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Briefing: Exit Planning – Purchaser's Perspective

The aging of baby-boomers means that significant wealth is likely to transfer within the next 10-15 years. For business owners, the challenge is particularly difficult, as private businesses are hard to value, divide or transfer. Yet millions of exits must be arranged in the coming years. Each seller needs a buyer and buyers have varying appetites for risk, return and investment alternatives. Unfortunately, the average seller cannot get an above-average deal, so the smartest and most competitive owners will do what's necessary to gain advantages for themselves, their families and other stakeholders. This means exit planning – planning to keep the advantages you already have and planning to obtain the advantages you want and need.

If you are the ordinary private entrepreneur, you want control of processes and outcomes. You sense that too much attention to exit planning will distract you from running the business. (Truth is, running the business distracts you from all kinds of planning.) You want sustainable cash flow, sustainable harmony among the people who matter, and a position that can be easily traded or pledged for money. You want risk reduction and avoidance of any negative surprises. To exit is tricky, but you know that good outcomes seldom happen by accident.

If you intend to exit at a highest possible price, remember to take a buyer's perspective in your planning. Buyers want a lowest affordable price per unit of perceived opportunity and they usually will not buy until they perceive a cure for what they need. A deal gets done when sellers and buyers agree. Sellers sometimes want buyers to pay for executive status, or for the involvement of the job, or for an heirloom quality or a trophy. Seller-centered deals can happen, but they are usually just cooperative, and not strategic.

Sellers certainly have a say, but it's usually the buyer's perspective that matters most. It's the seller's job to understand the buyer's unique circumstances and priorities. Everybody likes profit, but different buyers have different criteria and emphasize different ways of translating profit to value. For example:

- Earnings enhancements

Earnings enhancement is a common theme, but not generically achievable by just anyone. It's easy to add back excessive owner's compensation, but other margin enhancements and overhead reductions can be complicated and buyer-specific.

- Built-in opportunity

To pay a premium for built-in opportunity, a buyer must see existing leadership with the capability to increase sales and get more customers with little additional investment.

- Synergy

Synergy is value creation from joining businesses together. The buyer sees extra profit or risk reduction associated with cross selling, service enhancement, cost reduction, time compression, or similar benefits.

- The right wrongs

Some businesses are classic fixer-uppers. But the buyer must believe that the right things are wrong with the business. The cost and time to repair become the real deal.

Whether you are contemplating exit or entry, we can help you objectively evaluate goals and situations. It is good planning to closely question and look at things from the other side of the table. If you would like to know more, then please contact any of us here at Frazee Ivy Davis.