



THE TERMITE EFFECT

25 Common Business Mistakes and Their Hidden Consequences

BONUS MISTAKE

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Bonus Mistake

YOU DO NOT HAVE AN EXIT STRATEGY

*“Preparing your business for sale also
means preparing for life after the sale.”*

-- Thomas W. Lyons

ATTENTION: If you are a relatively new business or thinking about starting one do **NOT** skip this chapter!

I understand that the last thing you are thinking about at this point is how and when you will exit your business, but the lessons learned below will serve you well nonetheless.

As you have no doubt noticed, lack of planning is a recurring theme in many of the Mistakes discussed in this book. Looking to and thinking about the future is always a worthwhile exercise regardless of the age of your business.

The Termite Effect:

There are six primary options to exit your business:

1. No plan
2. Liquidation
3. Sale
4. Buyout
5. Sell to management/employees
6. Pass to family/succession plan

Each of these options has their own series of advantages and disadvantages. Regardless of which route you plan to take, always remember that the value of your business is directly related to your business model and whether it operates effectively.

Look at the following example:

Business A: <ul style="list-style-type: none">• Works 60-70 hours per week• Generates \$150,000 per year Quick valuation: <ul style="list-style-type: none">• Probably around \$150,000 (1X earnings)	Business B: <ul style="list-style-type: none">• Works 5-10 hours per week• Generates \$150,000 per year Quick Valuation: <ul style="list-style-type: none">• Probably around \$750,000 (5X earnings)
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Business B is more valuable because of the amount of time it takes to generate the same level of revenue. The only way to move Business A to Business B is to develop systems within your business to maximize its efficiency (see Mistake #1).

I have a friend who owns a pest extermination company, Clint Miller Exterminating, in Mount Pleasant, North Carolina. He regularly receives 50-100 calls a day depending on the time of year. One day recently he had 80 calls, most of which were for ants. A few weeks later, he indicated that he had over 100 calls, a combination of calls about ants and termites. He has six or seven trucks in the field and he keeps them busy six days a week. He has built a loyal, long-standing office staff that efficiently schedules the treatments, routes the calls to the appropriate technicians, bills for the service, and follows up with the customers after the service. This is a well-oiled machine.

Owners of new businesses need to think about exit strategies too.

My friend is a regular visitor of area golf courses and takes full advantage of the cheaper Green Fees associated with weekday play. Now that is a smart man! The point of this story is this: if my friend decided to sell his business tomorrow, he would get top-dollar not only because of the high volume of calls, but because of the efficiency with which the operation runs.

Contrast Clint Miller's operation to one of his average competitors, whose owner still has to go out every day and apply treatments himself while dealing with the typical high turnover in his office staff.

Quick Exercise:

Take a moment and complete this self-assessment of the five key areas to consider when developing an exit strategy. Circle the most appropriate response.

1. Planning

- I have a plan to exit my business – YES | NO | SORT OF

2. Financial

- I know what my company is worth – YES | NO | SORT OF
- I know how much money I need from the sale of my business to achieve my desired lifestyle/standard of living following the sale – YES | NO | SORT OF

3. Training

- Our company culture is one of ongoing training and learning, which will make the eventual transition to a new owner easier – YES | NO | SORT OF

4. People

- I have a clearly articulated profile of what my successor looks like, including details about desired skills, experience, behavior style, etc – YES | NO | SORT OF

5. Emotions

- I know what I'm going to do with my time after selling my business – YES | NO | SORT OF

Armed with the results of your self-assessment, let's look at a few ways that you can begin to develop an exit strategy.

Possible Solutions:

- Over the course of the next year, commit to addressing all of the areas listed in the above self-assessment where you circled “NO” or “SORT OF”. Reality is staring you in the face.

- Start systematizing your business with a special emphasis on making the transition to a new owner as easy for them and as profitable for you as possible. Think in terms of your entire operation. You will find opportunities in your entire business model. Here are a few examples, many of which we discuss throughout *The Termite Effect*.
 - ✓ Marketing
 - ✓ Sales
 - ✓ Customer Service
 - ✓ Human Resources
 - ✓ Operations
 - ✓ Financials
 - ✓ Leadership
 - ✓ Technology

- Choose the most appropriate exit strategy option from the previous page and develop a rudimentary plan based on your choice. The simple act of making a decision and writing it down will have a dramatic impact.

- Seek the counsel of experts – attorney, CPA, business broker, etc.

Your Take-Aways:

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Book Recommendation:

- Exit Strategy: Maximizing The Value Of Your Business, Thomas W. Lyons