

## **DEVELOPING AN EFFECTIVE EXIT STRATEGY©**

The phrase “exit strategy” has become an everyday component of business conversation in recent years. This is no doubt the work of highly educated graduate business students, one of whose roles in life, so it seems, is to constantly add to the vocabulary of the world of business, something I call “B-school speak.” These are the same young people who brought words like “scalable,” as in “is that model scalable” and “resonate,” as in “that doesn’t resonate with investors” into fashion, as well as the dreaded and often feared label, “dot-com.”

In the past, a time known as “the good old days,” words like “retirement” or “selling the business” were more in vogue when a businessperson, employee or owner, decided it was time to hang up their spikes (or their mortar and pestle, as the case may be). If you were a corporate employee, you simply checked into company policy from time to time as regards retirement, understood or learned what you were entitled to after twenty-five, thirty or thirty-five years of service and, when your time had come, notified someone in the company that you were planning to retire. This notification triggered a party on your behalf, at which you received a gold watch and other assorted gifts, and it triggered the start of your pension payments which, supplemented by Social Security, were hopefully enough to enable to live a decent life through those golden years.

If you were a small business owner, a pharmacist, the idea of retirement was an often vague and fuzzy concept, not one you particularly explored, thought much about or perhaps even embraced. Being a busy person, working long hours, many pharmacists never had the time to develop the outside interests so often associated with a pleasant retirement, outdoor sports, gardening, cultural pursuits and so forth. At best, they had a pleasant (though often limited by the long hours spent in the pharmacy) family life, a spouse, children and grandchildren whom they could interact with during their limited time away from the pharmacy on Sunday afternoons, during an occasional holiday or an even less frequent vacation (this is a word that is often not found in the pharmacy owners’ dictionary).

When these storeowners from ancient times (the 60’s and 70’s, perhaps the 80’s) did decide to retire, the issue of what to do with the store was a simple one, you sold it. You usually if not always sold it to another pharmacist who would maintain the store in its original location and pay you for the assets you had

accumulated and the good will you had built up in the community over the years. This money was your “pension plan,” your retirement funding. Often the pharmacist owner had children working in the business and he or she was happy to turn the store over to them, continuing to receive money from the business to fund his or her retirement, eventually parting with the equity and seeing that it was transferred to the new owners.

Another alternative was to sell to partners that you already had, perhaps younger than you, perhaps pharmacists you had taken into partnership over the years. This process could be a stressful one if you and your partners had not maintained a reasonable and current valuation of the business and updated that on a regular basis. But with that said, there were always ways to work this out and enable a partner who wished to retire to do so.

In today’s world of community pharmacy ownership, the situation has become somewhat more complex and a lot more stressful. No longer is “selling the business” the simple option it once was when it comes to retirement planning. For many pharmacy owners, the vast majority of their personal net worth is tied up in their business, often including the real estate it occupies. The ability to sell the business and either lease back or sell the real property it is housed in is often the number one (and sometimes only) financial component of a community pharmacy owners’ retirement funding, with the exception of Social Security.

Accordingly, the need for effective exit strategy planning is critical for today’s pharmacy owners. Despite shrinking margins and the ever-growing third party prescription environment, today’s remaining independent and small chain community pharmacies, some 20,000+ of them, are reasonably large and reasonably valuable businesses. Valuable for their sales and profits, valuable for their asset base and valuable for their marketshare within the communities they serve. To attempt to sell a business like this without effective planning, taking a long look at the big picture and developing and implementing a workable plan is, in this writer’s opinion, a grave mistake.

Effective exit strategy planning includes the following elements:

- A thorough review of the current financial status of the business, sales, profits and trends over the past three years.
- An objective analysis, with the assistance of an outside professional, as to how the financial status or asset base of the business might be improved in the short run, to make it more appealing to a prospective buyer.
- A review of the local marketplace, to ascertain your competitive position and value to a purchaser.
- The development of reasonable expectations as to the value of the business and the ability to sell it.

- An understanding of the timing and events that the marketing and sale of the business require.
- Most importantly of all, the development of a reasonable time line to make it all happen, in order to exit successfully.

While it is certainly true that contingencies can and do arise and unforeseen events can occur, pharmacy owners who plan thoroughly for their exit from the retail arena can do so successfully, selling their businesses for the highest possible value in the marketplace when they don't have the pressure of a "forced sale." In this way, you can reap the benefits of the years you have devoted to being an independent community pharmacy owner and pass on the legacy and reputation you have built up in the community to your successor, helping to maintain the presence of community pharmacy within the marketplace.

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