



EXIT STRATEGY: **a customer-centric approach**

A Sage CRM White Paper



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EXIT STRATEGY: A CUSTOMER-CENTRIC APPROACH

The value of customer data is greatly appreciated by Irish businesses with a recent Sage survey indicating that 93% of Irish small to medium sized businesses (SMBs) recognise that CRM is a strategic asset when pursuing an exit strategy. Indeed, information is derived from data and knowledge comes from information and so in our opinion it is important that small to medium sized businesses (SMBs) put in place the processes and systems to track, monitor and analyse their data so as to ensure the organisation performs to its best ability. All information is important to organisations and while Irish businesses recognise the value, we have noticed that a large number of SMBs are ignoring one very important portion – customer data. It is being overlooked at every point of the business lifecycle (start-up, growth, maturity and decline) despite its importance to organisations. In fact, only 13% of businesses use their CRM system to help advise on strategy to advance the business plan.

“ 93% Irish SMBs recognise CRM as a strategic asset when exiting versus a global average of 70%. ”

In particular, one event of the lifecycle where customer data plays a vital role but is ignored and not used to its maximum effect is at the time of exit. We define an exit as trade sale, family succession, venture capital, IPO, management buy-out, or dissolution of the business. At a company's or owner's point of exit, customer data can provide insight into customer purchasing trends for buyers or investors, which gives them confidence that they can extract value from the business. It is the reason why Sage believes that SMBs should look and consider customer relationship management (CRM) software. Irish businesses are leading the way in this regard with 93% recognising it as a strategic asset when exiting versus a global average of 70%.

Business begins and ends with customers and the ability to follow through on requests and communicate in a timely, consistent manner can make or break the chances for success. Sage understands that the way organisations connect with their customers is one of the most important aspects of business. That's why we've made it our business to develop customer relationship management (CRM) systems that are designed to help keep customers satisfied from start-up right through to when the time comes to exit.

So how can SMBs ensure that customer data remains at the heart of the business and is fully valued when the time comes for owners to exit their business? Sage has more experience of working with SMBs across the globe than any other business software company and so to help SMBs we have outlined some of the reasons for and benefits of planning an exit strategy, the common traps and pitfalls of an exit and how to avoid them, and how to get the most out of your business using IT systems such as customer relationship management (CRM).

WHY HAVE AN EXIT STRATEGY?

Eventually, every business owner/manager will exit and so they should have an exit strategy in place. However, only thinking about it when the time comes is not good business practice. An exit strategy should be a key consideration at the inception of the company as it will influence the decisions that are made in order to reach the desired exit. All organisations without an exit plan should look at it as a priority. Highlighting the extent of exit planning is the finding from a global survey by Sage which found that 54% of Irish business respondents have an exit strategy in place compared with a global average of only 35%. Interestingly, 100% indicated that they want to exit within the next ten years.

But why would an organisation need a plan for an exit if it will be ten years away? By knowing what the planned exit will be such as a trade sale, family succession or IPO, then the owners can plan and manage the business with that objective in mind. Decisions can be made that will help shape and mould the business towards the end vision. Without that plan the business could – and we have seen a lot of companies like this – meander along and only consider the exit when it stares the owner in the face. They may be successful business but when the time comes they are unprepared and face the prospect of not realising the full value of their business.

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Regardless of the chosen exit (sale, IPO, family succession), any strategy will involve having a clear picture of the business. All too often, this means having attractive financial records and streamlined business operations in place with the most important element of a company's business left out – its customers. As customers are the heart of a business, the value as well as the number of customer relationships should be central to any business plan. With the number of SMBs on the rise, having a customer-centric approach from the start, such as a CRM system, can be a key competitive differentiator and negotiation point for SMBs at the point of exit.

A well thought-out exit strategy can help maximise the value an owner gets from their business, successfully market their business to potential buyers or investors and ensure to end their involvement with as little disruption to the business as possible. Most importantly, a well thought-out exit strategy will have been part of the business plan from day one. We have seen over the years that many SMBs that fail to plan an exit strategy have a tendency to stay with the business too long, they grow attached and fail to notice that the business has stopped growing. The rewards they then receive on exit are greatly reduced.

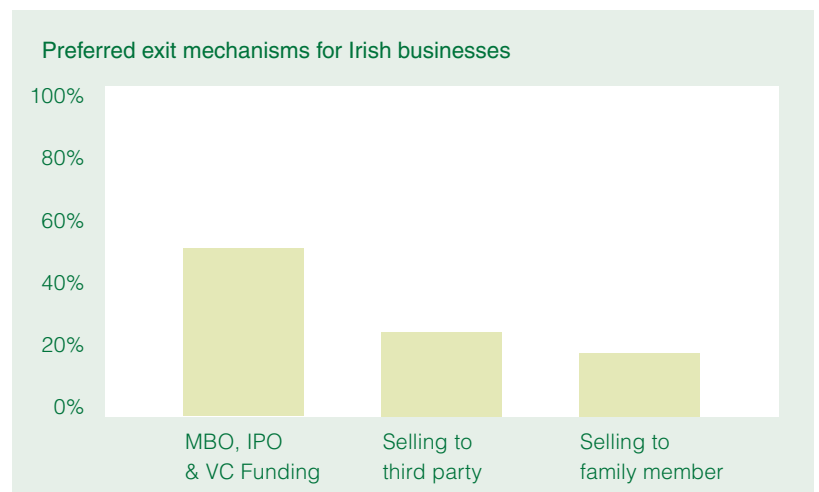


CHOOSING THE RIGHT EXIT

For SMBs to determine and include their exit strategy into their business plan from day one, SMBs should ask themselves the following questions: Do I want to exit at a certain age, or when the business is at a certain value? What package do I need for my plans? Do I want the cash immediately, or am I amenable to the idea of a gradual withdrawal? SMBs should also ask themselves what technology or business practices should be put in place for a customer-centric business plan and exit strategy? Should a CRM system be considered for managing and accessing customer data? Answering these questions at the beginning will determine the objectives of the business and thereby more easily determine the exit strategy.

For example, an owner of a hairdressing business may fulfil the objective of being their own boss and drawing a salary and arranging a benefits scheme, but whether it can be sold might depend on whether the business owner still plays a hands-on role. If they are no longer styling, it will be easier to sell on the salon with its customers. If most customers still want the business owner to cut their hair, it will be more difficult to sell the business, as it will be harder for potential buyers to differentiate the business from the business owner.

Conversely, if an individual starts a business to make money through capital growth, exit options may be wider; they may be able to sell the business to trade buyers, consider a merger or even a stock market flotation. IPO and trade sale can be the most desirable exits (making the most money in a lump sum).



What is interesting is that the Irish preferred MBO, IPO and VC Funding as exit mechanisms. 53% of the respondents surveyed who had an exit strategy preferred this route against an average benchmark of 15% across all countries surveyed, who preferred more traditional methods such as selling to a third party or family succession. Selling to a third party was the preferred option for 27% of Irish respondents and 20% indicated that they would sell to a family member.

However Irish businesses were also more likely to seek relevant advice from third parties (67% versus overall average of 34%) about the exact requirements for a profitable and successful exit strategy.

Business owners should be aware of the choices open to them. Trade sales in particular have become more complex of late whilst MBO (management buy outs) have become more appealing. Equity now rests a lot more with venture capitalists that are looking to buy businesses. Another trend is the growing number of mix-and-match options, which means that business owners can afford to think creatively about their exit. But even though exiting is no longer black and white, good and early planning still remains of up most importance to ensure maximum profits upon exit.

TRAPS AND PITFALLS OF AN EXIT AND HOW TO AVOID THEM

A challenge for exit planning is that SMBs need to concentrate time and effort on running the day-to-day business. As a result, many SMBs have no exit plans in place or no time for business/exit planning. Sage found that 44% of Irish businesses surveyed would like to find more time for business planning and 30% said that they were too busy to plan the business. These figures are concerning from a business and customer perspective. In a chaotic environment that is the very definition of SMBs, business owners/managers are playing many roles from management and sales to HR and finance. Having systems and processes in place would enable the business owner to use their time effectively so that customers are never forgotten. SMBs are dynamic and fast paced and so owners should use systems and processes to bring some order to the organisation.

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Once a business owner has decided upon an exit plan, they must maximise the value of their business to achieve the most profitable exit. Business owners tend to be subjective when determining the value of their business and often place too high a value on their business. For example, the owner's view of what the business is worth may be very different from that of a prospective buyer. As illustrated above, a business that is heavily dependent on one person, product or customer may be difficult, if not impossible, to sell.

Tangible assets are one way to value the business and these include strong financial performance and streamlined business operations. Valuations are also based on multiples of future earnings and the capitalisation of future cash flows. However, one area often overlooked is that of the size, strength, profitability and growth of the customer base. If this is in a single system it becomes a tangible financial asset to bargain with resulting in business owners being much more likely to secure a good value for their business.

Consider the maintenance of a Ferrari compared to that of a Ford. As prized possessions, Ferrari owners tend to keep detailed log books of their Ferraris, which is not the case for Ford owners. The detailed log book of the meticulous upkeep of a Ferrari is invaluable to its price. Customers are a businesses most prized possession and data about the relationship will enable the business to be sold at a premium. SMBs should think about their businesses in the same way as Ferrari owners and log their customer information in a similar vein.

Although the exit should always be in sight at whatever stage the business is at, business owners need to be aware of external factors that could change the exit and its plan. External factors could be changes in the industry sector (is it growing or shrinking?), technology advances (can my company stay abreast of these?) and looming legislation (how will this affect my business?). SMBs should constantly re-evaluate their business and exit plans in light of potential external changes. Having customer data will help organisations see if these external factors are impacting customers (and any in particular), as that decision can be made on focus, strategy, marketing and products.

When looking for a trade sale, IPO or venture capital, business owners often prepare the business by reducing overheads, debts and excess stock and getting finances into good order. They also prepare detailed financial information, including audited accounts and forecasts that they can prepare in advance. However, many ignore customer data, such as the pedigree and interaction of the relationships, which alongside financial data can also add value to the business. The acquiring business not only sees the financial position but also has insights into customers so that once the sale is completed a quick transition can take place and customer relationships maintained. Too many SMBs fail to recognise their customer data as a tangible asset and as such run the risk of failing to maximise the value of their business in a trade sale.

Another trap that many business owners who plan a family succession is that of failing to share knowledge. In particular, it is customer information that is often not shared to the degree required. As a business gets large having a full grasp of all customers becomes harder and harder and as such as system and process for retaining valuable customer information will ensure a smooth transition for customers and family members alike.

CRM AND EXIT STRATEGY

The customer data is important but it is how to access the data that is also vitally important. All too often, the data is locked up in spreadsheets or in key salespeople's heads. Key members of staff leaving could impact customer relationships. Purchasers and investors want access to customer data that gives them insight on the pedigree and interactions with customers. A CRM system, for example, tracks customer data and provides the next level of information those buyers and investors require. A CRM system enables buyers and investors to predict business growth opportunities better.

Indeed, Sage found that 73% of Irish businesses surveyed believe CRM helps maintain good relationships with customers during an exit and 35% said CRM would reduce the risk of losing customers during an exit process.

SMBs need to remember that, in the end, the value of any business is only as much as a purchaser or investor is prepared to offer. It all boils down to negotiation and having tangible assets such as clear insight into customer data via CRM swings negotiations in the business owners' favour. In fact, the Sage survey revealed that 93% of respondents with an exit strategy believe that a CRM solution is a tangible business asset when following an exit strategy.

According to our survey the majority of SMBs recognise that CRM is a tangible business asset. The problem is that not enough SMBs use it. If SMBs want to maximise their profit upon exit, they should readdress the importance of customers to their business. If they perceive that their customers should be at the heart of the business, which most undoubtedly will, then they should consider how best to manage customer data. CRM will help SMBs plan and manage their business in line with their exit strategy. What is more, when the time comes to exit, not only will they be prepared – because they have a plan – but with CRM they have a tool to negotiate and secure the best price in a trade sale or IPO for their business. Moreover, in the event of family succession which is another common exit strategy then the new manager will have the knowledge of the customer base at their fingertips. Customer data help shape and mould businesses to ensure a successful exit, it provides a tangible asset when valuing the organisation and lays the foundations for smooth and successful customer relationships in the future so that the legacy of the past is continued and remembered. Centralised customer data in a CRM system helps get the most out of the business in an exit, so if an exit is on your mind then it would be prudent to look at CRM.



CONCLUSION

An exit is an event within the business lifecycle that the vast majority of business owners will experience. There are many challenges that arise when running a business and indeed, seeking an exit. Planning from the start of your business or if not then doing so sooner rather than later will help ensure that the value is maximised and customers are not impacted when the time comes to exit. Using CRM alongside other business systems will help business leaders in their exit.

At Sage, we are committed to helping customers realise the potential of their organisations whether that is an entrepreneur starting up a new business, a fast growing business, a mature organisation looking at ways to re-ignite growth or indeed, a business seeking an exit. In CRM, we have a portfolio of solutions that can be deployed quickly and easily to help manage the business and support the chosen exit strategy.

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