WHAT'S YOUR **EXIT STRATEGY?**

Set Goals, Select a Team and Design a Plan

Regardless of how long you've owned your title company, it's never too early to start planning your exit strategy. Most business owners, sooner or later, will want to move on to their next chapter in life. Perhaps you want to plan to retire, or you'd like to explore other business interests. But at the same time, most owners are so busy focusing on the urgent issues of today that they don't make time to stop and create a plan to ensure that this will happen.

Many owners remain in the business longer than they intend to because they're just not sure how to make their exit or how to monetize the value of the company they have built. Whether you plan to pass your business on to family, sell to a co-owner or sell to an outside party, it takes planning and a team around you to successfully transition out of your agency. You need an exit strategy.

A business owner's succession plan and exit strategy are like an estate plan or a will, but for your business. Many agency owners simply close their doors when they're ready to retire or move on to a new challenge. By developing an exit strategy, you're planning today for what you want to happen in the future. You've worked hard to grow your business; your exit strategy enables you to protect your investment, control your departure process and plan the direction your agency will take after you leave.

When you develop an exit strategy, you're preparing your business for an eventual transition while planning to meet your own needs as well as the needs of your employees, customers and family. The process of developing a succession plan and exit strategy will help you maximize the value of your business for your future needs, as well as the needs of your family. It will also allow your business to continue uninterrupted in the event of an unexpected tragedy. Finally, an exit strategy will provide for the continuation of the brand you've built for your company.

Planning your exit strategy involves multiple stages. These stages include:

- **Goal setting:** What do you want your transition to look like?
- **Selecting a team:** Who will help you achieve your exit strategy goals?
- **Designing your plan:** What steps do you need to take to achieve your exit strategy goals?
- **Implementing your plan:** What do you need to do to put the plan into action?

Goal setting

When you're planning your exit strategy, the first step is to consider your goals. Your goals will drive every other step of your succession planning. What do you want your transition to look like? Some owners want to plan for a "hard stop"—a date when they will walk away from the business entirely. Other owners want to continue to play a different, smaller role in the business they love.

You also need to consider the timeline for your transition. When would you like to exit your business? An exit strategy designed to be implemented in six months will look different from one designed to be implemented over five to 10 years. But as you consider the timeline, don't forget to consider the unlikely possibility of tragedy. Do you have a plan in place if something should happen to you? By thinking through possible scenarios and

What's Your Exit Strategy?

Thinking about selling your title company? Here's a checklist of items you'll want to gather to help the process.

- Confidentiality agreement
- Five years of financials—profit and loss statements, balance sheet, tax returns
- List of expenses that are discretionary (i.e.: spouse's car, club dues, children on payroll)
- List of current bank accounts, both escrow and operating
- Current escrow account reconciliations
- Audit reports from underwriter and from third parties, if any
- Copies of insurance policies and declaration pages for current insurance.
- Software
- Equipment inventory
- Office furniture inventory
- Customer lists
    - Average number of orders per month/year
    - Average number of closings per month/year
    - Average premium charged
    - Cancellation rate
    - Residential %
    - Commercial %
    - breakout of the above information for each of your top five customers
- Detailed employee list
    - Include name of employee
    - Duties of employee
    - Years of employment
    - Employment contract in place
    - Salary range
    - Licensee
    - Bonus/incentive
    - Vacation/sick time
- List of contracts between:
    - Underwriting contracts
    - Equipment leases
    - Vehicle leases
    - Building leases
    - Search/plant access leases
    - Memberships—for example: country clubs, athletic clubs, etc.
    - Software maintenance agreements
    - Joint venture or affiliated agency agreements
- Claims reports from underwriter

making these considerations, you can identify priorities and goals for your transition.

Selecting a team

No matter what you do, you shouldn't attempt to plan your exit strategy on your own. Your team should include trusted advisors including lawyers, accountants, consultants, financial planners, title underwriters, life insurance professionals and business brokers. The team you develop should understand not only your exit strategy goals but also your business and your industry.

Your team can assist in creating and implementing your succession plan and exit strategy. Their outside perspective and expertise can provide you with needed insight, and they can partner with you throughout the implementation of your plan.

Creating a plan

Just as every business and owner is unique, every exit strategy is unique as well. There are no one-size-fits-all solutions to planning your exit strategy. When you plan, you're able to tailor your exit to fit your unique business needs and transition goals.

You have options in planning your exit strategy, whether you plan to sell or continue to be a passive owner, entrusting the agency to skilled and trusted management. You'll also need to consider who you may sell to and how to structure the transition or sale. You might choose to sell your business to a co-owner or key employee, or you can gift or sell the business to members of your own family. You may also want to sell your business to an outside buyer.

Within these scenarios, there are additional options for how to structure the sale of your business. Some examples include:

- Planning for an earn-out with a co-owner.
- A slow buyout, enabling you to get paid as your business continues to make a profit, like an annuity payable over several years.
- Receiving a split payment, half up front and half later.
- Whether you plan to launch another business venture; if so, you may want to negotiate a total buyout at one time.

Each of these options has risks and rewards, and your transition team can help you evaluate each possibility and select the option that best meets your goals and objectives.

There are some excellent resources available that can help you plan your transition. We highly recommend the books *Built to Sell*, by John Warrillow, and *The E Myth Revisited*, by Michael E. Gerber.

Take the First Step

No matter when you're planning to make your exit from your company, now is the time to begin making an exit strategy. Even if you're a young owner who'd like to stay in the business for a long time, you need to make sure you're planning and preparing for the unexpected.

Planning your exit strategy will not only help you in the future; the steps you take to prepare for your exit will provide benefit to your business today. To maximize the value of your business for your exit, you'll want to improve your agency operations, workflow efficiency, employee training, and optimize your marketing plan and brand strategy. By addressing workflow, systems and processes, finances, and compliance, you're working to create a business that functions at peak efficiency with or without you.

You'll also want to transition your role within the business. Pull back from day-to-day operations to work on implementing your exit strategy. Refocus your efforts from management and sales to training and mentoring; both are essential, no matter how you plan to make your transition. Work to develop customer loyalty that extends beyond you to the company itself. Every investment you make in planning your exit strategy will have a positive impact on your present business functions as well as the future of your company.

It can be overwhelming to think about planning your exit strategy. The good news is you don't have to plan your entire exit strategy today. Just beginning to think about your exit strategy is good, but the best first step you can take is to have a conversation. Take that first step on the journey to your next chapter.

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Deal-making Tips

Here's a list of key things to consider if you're looking to acquire a company:

- **Define your goals:** Figure out where you want to be so you can judge acquisition criteria.
- **Iron-clad non-disclosure agreement:** You don't want details getting into the marketplace. Agents may also want to include underwriter(s) in the NDA. Can inform underwriter(s) after the deal is complete.
- **Make sure company and processes can handle transition:** Acquisitions and be disruptive. Ensure your current operation has the capacity for growth.
- **Consider how to manage and assimilate cultures from different companies:** Need to make sure the staff you're absorbing meshes with your current culture.
- **Focus on local management:** It's all about people and who can drive revenue.
- **Expose deal breakers early in discussions:** Get details on cash flow, the mix of business and types of customers, contracts of principal(s) and key employees, and stand-along fixed costs
- **Visit company early in process:** It's important to assess first-hand the operations so there are no surprises.
- **Keep alert to competitive activity:** It's important to know the market dynamics, such as number of competitors, types of business models and underwriter presence.
- **What to do with former owner:** Principals must often stay three to give years on fixed or performance-based salary.