SUMMARY

FINISH BIG

BO BURLINGHAM

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Summary of “Finish Big” by Bo Burlingham

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Learn about how great entrepreneurs exit their companies on top.

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Introduction

The truth is that every entrepreneur must make their exit someday. It's an absolute certainty in business and it's never too early to begin planning your exit strategy. The problem is that many people focus on their journey through the company and fail to discuss how they plan to leave. Many might even associate exiting as a choice, not a necessity. Even worse, they even think of leaving as selling out. But as time passes, you realize that you are not getting any younger and that you are certainly not going to live forever. You realize that you need to orchestrate transitions of ownership and leadership to improve the chances of your company surviving and thriving long after you're gone. But how do you go about it? Where do you even begin? What are your options? There are so many unknowns that are both frightening and confusing. So over the next three years, author Bo Burlingham committed himself to learn more. He interviewed hundreds of entrepreneurs who had either exited, were in the process of exiting, or were getting ready to exit their company. Through these interviews, it became clear that no two exit strategies were alike, but it was also clear that some were certainly better than others. So what's the difference between a good exit and a bad exit? For most entrepreneurs, there were four elements of a good exit: owners felt they were treated fairly, they had a sense of accomplishment, they were at peace with what happened, and they had discovered a new sense of purpose outside their business.

So how had the owners with good exits gone about preparing for the day they would leave? What were the patterns? Well, Burlingham has identified the common characteristics and aims to teach future entrepreneurs the dos and don'ts of planning their exit strategy. Unfortunately, like many entrepreneurs, you're probably not ready to think about leaving; however, the longer you have to craft a good strategy, the happier you'll be about exiting. So keep reading to find out how you can begin crafting your perfect exit.

Planning Now Can Improve Your Business

Every journey must come to an end and there's no better time than now to begin thinking about your exit. In fact, planning for your exit strategy can even strengthen your company. For instance, Ray Pagano, the CEO of the alarm system company Videolarm began to seriously think about his life after business as early as 2004. At the time, Videolarm was twenty-eight years old and well established; they were doing $10.4 million in sales with forty-two employees. So how was he going to leave?

At first, he thought he might someday pass his company down to one of his three children. Unfortunately, that particular solution was not going to happen. Therefore, Pagano had to think about selling the business, and that same year, 2004, a competitor approached Pagano about selling Videolarm and gave him his price. After much consideration, he decided he could get an even better offer if he made some changes to the business. So where should he begin? He realized that to prepare for an eventual sale, "You're going to have to extract yourself from the business. You're going to have to bring up your management team, give them more responsibility, coach them more, and let them run the operation."

In other words, Pagano had to remake the business so that it could run without him. He began by giving everyone in the company a tangible reason to take on more responsibility by giving each employee phantom stock. Each employee, including assembly workers, would receive "shares" that would entitle them to a portion of the sale proceeds if Videolarm were ever to be sold. From there, Pagano organized meetings to talk about the finances of the company. This proved to be a good practice, many employees estimated that Videolarm's sales were in the hundreds of millions of dollars when their sales were actually less than $11 million at the time!

Therefore, Pagano walked his employees through everything: income statements, balance sheets, capital investments, taxes, and so on.

Additionally, he created a suggestion box for comments and questions. He even began to write monthly letters to employees' families and sent them to their homes, many times inviting them to come in and view new products. Pagano states, "We truly wanted to involve everyone in the business." He began to listen to supervisors and managers as they spoke up about ways to improve the company and address their grievances.

Meanwhile, Pagano created an incentive program to increase productivity and the company even made critical strategic moves to increase sales to big manufacturers. By 2008, the company had improved immensely, their performance was up 21 percent and their sales had hit $19.5 million. Now it was time to start looking for a buyer. Despite the crumbling economy, the selling price came to $45 million - four times the offer Pagano had received just four years prior. At this point, many employees had forgotten about the stock program Pagano had set up, so once they signed their papers, many were shocked to see just how much they received from the sale. Assembly workers received as much as $40,000 each. And Pagano? He was liberated. His only regret was that he didn't begin the transition sooner.

Ask Yourself Who, What, and Why

While planning your exit strategy for many years is the best way to set yourself up for success, many business owners are left with little time to prepare. Many grow bored and tired. Others are hit with an offer they can't refuse and others are blindsided by changes in their industry or the economy. There are many reasons behind hasty exits but many times, hastily planned exits are rarely happy ones. These exits tend to be guided by what others want and are simply a reaction to certain events and circumstances. This is why it's important to begin planning at the very beginning.

Burlingham suggests that you first clarify in your mind who you are, what you want out of your business, and why. "Otherwise, you won't be able to choose among the possibilities. You may not even recognize the possibilities. And when you finally do exit, you'll have no idea what to do next." And when you don't know what you're going to do next, that's where you can begin to have real problems.

For example, after the sale of CrossCom in November 2004, Bruce Leech didn't have a plan. Although he remained on the CrossCom's board, he didn't have many day-to-day responsibilities. He assumed that if he simply made himself available, that work would just come to him. Unfortunately, this didn't happen. You see, Leech went from managing three hundred employees to suddenly becoming irrelevant. Nobody needed him anymore and nobody cared. People would make comments like, "Must be nice to be retired." The problem, however, was that Leech was only in his mid-forties, he wasn't ready to be done. So he started a search to replace what he'd lost. The problem that Leech and many others experience is that they fail to plan what comes next and spend years or the rest of a lifetime searching for a purpose.

One thing Burlingham knows for certain: "by the time you come up with answers, you will no longer have all the options you would have had if you had started asking - and answering - the questions while you still had a business. Hence the importance of beginning your search in stage one of the exit process, if not sooner.” However, it’s not enough to simply ask who you are and what you want, it’s also important to answer why. Many entrepreneurs get caught up in the superficial answers of who they are and what they want, but answering the why forces you to dig deeper and think about how confident you are.

For instance, Norm Brodsky failed to dig deep into asking himself why he wanted what he did. Instead, he was too focused on what he wanted: $100 million in sales. However, he never asked himself why. Today, he’d probably admit that “he has a big ego in need of regular feeding and seizes every opportunity to prove he is the best at whatever he does.” Unfortunately, his determination to reach the $100 million mark led him to make bad decisions, ones that forced him to reflect on himself and the reason his company went bankrupt. He realized that the stock market crash of October 1987 that wiped out much of his business was, indeed, predictable. But why hadn’t he foreseen it? Brodsky simply hadn’t been paying attention. In the end, having $100 million in sales was meaningless and if he really looked at himself, he would’ve realized that some of his personality traits could be a threat to him and others if he didn’t control them.

The Four Stages of an Exit

After you've discovered the why, it's time to start crafting your exit strategy. But where do you even start? The process of exiting can be long and arduous; however, it's not just about putting in the necessary time to plan. It's also about successfully navigating the four stages of the exit process: exploratory, strategic, execution, and transition.

The first stage is the exploratory phase. This is when you begin to explore your possibilities and figure out where your priorities lie. During this stage, you must do the necessary introspective work and decide what you do and don't want in your exit. Maybe this is coming up with a number or the amount of money you want, maybe it's creating a time frame, and even deciding if you want to sell or liquidate your company. The second stage is the strategic phase. This stage requires you to view your company as a product itself, not just the deliverer of products and services. Once you begin to understand that your company is something that can be bought and sold, you'll begin to build in the qualities and characteristics it needs to maximize its value and give you the kind of exit you want.

The third stage is the execution phase. Here is where you begin the process of getting the deal done depending on the type of exit you are looking for. If it's a sale to a third party, a management buyout, a gift to your children, liquidation of assets, or any other possible outcome, it's time to begin the process of getting it going. The final stage is the transition phase. This phase begins with the completion of the deal and ends with the moment you've fully immersed yourself in whatever comes next. According to Burlingham, if you haven't moved on both physically and psychologically to a new venture, career, redefined role, or even retirement, then your exit isn't complete.

Every step will look different for every entrepreneur. In fact, smart entrepreneurs will overlap between the first three stages at times. For instance, many business owners will go through the process of negotiating a sale and then back out at the last minute. This strategy helps business owners take what they've learned and then revise their stage two strategic plan accordingly. Unfortunately, many business owners are too busy coping with the challenge of running their company that they don't take the time to prepare themselves, and their company, for their inevitable departure. Therefore, it's time to determine what you want your transition phase to look like and begin planning!

Liquidate or Sell?

While you may spend years planning the perfect exit, it's important to remember that it might not always go as planned. You may be thinking that you want to sell your company for millions and then live financially independent for the rest of your life. That's the dream, right? Unfortunately, selling a company is much harder than it seems. For example, according to the U.S. Chamber of Commerce, 65 to 75 percent of owners who aim to sell their business never even make it to the market.

The difficulty of selling can be seen when the owner of a bakery struggled to find a suitable buyer. He spent money running ads and even more time holding meetings to plan an exit that worked. Unfortunately, the entire process became too overwhelming and the frustrated owner ended up selling the bakery for far less than it was worth. You see, when a sale is done too hastily, then you can end up making mistakes that can haunt you for the rest of your life. That's why it's important to plan ahead to ensure that you get what you want.

Perhaps if you own a small business, then your best option is liquidation. When it comes to owning a small business, many times they only exist for the owner to make a living and keep up the lifestyle they enjoy. The owner keeps the business running for as long as they can until they decide it's time to liquidate in order to retire or transition to another business venture. In these cases, potential buyers are typically limited to family members, employees, or friends. However, if you don't have anyone close to you that is willing to buy, then it might just be a waste of time trying to look for buyers.

On the other hand, if you truly want to sell your business, it's time to start strategizing as soon as possible. While you may think that planning an exit five years in advance is too much, it pays to start early. Literally. For instance, working on making your company more appealing to future buyers can lead to an increase in many areas, including customer satisfaction and recurring revenue streams. Therefore, when searching for a potential suitor, it's important to take a look at what their goals are moving forward and try to tailor your company to fit their needs. In the end, they'll see your company has a solid foundation and will be more willing to follow through on a sale.

One example includes the owners of a lighting company that knew they had to change if they wanted to attract the attention of a potential buyer. The buyer was looking for a company that was financially sound, one that could be expanded someday. So the company worked on doubling sales receipts and modified their company's business model. Those changes? They worked! They helped put the lighting company in a good position and the buyer agreed to a sale.

Determine Your Company Values

Once you’ve spent time working on making your business attractive to potential buyers, it’s time to address some of the major problems you’ll likely face. For instance, would you want a buyer that plans to lay off your employees? Or a buyer that will change your company’s values? These questions are important to consider when searching for a potential buyer, so it's time to begin thinking about what you prioritize as a company.

For example, Roxanne Byrd prioritized friendliness, trust, and respect. Her employees knew exactly what was going on in the company and they trusted that Roxanne would have their best interests in mind when selling the company. Unfortunately, in the midst of a deal with a potential buyer, Roxanne discovered the buyer’s unethical plans to let go of the employees and liquidate the company’s assets. In the end, Roxanne wanted her buyer to continue her legacy and her values did not align with the buyers, so she decided against selling.

If you want to sell your company, you too will have to decide which values are important to you and how you want your successor to continue the business. Do you want them to maintain the values you instilled in your company? Or do you simply want to take the cash and leave? However, there is another option as well. Some business owners plan to sell to a strategic buyer or someone who is already the owner of another business. These buyers usually place their own managers into a company and keep each business aligned with the same goals, principles, and strategies.

So now it's time to begin thinking, what’s your ideal exit strategy? What values do you hope your successor will uphold? Remember, the earlier you plan, the higher your chances of creating a positive exit that makes you, the employees, and the buyer all happy.

Final Summary

When it comes to exit strategies, the earlier you start planning, the better. When entrepreneurs fail to make a plan, they are more likely to make hasty decisions leaving them, their families, and their employees in bad situations. This can result in a seller's regret that has the potential to last a lifetime if you don't take the necessary precautions. Therefore, a good exit strategy requires long-term planning in which you prioritize your wants and needs and determine what you want after the exit as well. Too many times entrepreneurs sell their companies without knowing what to do after the transition period, leaving them without purpose and depressed. Luckily, if you create a plan, determine your why, and figure out what's important to you, your exit can be a positive experience for everyone involved.