A Good Year to Avoid Last Year's Mistakes

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Today let's take a hard look at how we can change our businesses in one simple way: avoid the mistake we made last year and in every year before that: procrastination. Specifically, if all owners know that someday they'll leave their companies, why then do they do nothing to plan for that day?

In working with business owners over the course of my career, I've found that most owners put off planning their exits because practically they can't get their arms around the scope of the project. According to Piers Steel, a Professor of Human Resources and Organizational Dynamics at the University of Calgary (see "The Popular Practice of Putting Things Off" by Alina Tugend in Shortcuts, *The New York Times* January 30, 2009) "People procrastinate when they're not confident that they can complete a project." To most owners, an exit is something they can address later, when they have more time—a time that never seems to occur.

Because exiting a business is truly a distant, and not immediate, goal, years go by and business cycles spin round and round, and the "day of departure" seems—and is—as far away as ever. When most owners finally decide to leave they can't because they never started the exit process.

The state of the economy during 2009 gave many owners ample reason to do nothing about planning their business exits. Would-be sellers were directly challenged by the stranglehold on credit available for buyer financing, and decreases in cash flow for most businesses—which led directly to decreases in business value and reduced M&A activity. If only the very best and most prepared companies were able to sell, many owners reasoned, "Why should I spend time planning my exit?"

Peter Daniels (a fictional owner of a fictional company) wanted to leave his food processing plant in five years by selling it for $5 million. A quick review of the company's financials suggested that with a current annual cash flow of $250,000, the company was worth closer to $1 million. Peter's advisor suggested creating and implementing a step-by-step roadmap to increase value, minimize taxes, and protect existing *value from loss. "That's exactly what I need to do," Peter said to his advisor. Unfortunately, Peter did nothing more; he never designed an exit plan nor did he ever implement one.*

Five years later, Daniels Food Processing, Inc. was pretty much unchanged. But now Peter was frustrated. The economic downturn caused his business cash flow to decrease meaning the company's value decreased as well. Peter had addressed neither the need to create or update business systems (especially any marketing plan), nor his inadequate and under-motivated management team. Peter remained at least five years away from his exit.

Decide to decide

> "You may delay, but time will not." —Benjamin Franklin

Owners like Peter Daniels use many reasons to justify their inaction and in doing so decide not to decide. Some owners postpone their decision for another year. Others will decide to make a decision about leaving when the economy and the M&A market improve.

If postponement or delay is your choice, ask (as Peter Daniels should have done):

- Will your company be ready for sale when that yet-to-be-decided day dawns?
- Will your company stand out from the hundreds of thousands of others on the market?
- Will you be able to attract a buyer willing to pay a premium price for your company?
- If you believe the business is as ready as it will ever be, but it doesn't fetch an offer sufficient to provide you with financial security, what then?

Remember, even in active M&A years, the reality is that no more than half of the businesses on the market sell. Any M&A advisor will tell you that the main reason for this is that *most businesses are not ready to be sold when the owner is ready to sell*. Those businesses that do sell—even during difficult economic times—have owners who have figured out how to get their companies ready to sell.

Decide to Start

Lee Iacocca summed up the importance of just getting started, "So what do we do? Anything. Something. So long as we just don't sit there. If we screw it up, start over. Try something else. If we wait until we've satisfied all the uncertainties, it may be too late." Applying Mr. Iacocca's sentiment to Exit Planning, the message is: you don't have to do everything at once to get yourself and business ready for transition. Doing so will likely be overwhelming and discourage you from even starting. You do need to start by creating a series of discrete, achievable steps and then take them: one by one. If the steps aren't the right ones, you can modify them as necessary.

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