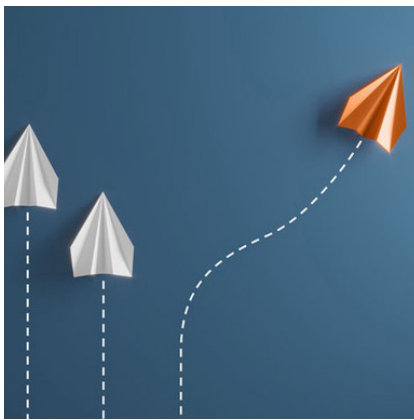


How to Effectively Plan Your Business Exit Strategy

Three questions to ask before you plan for this important transition



If you're considering exiting your business, you're not alone. But before you take such a big step, it's wise to make sure you're ready. Take time to think through these three important questions and plan carefully to prepare for what comes next.

1. Are you ready to make an exit?

Many business owners went through a financial crisis in 2008, weathered the pandemic in 2020, and simply aren't interested in managing their businesses through another potential economic crisis. In addition, technology is fundamentally changing the way many businesses operate, and some business owners don't want to invest the time and money to scale up technology efforts.

However, making the decision to sell your business isn't something that should be done overnight. The process needs to start a lot sooner than just one day deciding it's time to exit the business. Like many business owners, the business is your key asset, and a lot has to happen when deciding how to transition that asset.

Think about it: As an entrepreneur, your business probably "powers" every other aspect of your life. It likely provides a regular income, retirement savings, education funds for your children, and legacy assets for your family. On a broader level, it also offers social interaction and structure to your days and weeks. Before you make the decision to leave your business, make sure you're ready to deal with all of the potential changes that may occur as a result.

Think about your various goals and recognize that changes at the business may affect tax strategy, estate planning, and retirement cash flow. With so much interconnectivity between your business, wealth, and legacy goals, it's vital that you evaluate each aspect as you consider your exit.

Key takeaways

- The most important step is to plan carefully for a sale on the front end so that you'll be better positioned to manage the outcome of the sale
- Asking yourself if you're ready to retire, are financially prepared, and able to manage a liquidity event will help you determine if the time is right
- Financial advisors who are experienced with business valuation and exit strategies can help you determine the right way to exit your business

2. Are you financially prepared to make an exit?

For a business to be ready for transition, it should be transferable, predictable, and/or sustainable. Transferability means that the business can run without you. Predictability gives the next owner comfort that the business will continue to produce dependable cash flow. Sustainability is about durable relationships and lasting competitive advantage. Working on those three metrics before exiting a business helps drive the value of the business and positions you and your family for the rest of your life and beyond.

Envision a triangle where the top angle is your personal wealth including business value, and the bottom two angles are your retirement needs and your legacy desires. If you're planning to sell your business, you want to know that the sale value will support the retirement and legacy angles.

This means looking at your whole asset picture—including the business—to determine whether you will have the asset base to support your lifestyle cash flow needs as well as the legacy you want to leave for your heirs. If the math doesn't work, adjustments are in order. You might consider changing your retirement cash flow target, reducing the legacy to your heirs, working to make your business more valuable before selling, or some combination of changes to each angle.

3. How should you handle a liquidity event?

If you choose to sell your business, it's important to plan carefully for the full financial impact of the sale. Many business owners get very focused on the "headline value" of the deal and fail to pay enough attention to various tax and estate planning opportunities that can maximize what they will net from the sale. At the end of the day, it's the net proceeds that matter most.

On that score, it's also important to understand the various avenues to realize liquidity from your business and how they match your individual situation and needs. For example, you can complete a full sale of the business to a strategic buyer for maximum liquidity. Alternatively, you might consider a partial sale to a private equity fund that allows you to retain a significant minority in the business and lead it for several more years before fully cashing out. Another option could be an Employee Stock Ownership Plan (ESOP), which can provide you with liquidity and potential tax advantages, while providing wealth-building opportunities to your employees.

The most important step is to plan carefully for a sale on the front end so that you'll be better positioned to manage the outcome of the sale. Turn to financial advisors who are experienced with business valuation and exit strategies to help you determine the right way to exit your business.

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