

Maximizing Profitability with Theory of Constraints

We discuss increasing your profits, increasing sales w/ Mafia Offers, selling and presenting your Offer, increasing cash flow, increasing cash velocity, and Throughput Accounting using Eliyah Goldratt's Theory of Constraints, Lean and Six Sigma.

Wednesday, January 13, 2010

Theory of Constraints POOGI Part 59: Do you have an Exit Plan? Why not?

We are continuing our series based on [The Goal by Eliyahu M Goldratt and the Theory of Constraints](#). {This series was co-written with [Brad Stillahn](#).}

There is nothing as fundamentally important as having an Exit Plan. The purpose of exit planning is for owners to achieve their financial and lifestyle objectives after they leave their business. It covers when you plan to exit, how much you'll want or need from a sale/transfer of ownership, and to whom you want to transfer (a third party, family, or employees/co-owners). Some people refer to it as succession planning, transition planning or just selling my business.

Dr. Lisa: What's Exit Planning have to do with TOC, Lean, Six Sigma and continuous improvement?

Brad: It is consistent with TOC's three questions. What to change, what to change to, and how to cause the change. When a business owner decides how much he or she needs from the sale of the business by when, we can calculate the growth is needed to accomplish the objective. A business that has put in place excellent processes—the kind TOC, Lean, and Six Sigma provide—coupled with a management team that can operate without being dependent on the owner, is much more valuable.

Dr. Lisa: How is exit planning done?

Brad: First, the business owner works with an exit planning advisor to develop the framework for his exit plan. This is usually developed by answering a series of questions aimed at determining when he wants to exit, how much is needed from the sale/transfer of the

Dr Lisa



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business in addition to other personal resources, and to whom the business owner wants to sell/transfer the business.

Next, the exit planning advisor coordinates the business owner's other advisors—like the CPA, Estate Planning attorney, financial/insurance advisor, and business consultant—to flesh out the plan. From then on, apart from course corrections, the plan is being implemented over time until the ultimate exit.

Dr. Lisa: Are most businesses ready to sell?

Brad: No, most are not ready to sell. And a business that is not ready to sell will either be sold for less than the business owner needs, or it will be liquidated.

Dr. Lisa: In real estate, it is well known that before you buy a property, you have an exit strategy. Is this true for businesses, too? Do most business owners go into business with an exit plan?

Brad: No, most businesses are owned and run by entrepreneurs that have grown their business over time. Most of these owners are totally consumed by running their business, and have not thought enough about their eventual exit from the business. This is unfortunate because it can take several years to make the business valuable enough to meet their financial and lifestyle objectives after they leave the business.

... to be continued. (more on exit planning next time)

Here's to maximizing YOUR profits!
Dr Lisa Lang

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at 6:12 AM 

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► February (4)

▼ January (5)

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