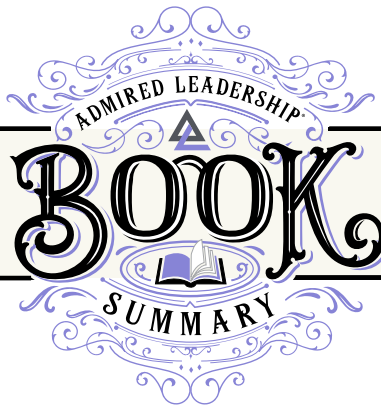




Eight Minutes, Not Eight Hours



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Finish Big

How Great Entrepreneurs Exit Their Company on Top

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Most business owners want to leave their businesses on a successful path after they sell or retire, but most do not plan their exits until it is too late. Even if owners never retire and choose to “exit horizontally,” there are many risks that face the wellbeing of their companies that smart business owners should be addressing along the way. Planning an exit strategy will allow owners to get the best deal for their businesses, set up their employees for a smooth transition, and keep their peace of mind during and after the process.

Key Quote

“It’s not so much about the handoff of the business activities [...] it’s the handoff of the humans. The incumbent loyalists need to feel like it’s okay to go to the next person and not still be beholden to the first person. If you get the handoff wrong, the organization will reject the new person like antibodies rejecting a virus. That’s why outsiders are so difficult to bring right in” (p. 141).

KEY POINTS AND CONCEPTS

Maximizing the Desirability of Your Company

“The first step is to understand exactly what you’re selling when you sell a business: future cash flow. A buyer’s initial motive for doing a deal may be something else—a desire, say, to boost earnings, enter a new market, fend off a competitor, or do an industry roll-up. In final analysis, however, it’s all about the long-term cash flow” (p. 69). Once you realize that free cash flow is what buyers want to see, you can understand the information the analysts will find relevant and can actually optimize your business to be as salable as possible.

Factors that influence your company's "Sellability Score" are (p. 73):

- Financial performance
- Growth potential
- Overdependence (whether the company is too dependent on one customer, market, supplier, or employee)
- Cash flow
- Recurring revenue
- Unique value proposition
- Customer satisfaction

The earlier you start preparing for an exit, the more likely it is you'll have a happy one. At the very least, you need to make time for designing and proving a business model, demonstrating growth potential, and doing what you can to minimize risk for the buyer (p. 98).

It is important to make sure you understand why potential buyers want to buy you. This will help you figure out valuation and see any potential risks in the future you would like to see for your business.

Choosing and Setting up a Successor for Success

"In choosing a successor, leave enough time to be wrong" (p. 116). Business owners who take pride in their companies often put off retiring or leaving much longer than they expect when their successor or buyer turns out to be a poor fit, and they have to start the process again from the beginning.

Owners are often so excited to sell or exit their businesses that they are too quick to choose successors or buyers. It is better to groom or work with a successor for a period of time before a sale so that differences in management style or culture come to light before any irreversible decisions have been made. Standard termination clauses in buying contracts can act as a failsafe.

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The Importance of Advisors

"The best advice comes from those who have been through it themselves." The author argues that all selling business owners retain an advisor, not just on the financials of the sale, but on making quality negotiating decisions under stress, and providing support through a time of intense personal change. The best advisors are former owners who have been through a sale (p. 145).



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“The obvious danger they [business owners] face is that they won't be ready when they're suddenly forced to make decisions they haven't thought about much in advance. The less obvious danger is that when they finally do reach that stage, they'll become overly dependent on the opinions of investment bankers, brokers, and other such exit specialists, whose interests are different from those of an owner. For the specialists, the transaction is the end of the road. Once they've reached it, they move on to another client. For the owner, the transaction is the beginning of whatever comes next, which will be greatly affected by the handling of the sale” (149).

Managing the Personal Changes

“People who've sold their companies say that one of the biggest obstacles to a graceful transition is the change in nature of the questions they are facing. Successful entrepreneurs tend to be highly goal-oriented, which works to their advantage in a business context, where they're focused on setting and achieving objectives, usually the ones that are quantified [...] But once you've sold and left a company, you suddenly find yourself in a place where quantifiable objectives are much less relevant. The most pressing questions you face are existential ones. Who am I? Why am I here? Where am I going?” Many former CEOs struggle with this shift (p. 147).


“I assume that most owners would rather not feel heartbroken on the day their businesses are sold. I also assume that they'd prefer not to have their former employees view the sale as a betrayal of trust. The idea, after all is, to be able to walk away with their money, but also with your peace of mind [...] the knowledge that you've done right by the various people who've helped you reach the end of your journey successfully. So the question is, what exactly does 'doing right' mean to you?” (p. 186).

Managing Employees and Shareholders


Going public IS the same thing as selling your business. Owners often don't realize that as soon as the majority position is out of your hands, you no longer have control of your business.

Employee Stock Ownership Plans (ESOPs) allow the employees of a company to maintain ownership after an owner leaves by allowing the group of employees to act as a single shareholder and buy all or part of a company.

One CEO had a policy of helping investors exit their positions in the company by making introductions to potential buyers. Every year in his investors' letter, he asked shareholders to let him know if they planned to exit in the next year. “I consider it best practice. First of all, it's excellent PR, because it tells your shareholders you have their interests in mind and can buy them out if and when they need to leave. Secondly, you remove the bad apples. I always say, the last investor I want is somebody who always wants out. And by getting rid of those people, by getting their capital replaced or reduced, you relieve yourself of that pressure” (210).



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Selected Stories and Anecdotes

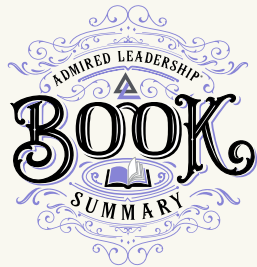
Peter Harris describes the way his father-in-law convinced him to join the family's Specialty Blades manufacturing company: "Martin basically said, 'Why don't you come here on an extended audition in which you will have all the problems of perceived nepotism and none of the benefits of actual nepotism. Anything you get will only come from your performance, and by the time we reach the end of this process, there is no guarantee you'll be given what you want. I am personally going to recuse myself because I have a conflict of interest. In the meantime, I am going to pay you less than you made before you went to business school.'" Harris joined the company that June (p. 139).

"[Salesman Bobby Martin] made a habit of doing in-depth research on the industry in question before each sales call and coming armed with five to ten questions based on what he'd learned. 'Let's say I was calling on a plastics manufacturer,' he said, 'I might find out the cost of resin and other materials have risen 25 percent in the last twelve months. I'd go sit with the president and say, "I understand resin prices have gone up 25 percent in the past year. How has that affected your working capital?" Salespeople from other banks would come in and talk about the weather, or sports, or whatever.'" Martin realized that his ability to know relevant facts about his clients was the key to his success, and he built a successful research company that put together industry reports for other salespeople (p. 222).

Conclusion

In conclusion, the mastery of executing a graceful departure from one's organization is a nuanced endeavor that necessitates substantial forethought and meticulous strategizing. The formulation of an efficacious exit strategy is imperative not solely for the individual at the helm but also for the collective stakeholders. The enduring legacy of a leader is indelibly etched into the fabric of the company's culture and future direction.

Burlingham, B. (2014). **Finish Big: How Great Entrepreneurs Exit Their Company on Top**. New York: Penguin. .



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The Latest and Greatest Books for Leaders

We work hard to stay abreast of the current writings on leadership, especially those books our clients are reading or have been recommended to read. As a benefit to our clients and to facilitate our own learning, the Admired Leadership® team has long maintained a tradition of summarizing the newest books of interest to leaders. Better to read a summary for eight minutes before investing 8 hours in the entire book. After reading a good summary, we believe leaders are able to make better choices as to what to ignore, what to peruse and what to make the time to read closely.