Title:
Exit Strategies for Businesses

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812

Summary:
While you may not wish to think of the end of a business venture just as you are about to begin, you can be assured that investors will. This is why you must have a sound exit strategy to show them before they will be willing to put money into your business.

Keywords:
business exit strategy, business plan, exit strategy

Article Body:
Many investors are only interested in investing money into an enterprise for a limited amount of time. They want to know when they will get their money back and what sort of return they will be receiving at that time. Both issues are closely linked. Therefore, when preparing your business plan, to pitch to potential investors, you will need to make sure that you have outlined your long term plans and a sound exit strategy.

In order to do this properly you will have to ask yourself a few questions about your own personal plans regarding the business. Do you wish to stay involved in this business in the long run, or are you more interested in getting it off the ground and letting someone else take over then? These are the kinds of questions you should deal with in your exit strategy.

You will also want to know a little about the investors you are pitching to and what their expectations are regarding the future of the investment:

If you are dealing with venture capitalists you have to be aware that they are looking for a high return. They will generally be expecting the business to go public at the end of the period or make some other high profit move. The period they are willing to invest is about three to seven years so you will need some sort of high return exit strategy at the end of that period. However, you should not opt for going public unless you are confident that it is a realistic goal for your company. Public offerings are very rare for small businesses and the investors you are speaking to will be all too aware of that fact.
If you are considering an angel investor then again

they will be looking for a high return but will not be overly concerned with the type of exit strategy under consideration, as long as it seems sound. They will be less sophisticated than the venture capitalists or institutional investors you may deal with and are more likely to be involved because of a personal relationship to you or the business.

There are a number of exit strategies you can consider:

The most basic exit strategy would be to simply bleed the business dry. This can be done by giving yourself a huge salary or other remuneration, regardless of the performance of the business. While it is not appropriate in most cases, there is no doubt that it can get a lot of your investment back out of the company in a short time.
Another simple option is liquidation. Simply close the doors and wait for the company to be wound up. All debts will be paid off, and then whatever is left over will be clear to the shareholders.

While these two options above are quite practical and effective, they are professionally frowned upon and you may wish to propose a more sophisticated exit strategy if you wish to impress potential investors.

Another option could be selling to a friendly buyer. While you may have come to the end of your relationship with the business, there may be many people who would be saddened to see it end and may well be willing to step in to take over. This might include passing it on to another member of the family, or selling it to employees or customers. There are many businesses where this will be a realistic option, however it is difficult to predict it at the beginning of the venture.
Another option is acquisition. This is when a rival firm, usually one wishing to expand, agrees to buy you out. You can negotiate the price and terms with the buyer and there is a good chance that both of you can come up with a very attractive price. You will get a good price because together with your assets, the buyer will be willing to pay for good will, market share, client contacts etc. This means you can get a very good price for the business.
The IPOs that we previously talked about are the final option. These are potentially the most lucrative of all, but when reality kicks in, they might not seem like the dream you thought they were. In reality, a minuscule percent of companies manage to make it through an IPO. The process costs millions, includes lawyers, analysts, publicity agents and a lot of other costly professionals. The odds are against you ever making it. And if you do, you will probably be left with only a fraction share of the company you used to own.