MKTG 306
FUNDAMENTALS OF ENTREPRENEURSHIP

Session 12 – **Business Exit Strategies**

Lecturer: Dr. Samuel C.K. Buame, UGBS
Contact Information: skbuame@ug.edu.gh

UNIVERSITY OF GHANA
College of Education
School of Continuing and Distance Education
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Session Overview

- Six business exit strategies are discussed in this session. They are liquidation, keeping the business in the family, selling the business to employees, selling the business in the open market, selling to another business and opting for an Initial Public Offering (IPO).

Goals and Objectives

- **At the end of the session, the student will:**

1. Explain what business exit strategies are
2. Analyze the various exit strategies available to the entrepreneur

Session Outline

The key topics to be covered in the session are as follows:

- Topic One: Business Exit Strategies
- Topic Two: Generational Shift or Succession Planning

Reading List

- Pages 294 to 295 of the main text –
- **Buame, S.C.K. (2012).** Advanced Entrepreneurship: Enterprise Culture, Venture Creation, Promotion & Management of SMEs in Ghana --- **MAIN TEXT**

Topic 1

BUSINESS CYCLE AND EXIT STRATEGIES

Business Exit Strategies

- Just as you entered into business so you must come out when the situation calls for it. There is a time in the life cycle of every business where the owner decides it's time to exit. This process of coming out of from your business is known as exiting. There is the need to plan for it, so that you are not taken over by events such as sickness, death, and disabilities. There are many ways of exiting business. It ranges from closing down the business to merging with another business.

BusinessLife

1. The Entrepreneurial Life Cycle repeats itself in businesses of all sizes, from start-ups in a garage to corporate entrepreneurship activities in global companies.
2. It starts with an entrepreneur who perceives an opportunity, creates an organization to pursue it, assembles the required resources, implements a practical plan, assumes the risks and the rewards, all in a timely manner for all involved.

Business Exit Strategies (cont'd)

- There are also many reasons why an entrepreneur may want exit. It could be due to the fact that the business is no more doing well or planning retirement. It could also be due the fact that business cannot honour its debt obligations, a situation known as bankruptcy. Sometimes, the entrepreneur may want to go for further studies, or travel outside his present place of residence.

The Seven stages of the Cycle

- **Stage 1. Opportunity Recognition**
  This "gestation" period is quite literally the "pre-start" analysis. It often occurs over a considerable period of time ranging from one month to ten years.
- At this stage it is important to research and understand the dimensions of the opportunity, the concept itself, and determine how to decide whether it is attractive or unattractive.
- The individuals need to look internally and see if they are truly ready for entrepreneurship. The vast majority of people, including almost all inventors, never move off of this stage and remain just "considering" entrepreneurship.

The Seven stages of the Cycle

- **Stage 2. Opportunity Focusing**
  This is a “sanity check,” a go/no-go stage gate for part-time entrepreneurs because it fleshes out shaky ideas and exposes gaping holes.
- “Focus is essential; there can be the possibility of the business branching out later, but the first phase of a company should be quite narrowly defined.”
- It is important to include objective, outside viewpoints because different people can investigate the same opportunity and come to opposite conclusions.

The Seven stages of the Cycle

- **Stage 3. Commitment of Resources**
  Entrepreneurs see commitment as incorporating their business or quitting their day job. But this stage actually starts with developing the business plan.
- There is a huge difference between screening an opportunity and researching and writing a business plan. Writing an effective business plan requires a new level of understanding and intense commitment.
- A common mistake entrepreneurs make is skipping the business plan; commit other resources, start the venture, then follow up and try to determine exactly what the focus will be for the venture.

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- **Stage 4. Market Entry**
  Profitability and success define the market entry stage.
- The entrepreneur is committed with a very simple organization, the resources were correctly allocated according to the business plan, and the first sales were made.
- This is what defines success in the very early stages. If the business model was profitable, reasonable objectives were met, and the venture is on track for attaining true economic health, then the entrepreneur can chose between a capital infusion for growth or remaining small with self-financing (bootstrapping).

contd

- **Stage 5. Full Launch and Growth**
  At this stage, the entrepreneur needs to choose a particular high-growth strategy.
- Upon considering such alternatives, quite often the entrepreneur chooses to remain a small business and never passes this stage or perhaps opts to remain operating as a sole proprietor. Or the venture could remain small for the simple fact that not all small ventures can or will become big companies.
- They are not fast growth potential because there is not enough room in the market for growth, their production and management systems are not scalable, or they will not scale because the rate is too great of a challenge to the management.

contd

- **Stage 6. Maturity and Expansion**
  Now the venture is a market leader at cruising altitude.
- The growth becomes a natural extension of the venture through professional management practices.
- This professional management team is implementing the venture's growth strategy through global expansion, acquisitions, and mergers as cash is plentiful and inefficiencies are completely flushed out.

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- **Stage 7. Liquidity Event**
  This harvesting stage is focused on capturing the value created in the previous stages through a business exit. Typical exits are an initial public offering (IPO) or being acquired by a larger publicly traded corporation.
- Unfortunately, most of the literature in entrepreneurship has concentrated on the earlier stages. Little attention has been given to exits.
- We know from experience that the opportunity to exit successfully from a venture is a significant factor in the entrepreneurial life cycle, both for the entrepreneur and for any investors providing investment capital along the way.

six business exit strategies for small businesses

1) Liquidation

- This is the close up shop and sell all the assets exit strategy.
- To make any money with such an exit strategy, your business has to have valuable assets to sell, such as land or expensive equipment. Profits from selling assets have to go to pay creditors first.

six business exit strategies for small businesses (cont'd)

2) Keep your business in the family.

- The dream of many small business owners, keeping your business in the family ensures that your legacy lives on. As an exit strategy, it can also give you the opportunity to groom your own successor and even perhaps give you some continued say in the business.

six business exit strategies for small businesses (cont'd)

3) Sell your business to employees

- Current employees and/or managers may be interested in buying your business.
- Arranging an employee buyout can be a win-win situation as they get an established business they know a great deal about already.
- You will also get enthusiastic buyers that want to see your business continue to thrive.

six business exit strategies for small businesses (cont'd)

- One way of setting up this exit strategy is through an Employee Share Ownership Plan. A stock equity plan for employees that lets them acquire ownership in a company.
- An employee buyout doesn't have to involve a stock equity plan though. It might be as simple as having one of your current employees take over the business.

six business exit strategies for small businesses (cont'd)

4) Sell the business in the open market

- This is the most popular exit strategy for small businesses. At a certain point in time, often when he or she is ready to retire, the small business owner puts the business up for sale for a certain price - and hopefully walks away with the amount of money she wanted to get for it.

six business exit strategies for small businesses (cont'd)

5) Sell to another business.

- Positioning your small business to be a desirable acquisition can be a very profitable exit strategy.
- Businesses buy other businesses for all kinds of reasons, from using a new acquisition as a quick path to expansion through buying out (and getting rid of) the competition.

six business exit strategies for small businesses (cont'd)

- The trick to success with this exit strategy is to target your potential acquirer(s) in advance and position your company accordingly. And of course, convincing your acquirer that your small business is worth the value you place on it.

six business exit strategies for small businesses (cont'd)

6) The IPO (Initial Public Offering)

- While not suitable for all small businesses, the IPO can be a viable exit strategy. Taking your company public can be extremely profitable.
- However, depending on how the IPO is structured, you may or may not be able to withdraw any of your capital at the time as new shareholders may want to see all the money raised by the IPO be used to expand the business.

Topic 2

GENERATIONAL SHIFT OR SUCCESSION PLANNING

Generational Shift or Succession Planning

- Very often, the death of a proprietor spells the demise of an enterprise for lack of succession planning
- Unfortunately, only 30% of first-generation businesses survive into the second generation.
- Of those that do survive to the second generation, only half make it to the third generation.

Why? ***No management succession plan!***

- 78% of all business founders intend to pass their companies to their children.
- 85% of all small business owners want their children to join them in business.
- But… 25% have a formal management succession plan!

Cont'd

- It requires business owners to confront their own mortality—which is the same reason many people defer or delay writing a will
- Successful and energetic managers find it hard to imagine letting anyone else take charge, including a family member or key employee.
- For most business owners, maintaining control is central to their identity – hence the difficulty in succession planning.

Five Myths of Succession Planning for Small Businesses

- When successful business owners reach a certain age, it becomes imperative that they address the issue of succession planning.
- Many of them may have been dodging this particular conversation for years, yet they often come to their advisors with seemingly ironclad convictions about how they will like the succession to play out
- That doesn't mean that they actually know what they want.

Five Myths of Succession Planning for Small Businesses (cont'd)

- Myth One- There is Plenty of Time
- Myth Two- Its Easier to Just Sell IT
- Myth Three-A Successor will be Ready when I am Ready
- Myth Four-Equal is Synonymous with Fair
- Myth Five- Giving Up Ownership means Losing Control and Income