Exit routes

Potential mergers and acquisitions are even a starting point of a new business venture. Planning exit routes help the entrepreneurs determine how they can sell or close the business. It's important to set up an exit strategy early on for your business because it allows you to create a business model that harmonizes with the chosen exit strategy. The exit strategy will affect many future decisions, but if you plan everything wisely, it will also help increase the profit you can get by giving up the company.

This module explains the importance of an exit plan, business exit reasons, types of exit strategies and how they should be structured, and also general principles for successfully selling a business.

Why exit?

You barely started a new business and you need to think on how to leave it in the future? It might sound crazy, but it is an important part to include in your business plan as well. What you need to remember is that having an exit plan doesn't mean that you leave your business or you think in advance about a fire exit because your business is condemned to failure. . You might, for example, stay in the business but your role changes. It is not the end of your journey. Exit strategy is there simply to secure your financial future. Without having one – your options in the future are limited.

In your business plan, there should be included, both, short-term and long-term goals. Among long-term goals there is a place for your exit plan. As we already mentioned – this is not the end. Your exit plan will help to move business toward long-term goals, putting it in a new phase where changes of business direction or leadership are inevitable. Because the world and with it the market changes quickly, you must understand that possibly you will need to re-imagine your business ways in the future. Exit plan allows transformation while keeping your business sustainable.[1]

Why would you need to exit eventually? Let's say that you have ideas for more than just one business, so in time you'd need to let go of the business you developed to focus on new projects. You leave one business blooming and continuing without you, while gaining a profit from your exit route, and possibly having money to start something new. That's just one of the reasons why you have your exit strategy long-time prepared. In business it's good to have everything planned, right?[2]

Every entrepreneur should adapt the exit strategy to their business. Due to your exit plan, you can sell your ownership, to reduce or even liquidate your stake in a business.

[1] How to Develop an Exit Plan for Your Business

[2] Business exit planning | What is an exit strategy? | Meaning | Definition | Examples

If your business is a success, you can make a good profit on selling. But what if your business is not very successful? An exit strategy is there to help you out to limit losses. To put it simple: exit strategy for successful business will maximize profit, for not successful business – it will minimize losses.[3]

Sell or close?

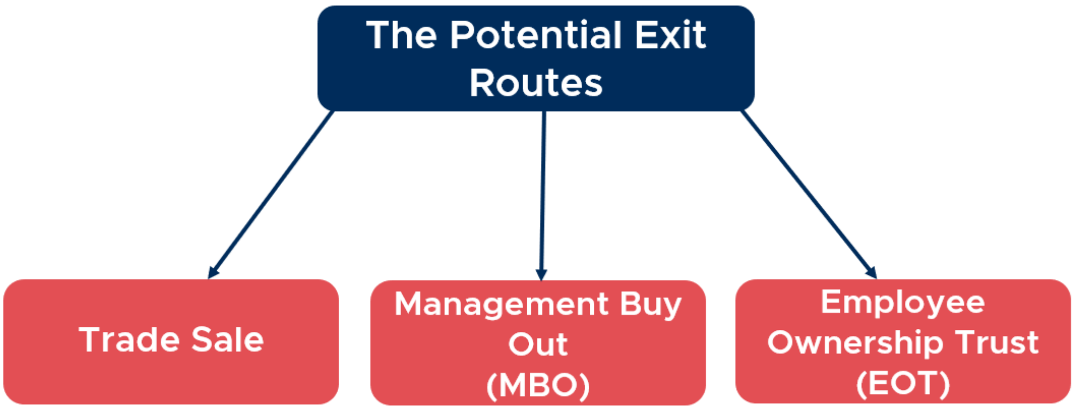
In the world of business, it is likely that the founder of the company goes out of the stage but would like the business to still go on. In a way, it is passing a legacy. You as a successful entrepreneur and owner of a company can sell your business to a trusted buyer, call it a friend, a relative or a passionate employee. But what if there are no potential buyers among your trusted ones?

3 possible ways to exit.

MBO – Management Buyouts – the current management team buys out the shares and this way you as an originator and founder can exit your company at the same time leaving it in the hands of people who will keep managing it.

M&A – Merger & Acquisition – bigger company buys the smaller company and they merge together. Again you profit from selling your shares.

IPO – Initial Public Offering – You go public by putting your stock on the public market and selling your shares to potential investors.[4]



[3] Exit Strategy Definition

[4] Exit Strategy - What is an exit strategy?

Closing is hard but sometimes it's the only option.

You invested your heart and soul, money and time, in the business, but sometimes the things we nurture dearly are not going to work for plenty of different reasons. To close it on time means to minimize losses, and it might allow you to repay investors, maybe even still make some money out of it. The simplest is to sell your business as fast as possible, but it will give you money only for the assets you sell. Should you remember about the credits, if you have any, must be paid first, and only second the money comes to you.

The option is also “lifestyle business”, which is a process of closing your business over time. You keep your business and pay yourself as long as the funds are not dry. There are benefits for you, since you get a paycheck as long as possible, but it can upset both your investors and employees. Additionally, this method makes your business less valuable on the market.[5]

[5] How to Develop an Exit Plan for Your Business

3 simple tips when preparing your exit plan.

1. Business valuation – learn how much your business is worth. This will help you with setting expectations among potential buyers.
2. Ask yourself a simple question – what kind of results do you want to achieve with your exit plan? There should be different strategies, depending if you still want to have some part of your business under control, or if you want to quit a business for good. Take into consideration what is your road ahead.
3. Predict the best and the worst. Having in mind the best, as well as the worst-case scenarios prepare you well for all the possible outcomes that might come and help you prepare the best possible exit strategy. Don't forget to consult strategists![6]

When building your exit strategy, you must consider many elements and answer many questions:

What is the type of your business and the objectives?

What are your individual goals that come in the first place? Is it important to you to gain the biggest return possible, or do you rather want to leave a legacy?

What is the time frame? Should you know more or less how long you intend to stay in the business, and when you intend to leave.

What are your intentions for your business? In the very beginning, think about what you intend to happen to your business in the end. Do you want it to go on without you, passing it to a friend, a relative, an acquaintance, an employee, or maybe to merge it with a bigger business? Or do you want to close it when leaving?

What are the market conditions? There might be just a right time to sell your business when there are many potential buyers on the market. In the best moment only you can sell it for the highest price. The market conditions partly dictate you the best timing for selling.

[6] Exit Strategies: How to Plan a Business Exit Strategy - 2022 - MasterClass

Once done, the exit plan should be reviewed quite often during your business journey. Maybe things that you planned will change on the way, because of different factors? Then the exit plan should be changed accordingly.[7]

Check this TED talk with Shannon Fagan to learn more from an actual example:

Exit strategy: Shannon Fagan at TEDxBiMBA

[7] How To Plan a Graceful Business Exit Strategy [Free Consult]