20s):

Hi, this is Tom Bronson and welcome to maximize business value. A podcast for business owners who are passionate about building long-term sustainable value in their businesses. Today, we're going to wrap up our short series on why every business owner should make exit planning a priority and why you should start working on it today. As investor and entrepreneur icon Carl Allen would say the only reason to have a business is to sell it and get paid for it. Now I agree. This is the final installment of this series, and we're going to exit strategy court today, and I'm going to present the case for exit planning and give you my closing arguments.

Tom Bronson (1m 8s):

So let's review in episode 94, we started setting the stage for why businesses fail to exit. Even when they think they're ready. Last week, we discussed some of the reasons that businesses have to involuntarily exit. And this week I want to lay out my case for exit planning, just like we're in a courtroom. So here we go. Argument, number one, the benefits of exit planning, exit planning can seem like a tedious process. Many people think that the reward for all the work comes way off in the future. Why in the world would a business owner what to put himself through all that effort before it's really needed?

Tom Bronson (1m 52s):

Well, because a well-designed exit strategy opens the doors to possibilities. In fact, a well-designed transition plan can deliver benefits in just a few short months, and it provides options where none previously existed. It improves a business to the point that the owner might not even want to exit the business. Most business owners don't even realize what options they have available for exit, but if they built a genuinely valuable enterprise, the options increase exponentially.

Tom Bronson (2m 34s):

In fact, the most important outcome of good exit planning is that a business owner can define the process on his or her own terms. He or she can transition on their terms and not be a victim to the process, defining them because some risk factor rears its ugly head. We don't want the process defining the process that's code for lower valuation. What makes a great and properly executed exit strategy you might ask. It has at least some of the following components.

Tom Bronson (3m 17s):
It identifies and removes risks. Some of which may be in the owner's blind spot. It increases enterprise value. It forces a business analysis. It aligns people to function on the same page. It provides contingency plans for unforeseen issues. It helps an owner identify and tie together three of his or her biggest priorities, business goals, personal goals, and financial goals. And it gives them options for a future transit future transition that they may not even know about. So that's argument number one, argument, number two, exit planning.

Tom Bronson (3m 56s):
De-risks the business. Now we all have blind spots. There are probably blind spots that once we knew about them are easy to solve. There are things like having shareholder and operating agreements and a solid buy sell agreement. If there are multiple shareholders, those might be blind spots in your business. Many business owners realize that they need those, but they will deal with them later on and soon they're forgotten business insurance policies that were set up years prior and automatically renew without an annual review may need to be updated with things like business interruption, cyber security, and key man insurance.

Tom Bronson (4m 43s):
These issues are all kind of behind the scenes items, but we should also think about other risks in our business that might be easy to solve like customer or, or supplier concentration risk or documenting processes. A great exit strategy. You see includes finding an, addressing these risks in a business, ultimately leading to higher valuations. Look for more on de-risking in a, on the mastery partner's website, our F our free e-book the blind spot, hidden risks. What you don't know can hurt you.

Tom Bronson (5m 24s):
Okay. Argument number three, exit planning creates massive value. Great exit strategies include building long-term, massive additional value in the business. Think about it. If you don't start thinking about exit strategy until it's time to actually sell the business, it's simply too late to do many of the things that can dramatically increase the value of the business. Building massive value just takes time. Sophisticated buyers don't believe short-term improvements in value. You'll need to have a solid track record, usually in the form of multiple years with a solid trailing 12 months or TTM to demonstrate that you've, that what you've done is sustainable and not some short term blip on the radar screen.

Tom Bronson (6m 15s):
In most cases, it takes several quarters, perhaps even a few years, until the things that you've done to build massive value finally make their way onto the financial statements and into the valuation argument. Number four, exit planning gets the whole team singing from the same songbook. Now, most business owners don't want their employees to know that they're ever thinking about selling the business. And that's one of the

strongest arguments for exit strategy being good business strategy. When you approach an exit as a business strategy to build value in the business involving the team as an, as, as natural as involving them in their daily job functions.

Tom Bronson (7m 1s):
And when you set out to improve long-term value, you won't be shy about who knows because a more valuable business is one which most people want to work for. Argument. Number five, exit planning, addresses the unthinkable. No business owner likes to think about those things that will suddenly and dramatically change his or her business. We summarize them easily in what we call the five DS death, disability, divorce, distress, and disagreement. Now every business should have a plan for what happens in case of the death or disability of the business owner or other key people look, life happens.
Tom Bronson (7m 46s):
And it's very possible that you or a key member of your staff will become disabled. Distress comes in many forms like a large customer serving notice that he's leaving you or a key employee turning in two weeks notice, or a breach of your systems exposing your customer's data. I could go on and on. And although never a pleasant topic, the divorce of a business owner or a shareholder will likely trigger unintended consequences unless you're prepared for it. Finally, a great plan. We'll also address what happens when a serious and irreconcilable disagreement arises between shareholders or other stakeholders.

Tom Bronson (8m 32s):
All of these could impact the business to a far greater extent than most business owners are prepared to think an exit plan provides contingencies for these situations, reducing their negative consequences. Let's move on to argument. Number six, exit planning identifies priorities in exit plan, or I'm sorry. In the exit planning Institute CEO, Chris Snyder's book, walking to destiny. The author talks about the three legs of the planning, stool business goals, personal goals, and financial goals.

Tom Bronson (9m 14s):
Although each of these priority items, the business owner is the common denominator. Many times these three priorities are not necessarily aligned causing tension and possible friction business owners should intentionally think through each of these different priorities and be prepared to articulate them if for nothing else than to have peace of mind. However, the best exit and business strategies tie these three priorities together to form a unified set of goals and desired outcomes. When these three goals are working in concert, the business owner can increase velocity and drive massive value.

Tom Bronson (10m 1s):
Argument. Number seven, exit planning provides options on exit, the exit planning Institute, state of owner readiness survey unveiled that two-thirds of all business owners don't know all their exit options for transitioning their business and harvesting their wealth. Most business owners think that an exit strategy is simply selling their business to an outside company, hopefully for a massive amount of money, while that

may be the ultimate result. There are other options that business owners should seriously consider. These options include intergenerational transfers, selling the business to partners or management employee stock ownership plans, or Aesop's outright sale to a strategic or financial buyer, or converting the business to a mailbox business.

Tom Bronson (10m 56s):
A mailbox business is one where the owner leaves the day-to-day operation but retains ownership and steps back as an owner, rather than an employee, a well-designed plan explores all of these options and helps an owner determine where he or she ultimately wants to land go to the free stuff. Section on mastery partners.com and download our free ebook business, transition options, pros and cons. Okay. Talk a lot about these arguments. I'm going to get to more in a second, but I want to debunk some of the flawed thinking around exit strategies. Again, this is not an exhaustive list, but just some of the high spots.

Tom Bronson (11m 41s):
Some of these things are, I'm not ready. Now. My business will sell quickly and I'll call someone when I'm ready to sell a, another one. I already know what buyers want. Another one. I get calls from potential buyers all the time. I don't need a professional financial plan to know what I need to retire on, but there's just too much for me to do in this business to get where I want to be. I'll start thinking about exiting in three to five years. So let's break these down. As we continue our arguments argument, number eight, why I'm not ready now is a poor excuse. I'm not ready, or my business is just not ready now, but I'm confident it will sell quickly.

Tom Bronson (12m 23s):
So I'll call someone when I'm ready to sell the unspoken issue with this approach is that if you start to plan, when you've decided, it's time to exit the business, you've probably not prepared the business properly. And the odds are stacked against you. The odds of landing in the 83% that never close a transaction increases exponentially. At the very least, you'll likely be in the category of accepting an offer far less than you want or getting stuck with a deal that is less than desirable. If you start to prepare less than two years before the plan exit event, there's very little you can do to change the outcome.

Tom Bronson (13m 6s):
It is what it already is. Truth be told the approach is way more common than it should be. And of course, the problem with this approach is that if you've never been through a transition event, you probably don't even know what you don't know. Now. I recognize that some businesses have little time to repair, usually for unforeseen circumstances. Frankly, if you have less than two years, you should focus on nonstrategic issues. And de-risking, while these activities typically add little short-term value, they're at least steps in the right direction that can help you position the business for a transition.

Tom Bronson (13m 46s):

And as far as selling quickly goes, there's precious little data on business transactions, but the average takes about a year. So it's nine to 18 months. Some take much longer. Even if you have everything buttoned up perfectly by our due diligence can brag on for months prolong in the process and increasing the likelihood of the deal falling apart or the value lowered argument. Number nine, why you probably don't already know what buyers want. Every buyer of every business has a different motivation.

Tom Bronson (14m 29s):
Some are looking for earnings. Others are looking for a recurring revenue. Still others are looking for market share or expanded market opportunities. The truth is no one really knows what a prospective buyer might be looking to purchase. Hopefully if your exit process is designed well, you'll turn up some buyers that you never even knew existed. Certainly some exits are designed for one buyer, but most buyers are yet to be found. Therefore, how can you know what the buyer wants before? You know who the buyer might be? That's not to mean that you shouldn't have a good idea of what your buyers might be interested in.

Tom Bronson (15m 11s):
On the contrary, you should have a clear targets in mind, but be open to the possibilities that you can't even imagine. Now, argument number 10, why buyers calling all the time could be lowing you into a sense of complacency. People call me all the time. I hear that from many, many folks. Here's the dirty little secret they're calling everyone. It's called prospecting. Just let's work the math. If you're a lower middle market company. And for the sake of argument, let's call that what the exit planning Institute calls it 5 million to a hundred million in annual revenue. Then you're being stalked by private equity, by every private equity firm on the planet.

Tom Bronson (15m 57s):
These PE firms have so much dry powder or committed capital that they have to invest in. Every one of them will tell you that they've been following your impressive story and way in that they have serious interest in your market. Now let me be clear. This is not an indictment of PE firms on the contrary. I think they play an absolutely essential role in the exit planning process. But many times they're all just chasing the same targets. And in my book maximize business value, I provide a detailed analysis of the number of calls they make. But here let's just say, if you run the math, the law of averages tells us that every business in the U S should get at least one call every 14 days from a P a perspective buyer.

Tom Bronson (16m 46s):
So just because they're calling, does it mean that they're real buyers? And by the way, your chances of being stocked by these buyers dramatically improve when you win awards or get on some published list, like the Inc 5,000 are the best places to work are Ernst and young award of the year. So, so just know that if you're getting a lot of press, you're probably getting on a lot of lists, argument, number 11, are we really up to 11? Now, exit planning defines your personal financial plan, thinking, you know how much you need to retire without a fully Blake financial or fully baked financial plan is like driving at night with your headlights off.

Tom Bronson (17m 30s):

Not only can you not see the road, but you also can't see your instrument panel. Do you know where you're going? Do you know how fast you're driving, how much gas you have, if you're even driving in the right direction or not, or if you're going to hit a tree look, and it's simple as form, the purpose of having a financial plan is to know how much money you will need to live your lifestyle for the rest of your life. Certified financial planners, particularly that are fiduciaries. Take your entire financial picture into account, including what you spend to maintain your lifestyle. They simply run the math and tell you what you'll need to live the way that you live for the rest of your life.

Tom Bronson (18m 17s):

Despite the fact that most of your net worth is probably tied up in your business and need a financial plan. And so add that to your to-do list and then ask yourself, will your exit plan allow you to meet your lifestyle needs? Argument, number 12, kicking the process down the street is never is a never ending exercise. All right? I talked to many business owners who understand that there's just too much to do to get their businesses where they want to exit.

Tom Bronson (18m 58s):

They believe they will spend time working on the right stuff. And then, and in three or five years, their business will be ready. And in that ideal state to sell, of course, in reality, most business owners are lost in the day to day and won't spend time planning for the future and for the exit of their business, their business just commands too much of their time. So erroneously, they think that they'll start thinking about exiting in three to five years. They say that for several years. So the three to five years is an elusive target. Ultimately a myth, just like the extra exercise program that I plan to start every Monday morning, commit to action now, okay, here are my closing arguments and this podcast, I've tried to build an argument for why exit strategy just is good business strategy.

Tom Bronson (19m 55s):

Here are the facts. Most business owners don't know the benefits of solid exit planning. Most companies don't sell 83% of businesses don't sell. Even when they try to leave, most business owners are stuck with an illiquid asset and their net worth cannot be monetized. And three most successful exits are the result of advanced planning. Chris Snyder, owner of the exit planning Institute and author of walking to destiny has about the best definition of exit planning that I've ever heard. Here. It is exit planning, combines the plan, concept, effort and process into a clear, simple strategy to build a business that is transferable through strong structural customer and social capital.

Tom Bronson (20m 52s):

The future of you, your family and your business are addressed by exit planning through the creative value today. So through solid exit planning, you can build harvest and preserve wealth. You can identify protect, build harvest, and manage enterprise value. You can simplify the exit process and clarify the roadmap to success, and you can integrate your personal financial and business for Ortiz into one master plan.

Tom Bronson (21m 31s):

I rest my case. Now, if you want to take action now to secure the best possible outcome, when it comes time to exit your business, then why are you waiting? Schedule a call with me and mastery partners.com. And let's talk about your specific needs. This is the maximize business value podcast, where we give practical advice to business owners on how to build long-term sustainable value in your business. Be sure to tune in each week and follow us wherever you found this podcast. So that you'll be alerted every time that a new one comes out until next time. I'm Tom Bronson reminding you to start exit planning.

Tom Bronson (22m 15s):

Now, while you maximize business value.

Announcer (22m 20s):

Thank you for tuning into the maximize business value podcast with Tom Brunson. This podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize business value so they can transition on their terms on how to build long-term sustainable business value and get free value building tools by visiting our website, www.masterypartners.com that's master with a Y mastery partners.com. Check it out.

Tom Bronson (23m 06s):

That was perfect. I wouldn't make any changes.