

The right time to exit a business

By Tom Addyman on Monday, December 07, 2009

When you start a business, whether on your own or with partners, there is always a certain element of romance thrown in with pragmatism and even cynicism. There's always the thought of your product or services' making their way in the market, causing a buzz and edging out the competitors. It's like a schoolboy's dream of going to the Fifa World Cup and imagining the Brazilian captain has forgotten his kit and would you mind stepping in?

The truth is, of course, not quite as simple or quite as wonderful. It's going to be a long and stressful journey before you can establish yourself as a success. We'll define success at another time, but for now, let's assume your business is stable, profitable and desirable. What then? Have you actually considered at what point you would like to take advantage of the fruits of your labour?

Dubai has been a breeding ground for new businesses over many years, although in many situations the law insisted on a local majority stakeholder, and occasionally this made an exit strategy a little more complicated. As with any joint venture, concord is king. Proposed legislation to relax foreign ownership rules is likely to encourage more firms to the country. A new law is in the pipeline that could raise the stake from 49 per cent outside free zones to up to 100 per cent ownership in some sectors.

But assuming that everything is equal, what is your incentive to cut your ties with the business and how are you going to achieve it? For most entrepreneurs, the reason for going into business wasn't the desperate need to rule the world, but as an exciting and fulfilling means to an end. That may be to retire at an early age, to spend more time with family or to have the time to travel the world. The thinking behind those reasons isn't difficult to see, but a) when do you know that enough is enough and b) how do you get your hands on the cash?

For many SME owners, the checkered flag seems to get further away rather than nearer. The business is going so well, why not retire at 45 and have the St Tropez home and the six month cruise every year? (One good reason may be that you haven't got out and are already 47). There are several examples of companies where the owners have made millions of dollars and need never worry about their finances again.

I have worked with people in the past who find the concept completely alien to have access to those kinds of assets and not want to take advantage of them. "They turned down an offer for \$12 million (Dh44m), and they're still coming into work." It could be that these owners are addicted to their business. The exit strategy has popped off stage left, and the thought of a life without the stress, deadlines and pressure is not a happy prospect. It could be that \$12m is an insult to the true worth. It could be that another three years of growth could double the value. Whatever the reason, not everyone has a 'get out Asap clause'.

So, suppose you started your business knowing that you wanted to achieve certain goals and a certain level of security, how do you

realise your assets?

Typically, the least complicated method would be a straightforward sale. You have something, someone else wants to buy it, they pay you money and you live in the Caribbean. Easy. The critical aspects are finding a buyer and agreeing on the valuation.

Next comes the merger and, like the sale, it is an excellent endorsement of your success as an entrepreneur, but here you can't necessarily cut and run. It could be that rather than a one-off cash settlement, you may be paid in stock and even required to oversee the integration of the two companies. Not the best option if you're looking to wave a last goodbye to the office and ride the waves in St Lucia.

It could be that a happy compromise to this is a buyout, where a team likes the way your business is running and the profits it's making and will come in and take over the reins with a minimum of changes. Maybe one of your customers or even your employees know that you're in the mood for selling and want a piece of the action. In this case, you are likely to have the advantage of a cash sale and a gradual parting of the ways with your company to ensure smooth sailing for the new owners and for you off the coast of Jamaica.

Finally, comes the sale and sayonara. Liquidation of assets. Depending on the industry you are in and the role your business plays within that, it could be that you have enough physical assets to sell and still make good.

I heard an interview on the radio recently with a fairly prominent local businessman. He had started a new venture and after eighteen months, the business seemed to be doing very well. Not too long ago, the questions would have centred around how the organisation planned to expand, what the main factors were behind its success, what the future held, etc. Now, the second question was "Do you have an exit strategy?" Apart from the fact that it's been in existence for less than two years, this would have been considered a shortsighted question just a few years ago. A bit like asking someone you've just met how what their life plans are. It wasn't something you asked so quickly.

The best part was that the owner had an answer. He was looking for a sale after three to five years. Not very romantic, but he's going to be the one sipping an iced tea in Barbados, not serving it.

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