

Building Business Value Through Exit Planning

Summary: Many business owners want to build their businesses' value, but don't know how. This article presents ways that Exit Planning can help build business value

Business owners seldom seek to exit their businesses without attaining financial security. They understand that one requirement of financial security is to grow business value, but many struggle to achieve this goal. Fortunately for these owners, Exit Planning can directly address their need to build business value and serve as an unexpected solution for owners who want to increase their businesses' value, but don't know how.

One of the pillars of Exit Planning is a timeline that plots the value-building actions that owners should consider in order to position themselves to exit their businesses on their chosen exit date. This timeline incorporates how much the business needs to grow in value to meet the owner's financial target by the owner's departure or exit date. The timeline is created after the business owner's professional advisors assess the owner's current resources (especially business value and cash flow) relative to the owner's financial needs post-departure.

For example, a business owner may want to exit in five years with \$250,000 of post-exit annual income. Her Advisor Team may determine that the value of her business must grow from \$3 million to \$4.5 million for her combined ownership and other assets to provide what she needs to achieve her goals. They may also determine that growing cash flow (or EBITDA) by \$100,000 per year would likely create that value. Action items and anticipated benchmarks are added to the overall Exit Planning timeline to keep everyone focused on what needs to be achieved and when.

Following the creation of the timeline, the next Exit Planning step is to assess the strength of the company's Value Drivers. Value Drivers are activities that create value in a company. Third party buyers, private-equity firms, and even key employees often require businesses to have strong Value Drivers before they consider purchasing the business. That's because Value Drivers often create sustainable, recurring, scalable, and ever-increasing cash flow.

Some of the Value Drivers that you may install in your business include:

1. A stable, motivated management team that stays after you leave the business.
2. Operating systems that improve the sustainability of cash flows.
3. A solid, diversified customer base.
4. Recurring and sustainable revenue resistant to commoditization.
5. Good and improving cash flow.

Because installing strong Value Drivers is a foundational element of proper Exit Planning, and strong Value Drivers typically increase a company's value and curb appeal to buyers, using Exit

Planning to build company value can help business owners begin to solve the value-building question while positioning themselves for their future business exits.

A common mistake that business owners make when thinking about Exit Planning is that they focus more on the term “Exit” than “Planning.” They worry that if they commit to Exit Planning, then they will have to aim all of their energy at leaving their businesses, whether they want to or not. However, Exit Planning goes far beyond the concept of leaving the business in that the Exit Planning process addresses various issues that can positively affect the business’ value, cash flow, and overall operational performance.

If you’d like to learn more about installing Value Drivers in your company or simply want to talk about whether using Exit Planning to build business value is a viable option for you, contact us today.

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