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**Exit Strategies: Don't Stop Thinking About Tomorrow**

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As the owner/founder of your small business, you may have a handful or dozens of employees, a thriving revenue stream and plenty of ideas on how to expand into new markets. Despite today's success and happiness, you never know what tomorrow may bring. At some point down the road you'll likely want to sell or close your business. Once you're a few years away from the possibility of getting out, it's wise to have an exit plan in place.

"The exit plan takes into account liquidity, and personal and corporate finances," says Neil Shroff, managing director with Orion Capital Group, an investment bank in Menlo Park, California. It can take a few years to prepare a business for sale, as you'll need to shift your focus to increasing the company's value versus managing operations. "A lot of small companies run their business like a family business but you need to think of as an investment," Shroff says. "Hire qualified senior managers and get an emotional distance from the business."

How do you know if its time to develop an exit strategy? "Some people don't know if and when they want to sell, so they'll talk to their kids, family members and shareholders to get a sense of what is the best plan," says Shroff, who provides M&A and exit planning advisory services to small businesses earning $3 million to $50 million or more in revenues. Of course, those can be emotional discussions so consider including someone without a vested interest in your business as an advisor. If you're still feeling skittish about the exit planning process, consider the fact that the older you get, the more risk you undertake by tying up your wealth in your business. That alone is a good reason to consider an earlier exit from business ownership than you might have otherwise, says Shroff.

**Think like a buyer**

Devising an exit strategy is a numbers game. You want to get the best deal, and to do so, you need to not only demonstrate business value also determine how to reduce costly taxes that go along with the transaction. Shroff recommends hiring an investment advisor or estate planning attorney to help you navigate the tax issues.

Next, put on the buyer goggles. How can you position your company as a future-growth investment? "I recently read that a classmate of mine started a company that was acquired during the Internet boom for $500 million when it was just 18 months old," *writes Stever Robbins*, a veteran of nine startups and the author of "It Takes a Lot More than Attitude to Lead a Stellar Organization". "He commanded a huge price because his acquirer thought the acquisition gave them critical capabilities faster than they could develop those capabilities on their own."

Coming up with an optimal price and unique value proposition for your business requires broad industry knowledge to discern what potential buyers want, and financial acumen to negotiate a sale. Once you have a sturdy grasp on what value your company brings to prospetive buyers, it's time to make some steps internally to fit that profile.

**Four ways to prepare for a sale**

Shroff offers the following ideas as examples of how you can build business value:

1. **Stabilize revenue streams.** Regardless of industry variables, you've got to demonstrate financial stability to look attractive to buyers. "We had a service client [in healthcare] and they were doing 50 million in revenues but their sales fluctuated so much year to year," Shroff recalls. "Then they added a subscription model to their business to stabilize the revenue. Recurring and stable revenue is a huge way to grow the value of the company."
2. **Hire the right managers**. Small companies often grow organically and may not always have the best people in senior positions as the company matures. A buyer wants to acquire not only your product or service lines, but also the employees who hold knowledge about your business and customers. Find the right people for your company's most critical roles, and if you still have gaps, add roles in finance, operations, strategy, or business development.
3. **Overcome barriers to expansion**. Have you done everything you can to ensure that your company can succeed in its core markets and with top customer groups? This could include making sure that you are compliant with any industry regulations, that your company has relationships with leading customers or partners in your industry, or that your product (in high tech for instance) integrates with related technologies or components to deliver a complete solution.
4. **Fine-tune your corporate culture.** Acquisitions often fail because of cultural mismatches between companies. Consider how you can model your company after companies you admire, particularly those that might be interested in buying you out.

The jury is still out as to whether now is a good time to sell or not. Buyers are starting to come out of the woodwork again, says Shroff, but expect aggressive pricing. If you can wait a few years you might get a better price and until then, the exit planning process-- with its focus on longer-term business value-- is a wise strategy in the current economy. In many industries, short-term growth plans are still risky at best.

Tags: *financialmanagement, polly schneider traylor, small businesses*

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