When Should You Begin Exit Planning?

Exit planning is essential to achieving maximum shareholder value and ensuring that all your hard work is rewarded. Without an effective plan, market forces or some unforeseen event could leave you scrambling to find an exit. If you sell under distress and without preparation, your valuation will be significantly less.

Exit planning is like an insurance policy. You pay a small amount (of your time and energy) per month to ensure that you are protected against downside risks or worst-case scenarios. Even though entrepreneurs are risk takers by nature and don't always think about the downside, their friends, family and other investors would certainly appreciate insurance against downside risks. Also, entrepreneurs often don't realize that their future ability to raise capital may depend on a decent exit with the existing company.

Once you have accepted the need for exit planning, the next question is when to begin exit planning? The answer must be divided into two phases (1) Exit Strategy, and (2) Exit Execution.

Exit Strategy
Your exit strategy should be baked into your overall strategy from the very beginning. In fact, thinking about exit planning from the beginning will help you grow your business. The questions asked during your exit strategy discussions will force you to expand beyond the "comfort zone" of your current business and should create new opportunities.

An example will illustrate this point. Exit strategy discussions start with the basic premise that the most likely exit will come from a partner or someone who knows you. With these partners, the key M&A decision maker could be a variety of different people, including the CEO, CFO, CTO, BU leader, VP or Products and/or Corporate Development. As part of your exit strategy, you will need to figure out who is the M&A decision maker(s), and begin building relationships with these key people. By taking this extra step, you will actually be building a stronger relationship with your partner and may create new business development opportunities by building these relationships. Too often, companies stop at simply building a relationship with middle management, because this relationship is sufficient for your immediate business needs. Thinking about your exit strategy will force you to push further into an organization and to create new opportunities.

Exit strategy discussions will also benefit other areas, such as ecosystem development, financial optimization, customer acquisition strategies and numerous others. These exit strategy discussions will focus your thinking on value creation and how to expand your business beyond its current trajectory.

Exit Execution
The exit execution process should start six months before you desire to have a letter-of-intent (LOI) signed, assuming you are initiating the M&A conversations. Without an effective M&A strategy, the process may take longer. If your M&A advisor must introduce your company to decision makers during exit execution, it can take a long-time to find the right decision makers, get their attention and convince them that acquiring your company should be made a priority (over their other priorities).

Often, companies looking for an exit underestimate the amount of time required to execute an M&A deal. On the seller’s side, you must create all the marketing materials, collect the due diligence materials, and complete numerous other tasks. On the buy-side, time is required to align decision makers around doing this deal, to conduct due diligence and to adequately plan integration.

To avoid the time crunch, a clear exit strategy and a disciplined execution plan are essential to achieving shareholder value.