Managing Contingencies: Essential Tips For Planning Your Exit Strategy

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Kerry Boulton is Australia's most respected Exit Strategy Advisor and CEO of the Exit Strategy Group. Welcome to this week's segment.

KERRY BOULTON: Why is it important to plan the sale of a business? You know, approximately 75% of businesses never sell, and that is a really startling but true fact. And with the baby boomer generation coming through as business owners, we have more than 50% of our private businesses owned by that group. So there's a huge wave of business sales coming.

The primary reason that businesses don't sell is that the owners fail to realize that they actually do need to plan, even when your business is a really strong, good, viable business. If it's not planned properly for sale and managed for sale, it really may not get there. And typically, a business can represent anything from 50 to 90% of a business owner's net worth.

And if the lack of planning, you're not able to sell that business. It can be really, really devastating. It does take time to implement the changes that you need to make in your business, to prepare it for an exit strategy, and in most cases, at least a couple of years. And I've said this many times before, that it's never too early to start planning for a business sale.

So what are the important things that you really need to look at? First of all, it's inertia. I don't know whether I've mentioned this before, but a lot of... this is almost like the elephant in the room. I think that's how you could actually describe it. And inertia takes over where you don't really want to face what's required.

Getting yourself a high level valuation, so you understand where the business currently sits in terms of what it could be worth in the future, understanding what the value gaps are and where the areas that you need to concentrate on to actually improve the business, and getting started doing that is the way to overcome that inertia.

Unfortunately, all too often, business owners are actually forced to sell because of some outside influence, and that's not a place that you really want to be at, because that's not the way to maximize your business profitability so that you can get the best possible price for your business.

I'd really highly recommend that you think about what it is that you need from your business to be able to support your future lifestyle and make a decision today to get moving on an exit plan so that you can get the best possible price for your business.

So when thinking about planning for your business exit, I've mentioned previously that sometimes there you're forced to actually sell for reasons that you may not be able to put a finger on, and rather than be in a position where that happens, where you're forced to sell doing some contingency planning is a really helpful way to overcome a situation when something unexpected happens.

Let's take, for example, there may be some dissension amongst the business owners. So let's just paint a picture. You've been in business for a number of years. The business has been highly successful. Everyone's enjoyed the profitability, and the business has been going along really well.

But you know, over the last couple of years, one of the business owners has found other opportunities that have taken their attention away, and there is some dissension, some dissatisfaction arising between the business owners because somebody is not continuing to pull their weight. So what do you do? So let's just give some thought to this.

There are a couple of opportunities that you could obviously, you know, addressing the issue and maybe getting a facilitator in to do to help you do that would be a really useful way of handling that situation. But obviously, it's something that has to be addressed so that you can overcome whatever issue is there.

And maybe out of that, you might decide that somebody has to buy that particular shareholder out, or that that shareholder who is in the business and working in the business obviously needs to take some time out and, you know, take some holidays. And so I think it's this is one of the areas that's really important for you to consider in terms of your contingency thinking.

And it really dovetails into the area of distraction as well, and where you're not particularly interested in continuing with the business the way it is. So, you know, sometimes these are issues that are really hard to think about, but putting in place the processes and the outlines of what it what you need, as far as your business is concerned, to be able to handle that sort of situation and flag it so that it doesn't become a growing concern and a growing issue, and take your energies away from continuing your business profitability.

Let's talk about one of the other D, which is distraction in terms of thinking about your future and selling your business. There's a great example of a recent business I've had a little bit to do with where an offer came on the table for the business. The business itself was an excellent business, planned really well, had planned their exit strategy and had multiple buyers vying for the business, who ultimately reduced to simply one when the offer was put on the table.

The timing between the conscious decision to put the business on the market and getting an offer on the table was very interesting. It took nearly three months for that to come to fruition. Meanwhile, of course, the business owners became rather excited, and really ran the risk of being very distracted while all this was happening. But of course, one of the major issues that you have to face is the fact that even when there is an offer on the table, you still have to manage your business and keep it growing as if nothing is happening.

Too often, business owners are caught up and become caught up in in the whole excitement of the process of selling, and take their eye off the ball, which is the worst thing that you can possibly do. Now, let me say as well, in this particular scenario, the offer came on the table, and it took three months for that to happen. It's also taken another three months for that offer to run its course, to get to the stage where now due diligence is taking place.

So in terms of the timing, it's been six months, which can be a huge length of time for anyone to take their eye off the ball. A good part about this story is, in that particular business, the owners have been great at keeping their finger on the pulse, and even with decisions that had to be made, such as the lease running out on their current premises and having to then think about, well, do we sign a lease for a longer period of time? Or, you know, how do we manage it?

Of course, they were able to manage it so that they just took it month to month, because if the whole offer fell over at the end of the day, they've still got to be managing the business and continuing to grow it and as if nothing is going on. So just a great example of being aware of what can happen and the need for you to really keep your eye on the ball and not be distracted when something like an offer that's pretty exciting.

And you can see the finish line, but you're not there. You really have to keep your eye on exactly what's going on, make sure that your business is running exactly the way it would be, as if you had no offer on the table and no potential future sale. That's the way to maximize the result and make sure that you do get the great big payday that you're really looking for.

Let's have a look at another one of the D's, the dastardly D's, as I like to call them. And I don't really want it to be a negative in this regard. But again, this is around your contingency planning. One of the one of the areas that I found in working with a number of businesses is that particularly small business owners haven't taken the time to consider a Buy Sell Plan or a or write up or have a buy and sell shareholders agreement at the beginning.

Obviously, if you're a single shareholder, then that wouldn't apply to you. But in terms of thinking about your contingency planning, if you are the single owner of the business, have you put in place things like insurance policies that are key man insurance policies which would be available to your spouse, for instance, in the event of something happening to you.

And I'd like to just relate to you a story which is a personal one, which with my husband and I in our real estate business, when we were involved in the business that we actually sold, we did have a Buy Sell agreement in place amongst the all the shareholders. So if something happened, for instance, they were ill. They got ill for some reason, or cancer. In the case of my husband, he actually got bowel cancer.

But if, in fact, somebody fell ill and wasn't able to work for a while, we did have insurance policies in place, and we had an agreement in place, that would mean the spouses of the particular shareholders would not be able to work in that business. Because the last thing that people, frankly, the last thing they wanted was to have a spouse coming into the business to work in that business, to take the place of the existing shareholder.

So to have insurance policies in place that gave the business enough money to be able to buy the spouses out of that particular shareholding was really crucial. And as I mentioned, my husband unfortunately, got bowel cancer, I have to say he's totally free and clear now, which is great six years later, so we're past that, which is, as I said, is terrific, but he was out of the business for a good year.

Now, in this particular case, as it turned out, we'd actually sold the business, and he was he had stayed on just to work there for a couple of years. So he did resign and leave the business at that point. From a personal perspective, and this is personal contingency planning, we had in place our income protection insurance, and we had in place our trauma insurance.

So both of those policies paid out, and the only people who came through the door in those 12 months, other than our fabulous insurance broker with the checks, was the only other people came in with bills. So you know, thinking about, even though we don't want to face these things at times, and they're not really top of our mind, it's really important to think about the contingencies that you have to have in place for your business. And its insurance is one thing, and covering, you know, health in particular, of key people in your organization is absolutely paramount.

The other area to look at as well, in fact, is your disaster planning. What happens if there's a fire as an example? Have a look at your policies that you've got in place again to make sure that you are covered properly. Small business owners in particular, don't review policies like this regularly enough. Talk to your insurance broker make sure that your cover is what you need and that it is up to date and that you are properly insured for the way your business is today, because often those policies have been taken out many years ago.

And they have not been updated. Your business has changed. Your business has grown. You may have taken on other aspects of business life, but so you really do need to make sure that you've got all those up to date and they are valid and current for the way your business is operating today.

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