Is planning an exit one of the most important things you need to do as a business leader? In more prosperous times, it looked as if it was. While developing products, seeing a business grow, and nurturing staff might all be other great reasons for running a business, anyone who said they didn’t have at least half an eye on riding off into the sunset would probably be lying. After all, we all want a reward for all that hard work, and during the boom times it seemed many of us were getting it.

But those were the boom times. Does the same reasoning and motivation work in the leaner times we are experiencing now? That was the overhanging question behind the latest BQ Live debate held in September at the New Ellington in Leeds.

PLAN AND PLAN AGAIN

Dan Renton, a director at event sponsor Deloitte, conceded that times were tougher, but that did not make the reasons for planning how you would eventually leave the business any weaker. “Planning and preparation is absolutely vital,” he says. “But then so is having the flexibility to be able to adapt when things change.”

His thoughts were echoed by his colleague David Hicks, who works within the private client team at Deloitte. He speaks to a wide range of owner managers as part of his work, and conceded that there were many contrasts between them. But planning was always important, he said, and that applied in particular when it comes to tax issues. “The environment has changed, and there is so much pressure on tax planning now,” he said. “Even if you are just looking for basic entrepreneur’s relief, you have to start acting 12 months before the sale of your business. There is no substitute for planning early.

WHAT IT ALL MEANS

While a straw poll of all the company owners present revealed that only two of them had actually put together an exit plan – a third had actually “thrown mine in the bin” – the discussion did reveal how tougher times had made more people think harder not just about the exit but more widely about what their purpose in running their business was.

A case in point is Chris Brooks, group managing director for Integrated Results. He certainly has an exit plan for his business, which works closely with IT giant Hewlett Packard. In fact, he said, he and his fellow shareholder directors have five such plans on the go.

They discussed them regularly at quarterly meetings with their accountant Grant Thornton. One possible exit, he said, was a trade sale, although that was about as likely as winning the lottery, even if he could see larger competitor businesses who eyed his company’s Hewlett-Packard accreditations with envy. “Right at the other end is another plan which is all about getting enough money out and stashing it under our mattress so we can turn the lights off,” he added. “Somewhere in the middle is the management team we have been working very hard to develop taking the business on. But I think is it a privilege that...”
we can have a conversation about exiting, because most people don’t get that chance.” He said his reasons for starting the business, like many people’s, had been “incredibly personal”: “It’s about paying university tuition fees, paying off the mortgage, and supporting my family,” he said. He still had a bit of paper in his back pocket on which he had written down the reasons why he had started his first business in the 1990s. “I used to travel about six days a week for an international software company,” he said. “My main principal for starting was that I didn’t have to travel any more, so that when the children arrived I could be home.” Partly in envy of a former fellow director of another company he previously ran who had sold his shares to buy an estate in Devon, he said he was now feeling there were other goals in life too. “My business is to support my lifestyle, and to support it in a way that gives me flexibility to work for another organisation if I want to later,” he said.

Mark Ambler, currently director of Blue Logic Systems, but with a string of sales and acquisitions behind him, agreed. He said his motivation in selling off one of his businesses in 2004 had been “the pressure of having all my investments in the business”. “There were also a couple of minority shareholders who wanted to do something else,” he said. “So by selling I could step back, take the money, and take the pressure off.”

Daniel Lee, managing director of Pharmacy2U, an online business which he raised £5m from private equity for in 2002, revealed that he had made sure all his shareholders were focused on the same aim. But he did warn that there was a danger of becoming too focused on the exit at the expense of running the business. “You can get wrapped up in it,” he said. “If you are running a successful business you are quite well down the path of having it ready for sale anyway.”

GET OFF THE WHEEL
This certainly struck a chord with Victoria Hopkins, a managing director at catering equipment supplier Hopkins. She said she and her family had no plans to exit the business they had run for 57 years, and she disliked the way business owners who felt like that were often frowned on. “Especially in this environment, we need to value the sustainable growth that can come from lifestyle businesses,” she said, “and get off the corporate hamster wheel.”

Renton agreed that running a great business and planning how to exit often amounted to the same thing. “Build the best business you can, and the exit will happen,” he said.

And Philip Goldsborough, a corporate...
partner at law firm Pinsent Masons, said focused family businesses like Hopkins were often more attractive in the long run precisely because they did not spend all the time thinking about exiting. This was something he had noticed when working with some of them when they did finally decide to sell. “I have seen grown men cry at what they were leaving,” he said, “and yet these guys had got good prices because they hadn’t been marketing the business and didn’t need to sell. Compare that with the number of corporates who overpaid to get the target companies they wanted at any price during the boom times.” He warned those considering an exit that a complicated road could lie ahead. “For a seller a trade buyer is often an easier ride when it comes to due diligence, because they know the business,” he said. “Conversely, private equity will be all over you.” There was also a difference in buyer’s nationalities. “US purchasers are often a different beast to the Japanese, for example, who are very meticulous about due diligence,” he said. “A US purchaser will often be very aggressive commercially, but less bothered with the nitty-gritty.”

BUILDING ON THE INSIDE

Another option, of course, would be to sell to an existing management team. But many of the business owners present said this was often a more complicated and time-consuming exercise than it looked.

“I have tried in the past to bring people in who I thought understood the business, with all appropriate qualifications and experience that looked right, but who then completely, utterly, totally failed,” said Brooks. “So we have reverted to growing our own management team, a bit like a football academy. They are young and bright. But it might take seven years to build them up.”

David Twiddle, chief executive of recruitment and employment support company Renovo, said he had made a similar mistake in the past when he was building up a business to sell and thought the management team he was building up was perfect. “But private equity clearly didn’t think so,” he said, “because when we tried to do a management buyout, there wasn’t a funding option.” This applied even though one of the management team subsequently became chief executive of the listed company he eventually sold the business to some years later. “He was a great guy,” he said, “but initially it was just the wrong time. This is always going to be an issue if you are bringing up your own people in all the time. You need to think about what else they have done? And have they done this, or did you do that? Look at the team beneath.” Such claims widened the discussion out more generally – and heatedly - into how much responsibility business owners should take over employees. Brooks said this issue pressed him more as his business grew. “When there are only three of you and you are owed money and you are not sure you can pay yourself, there is not a lot to lose,” he said. “You can go back into corporate world. But when there are 38 of you, and you have a reasonable turnover and you know their mortgage is dependent on the company, the stakes are a lot higher.”

MACHINES

This was a surprise to Andy Killingbeck from the Royal Bank of Scotland. He said he often asked the business owners he talked to what kept them awake at night. “Very rarely does anyone talk about staff,” he said. “All their worries are financial.”

John Hall, chief executive of the Volvox Group, who has taken his company through several buyouts, sounded almost existential...
in agreeing. “All people have opportunities,” he said, “and they should make up their own minds if they want to take advantage of them or not. It is not my responsibility. My responsibility is to my family. If people are working hard, and the business is doing well, they don’t need me personally. They are machinery, and like all machinery if they are not performing they shouldn’t be there.”

Perhaps not surprisingly, such remarks drew considerable disagreement from across the table. Chris Hopkins, managing director of Ploughcroft, said running his company had been “like the Pepsi Max at Blackpool,” mainly because he had seen turnover and staff grow considerably after his company has invested in providing training for solar panel fitters, only for that part of the business to collapse after the Government severely cut back on feed-in tariffs. He had had to cut numbers from 80 to 25 in six months, he said, and laying such numbers off had been the hardest thing he had ever done, partly because many of them has just had babies.

Victoria Hopkins [no relation], also disagreed, saying she took staff issues “very personally”. “My staff will certainly make sacrifices for me,” she said.

The argument then broadened out into whether there was a difference in approach depending on whether you were family owned, like Hopkins, or private equity-backed, like Volvox. Killingbeck admitted that the responses he had generated had all come from private equity-backed businesses, and Brooks said he would never bring external funding into his business. He wasn’t trying to be philanthropic in trying to find employment for all family members, as a relative of his was being with his business. “The wonderful thing about running your own business is that what you do becomes your choice,” he said. “I accept that is different from someone trying for all out capital growth.”

However Renton pointed out that private equity-backed businesses did build value in the long run.

THIRD WAY

Hall said there was a third way: how he behaved as an entrepreneur was not entirely selfish. While he said an early experience at working for an American private equity firm “who made Genghis Khan look like a social worker” had hardened him, he had carried much the same management team around with him in 20 years of doing deals, and they had benefited greatly. At the same time, he had increased staff number by 10% across the recession.

On the personal side he was a significant supporter of a charity for disabled people – “those are people who need our support, not people who have their own choice to make,” he said. And he revealed that he had stepped in to fund annual dinners for former staff of now no longer existing Leeds-based family firms when the families themselves had declined to get involved. His concern for his own family, he said, probably stemmed from having a former miner as a father who had died leaving virtually nothing.

Whatever the circumstances, Daniel Lee also agreed that private equity could have its merits. He urged Brooks to consider such investment as he said it had helped relieve his company of many of the issues Brooks was facing. “It’s allowed us to become risk taking again,” he said, “and I have not found it challenging. The private equity investors are certainly not saying, ‘It’s been three years now, why haven’t you sold?’”

He also claimed having such an investor backer would also have helped in the family business he left to set up Pharmacy2U – a family business which has now been sold on. “I think we could have done a lot more with someone challenging us like they do now,” he said. >>
Twiddle agreed that family businesses he came across in his current line of work often left much to be desired, particularly with older family members refusing to move on and sitting around “like Nick on The Apprentice”. Bringing in a non-related financial director to one such firm had been a real breath of fresh air, he said.

But at the same time he warned that focusing too much on the capital growth route of rapidly building up a business to sell it on had nearly cost him dearly at the start of the recession too. “I had thought of setting up a smaller business than the one I had before,” he said. “I thought I could do it with my eyes closed - build it up with nine people and then persuade the management team to take it on. I had the whole thing sketched out over five to seven years. But I realise now that I didn’t try and build the business. I was trying to build a model instead, and it took financial pressure for us to really look at what the business was. We had to start at the bottom, but it was much more fun.”

In conclusion, he said there was one big issue all people considering exits had to consider. “If you own a small company, by default that means somebody thinks they are buying a sustainable business, and probably by default are buying it without you,” he said. “So if you are going to remain at all, you won’t be there very long, and the new owners probably don’t intend for you to be there for very long. Somehow that business has to be sustainable without you. It is very easy as owner managers to forget that.”

We need to value the sustainable growth that can come from lifestyle businesses and get off the corporate hamster wheel

It's never too early to start planning for the exit from your business

“Running and selling a business is an emotional rollercoaster: selling in particular can be an exhausting experience, made worse if you’ve built the business up from nothing, nurtured it and committed a big part of your life to it.

“Despite the current economic hard times, it always makes sense to think about an exit, because you have to plan well ahead.

“Despite the wrench of letting it go, it is frequently the ultimate aim for many entrepreneurs – to provide a nest egg for retirement, security for the wider family, or simply to go off and do it all again.

“It's never too early to start planning an exit – in some cases even before you start the business. Consider who you are most likely to sell to – if someone is taking over, are they the perfect fit? Could you bring on existing staff to take over?

“How you view what your staff will think of the changes depends on a great many things, not just whether you are private equity-backed or are a family business. Bringing in private equity as a partial exit can free you up as a business owner, but so can bringing in a non-family member executive if you are in a family firm.

“Even if the intention isn’t to sell from the outset, the sensible things that we would recommend doing to make it attractive to a purchaser and to ease the sale process, are all things which will make your business more efficient on a day-to-day basis, creating a far leaner, more saleable operation that will stand up successfully even without you at the helm.”

Dan Renton is corporate finance director at Deloitte in Yorkshire