

## **Exit Lessons From My Erstwhile Businesses**

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Early into my third business, Pinnacle Technology Solutions, a placement agency, I began wondering whether I was getting where I wanted to go. Not that anything bad was happening: the business, which I founded in 1998 at the height of the booming economy for job fulfillments, was doing well.

Still, there was that vague sense that I owed it to myself to be thinking more strategically. It was then that I figured out that maybe I should be considering how I wanted to get out of the business.

By then, I had two previous entrepreneurial ventures under my belt: Best Resume Career Management Service Inc., an outplacement services concern which I co-founded with my father in 1994, shortly after graduating from college; and Pinnacle Career Solutions Inc., which coordinated job fairs. I began putting together the second firm while still at Best Resume.

I sold Best Resume in 1997 when a buyer came along, and folded Pinnacle Career Solutions in 1999 when the job-fair industry began getting glutted and I was shut out of being able to advertise in the major regional newspaper (more about that later). However, both of these exits were serendipitous. I hadn't planned in a strategic way for either.

In short, the need to plan for an exit was the lesson I learned after taking leave of my first two ventures. Along the way, I also learned a corollary lesson: that planning doesn't necessarily guarantee the desired outcome. Still, it helps to have a goal upon which to focus.

### **Growth Planning**

In the interim, after now having sold the third business and started a fourth, I learned that the question about how to exit - "IPO or Sale?" is the entrepreneurial equivalent of, "Do you want fries with that?" Indeed, those three words, IPO or Sale, have become my nemesis.

As I've gotten more involved with entrepreneurship, I've also founded with two partners a nonprofit group, Tech Valley Angel Network, for matching entrepreneurs with individuals interested in investing. Thus, I have been able to consider that question not only from my own

perspective but also from that of endeavoring to help other company builders.

The question is both reasonable - and loaded. "What is your exit plan?" is one that you, the entrepreneur, might expect from any potential investor in your startup, as these individuals seek not only to recoup their investment but also to score a considerable gain. They will definitely require an answer.

However, the answer begs questions of a more far-reaching nature, such as, "What type of business do I have or do I want to have?" And: "What do I want out of the business once I no longer work there?" Answers to questions such as those require considerable soul-searching.

### **What Type of Business Do I Have?**

Of course, a lot of company founders put together enterprises they have no desire to grow. These so-called "lifestyle" businesses provide an income for a family, often support an interest - such as my friend whose passion is piloting - and may or may not be passed to heirs.

Exit strategies for lifestyle businesses generally involve either the aforementioned passage to the next generation, or a sale to employees - often those who have been on board for a considerable period. In the case of partnerships, such as professional-services concerns, provisions for exiting often involves a shift in control to individuals identified and groomed as future partners.

It's the other category of business, the so-called growth concerns, that prompts the insidious question that is analogous to the choice of fries with the fast food dinner. And that's the kind of business I had in mind when, in the throes of putting together that third company, Pinnacle Technology Solutions, I wondered, "Is that all there is?" Or, more to the point, "Should I be doing more about crafting an exit strategy?"

### **Lessons from the Trenches**

For me, getting a handle on getting out of growth companies has involved on-the-job training. When I founded my first company, Best Resume, with my father, the exit opportunity just fell in our lap. A private buyer in the local area of upstate New York where I am based just showed up and offered to buy it. By then, revenue had reached \$750,000, and the offer was one we couldn't refuse.

The plot thickened with my second company, the job-fair coordinator, Pinnacle Career Solutions. When I started Pinnacle Careers Solutions, no one was doing job fairs; three years later, everyone was.

By then, I had tried and failed to get into a partnership with a regional media concern. I had shared my business plan with that company, which in turn took the plan and joined forces with another partner. The media company controlled the largest newspaper in the area in which we did

business and virtually barred my company from advertising. The combination of factors meant that Pinnacle Career Solutions was dead in the water. That, in turn, led to the only reasonable exit strategy: a shut down.

As for my placement business, Pinnacle Technology Solutions, thanks to my epiphany about needing to determine an exit strategy at the start, the leave-taking was orderly. Having launched the business in 1998 and increased annual revenue to \$4 million, I eventually began seeing signs of slowing, as the tech boom metamorphosed into a bust, and the tech placements that we were doing exclusively began drying up. When a friendly competitor approached me early in 2002 about buying the company, I didn't think twice about selling. The competitor was about our size, and there was no need to continue to go head to head in a rough market.

### **Ground Rules for Growth Exits**

Launching my fourth company, Talent Management Group in June 2002, has also involved putting an exit strategy in place. It doesn't matter whether or not that specific strategy unfolds when it comes time to get out. The point is to have that goal in mind from the start.

This should be the case for all founders, who turn, most typically, to a strategic sale, a sale to a competitor, or a sale of a portion of the stock to the public in an initial public offering, or IPO.

Strategic sales to buyers in a similar business, many times with the same customers, often net a premium price, provide some liquidity and enable the founder's continued involvement. However, the downside is that ongoing payouts are often attached to achieving interim financial goals.

In the case of a sale to a competitor, the reverse is true: the entrepreneur gets a considerable sum upfront but is virtually shut out of continued involvement. As for the third option, the IPO, the stumbling blocks are threefold: it is difficult to achieve, liquidity is restricted for an extensive period after the sale, and you, the founder, are often required to continue with the company.

Thus, the pros and cons of each of these strategies beg the ultimate question: What do you, the founder of the enterprise, really want?

Tackle that question, and you're ready for the second, which is: How do I best achieve what I want in an exit? And once you've done that, you're now ready to put aside the question of "IPO or sale" - the fries with the meal - and start the business of your dreams.

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