How to grow a business for a successful exit

"Growing to sell" sounds odd, doesn't it? But if you set in place a growth strategy specifically designed for your exit, you could reap the rewards. Rob Goddard, CEO of EvolutionCBS, explains how and shares his top tips

How do you want to leave your business? That's a question often left unanswered – or even unasked – until the last minute, when you decide to sell up. But if you switch things around and look first at how and when you want to leave – and how much money you'll need afterwards – you'll be able to drive the business towards those objectives.

Remember, exiting a business doesn't necessarily mean leaving it. Depending on how your company is structured, you and your fellow shareholders may sell a proportion of your shareholding to an investor to release some cash. In family businesses, the founder may end operational involvement but continue to provide advice and guidance. You may sell the business but structure a deal whereby you receive shares in the new company, perhaps also undertaking an operational role.

1 Calculate your magic number

This is the sum of money you would like to realise from the sale of your business. If you have shareholders, they will also need to calculate this. This may seem a speedy task (most business owners think in multiples of £1m) but depending on your circumstances, it can take longer than you think.

2 Build a great team

Many business owners believe that if the business is making money, it will sell. But this isn't necessarily the case. One of the main reasons for this is because the value of the business – the skills required to run it – reside with the current owner and can't be easily transferred. If this is true in your case, even if you do find a buyer you may find they insist on you staying. Do you really want a boss?

At an EvolutionCBS Masterclass, a business owner made a very valid point: "We've grown the skills because we've had to, but we never had the time to pass those skills down the line".

When growing to exit, part of your plan must include a managed transition. Appoint your successor early and mentor them to step up while you step back. Also bear in mind that the person who acquires your business may already be running something else. They may not have anyone in their organisation with the skills to run it. In our experience, acquirers usually expect the current owners to at least have a second-in-command and a senior team who can take over.

Part of your plan must include a managed transition – appoint your successor and mentor them

3 Build a diverse client base

We often meet business owners who have a thriving business, good revenues, good profits and stable cost base, but the majority of sales are to one or two large clients. Having a blue-chip client base is both a blessing and a curse: it's a great revenue opportunity but often puts pressure on profit margins. There are numerous stories of small suppliers being squeezed by larger companies on whom they've become revenue-dependent and consequently unable to generate sufficient profit to grow.

One business we came across had a £5m turnover firm but 80% of its revenues came from one client, representing a huge risk to potential buyers.

4 Always keep the end game in mind

This doesn't just apply to you as the owner. The end game will ensure that the driving forces in the business – that's you, your shareholders and your senior team – are all focused on the same goals. It should drive your business planning, performance measurement and decision making towards achieving your ultimate goal.

Undoubtedly this will present both opportunities and threats, but it will also give you time to take the actions that will benefit both the business and the shareholders when the time comes to exit.

WHY IT'S WORTH IT

Discover how two companies grew their businesses for a successful exit

One EvolutionCBS client owned what could have been a fairly standard distribution business, but knew that achieving the exit value they wanted would require more than a standard distribution model.

They created a membership society, investing in technology to deliver a wide range of live streamed content, such as demonstrations, workshops and seminars. That society became its main channel to market, driving revenue and profit and their investment in technology futureproofed the society for years to come. They achieved a figure considerably in excess of their magic number.

Another recent EvolutionCBS client had a clear plan to exit the business once it had reached an enterprise value of £20m. That clear vision ensured they had a cohesive strategy, which in turn drove their decision making. There was no owner reliance, and the business had a diverse client base, solid financial performance and realistic forecasts. They achieved a deal value exceeding £27m.

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Are you ready to start your growth-to-exit planning?
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