How Can Business Owners Plan For an Exit?

If you're a business owner, you always have a lot to do and a lot to think about. But have you put much thought into how you'll eventually leave it all behind?

Even if you're a few years away from that day, it's a good idea to create an exit strategy. If you're like most other owners, most of your net worth may well be tied up in your business — so how you exit that business can have a big impact on your finances and your retirement.

As you begin the exit strategy process, you'll need to examine some basic questions, such as how much you want for your business and how much it's worth. But you'll especially need to plan for the mechanics of your exit — that is, just how you're going to sell or transfer ownership of it.

Essentially, you have three main options:

• *Internal sale or transfer* – You could sell or transfer your business to someone affiliated with the company, such as a family member, business partner or even a group of employees. The advantages of this method are that you'll have greater control over the timing of your exit, and you'll be able to provide greater continuity for your employees, clients and suppliers. One potential disadvantage is that your net sales proceeds may be less than what you'd get from selling the business to an unrelated third party.

• *External sale or transfer* – The biggest benefit of selling or transferring your business to an unrelated third party is that you can potentially maximize your net sales proceeds. But you'll need to consider some tradeoffs, too. For one thing, a sale to an outside person or business usually requires a long and possibly expensive due diligence process. Also, you'll have less control over the timing of your exit than you would if you sold the business to an internal source.

• *Liquidation* – If you liquidated your business by selling all your assets and shutting down operations, you could end up with far fewer net proceeds than if you sold the business to an internal or external source. However, you could raise cash pretty quickly. But if you chose to liquidate or dissolve your business, it could potentially be disruptive for your employees, clients and suppliers.

Because everyone's situation is different, there's no clear-cut formula for deciding which of these exit options is right for you. And it isn't simply a matter of numbers, either, because you'll need to consider some intangible factors, too. How will your family be affected by your choice? How would you feel if your business was in someone else's hands, or no longer existed? You'll need to work out these issues, along with the financial ones, before you decide on your business exit strategy.

Fortunately, you don't have to go it alone. You may want to consult your financial, legal and tax advisors, and possibly work with a commercial banker and a business evaluation expert. By drawing on several sources of expertise, you can feel more confident that you'll make a decision that's appropriate for your needs.

One final suggestion: Don't wait too long before you begin putting together your exit strategy. Time goes fast — and when the time comes for you to say goodbye to your business, you'll want to be prepared.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

Edward Jones, Member SIPC.

2 – Jan. 29, 2024
548 words