Planning Your Business Exit: Start with the End in Mind

If you own a business, you've probably spent countless hours thinking about how to grow it, manage daily operations and serve your customers. But have you thought about how you'll eventually step away from it? While it might seem premature, planning your successful exit from your business is one of the smartest moves you can make as an owner.

The reality is that most business owners have 80% to 90% of their net worth tied up in their companies, according to the Exit Planning Institute. That's a significant investment that deserves careful planning to protect. Unfortunately, 70% to 80% of businesses put on the market don't sell, and about half of all business exits are involuntary due to unexpected circumstances like health issues, family emergencies management disputes or economic downturns.

Exit planning is more than preparing for retirement. It's taking control of your future and ensuring you can transition away from your business when and how you choose. You can start with the end in mind – a proactive approach that can inform your current business decisions and help increase your company's value and marketability.

Begin by articulating your personal goals for both the transaction and your life afterward. Maybe you want to sell only a portion of your business, stay on as a paid consultant or use the proceeds to start your next venture. Understanding your vision helps shape everything else.

You'll want to calculate how much money you'll need to fund your desired retirement lifestyle, accounting for expenses that may be currently covered by the business, like your cellphone, vehicles, travel and health care. Don't forget about your legacy goals too – what you want to leave for your family or charitable causes.

Getting started requires building a strong professional team. At the center should be a financial advisor who can help you through the planning, execution and post-sale phases. You'll likely also need a tax professional, legal advisor, commercial banker and business valuation expert. Depending on your exit strategy, you might later add specialists like business brokers, investment bankers or employee stock ownership plan advisors.

Understanding your business's current value is crucial. It's a good idea to get a calculation of value at least three to five years before your planned exit. This isn't as formal or expensive as a qualified appraisal, but it gives you a realistic range of what your business might be worth.

This step may reveal a gap between what you need financially and what your business could sell for. If so, don't panic. You have several options: work longer, adjust your spending expectations, save more outside the business or focus on increasing your company's value. You can boost value by increasing profits through higher market share, new products, better pricing or reduced costs. You can also improve intangible assets like employee expertise, operational systems and customer relationships.

Finally, consider who your successor might be. Selling your interest to family members, business partners or employees often provide more control over timing and lower transaction costs, though they may result in lower sale prices. Selling the business to third parties typically bring higher proceeds but less control over the process.

The key message is simple: it's never too early to start planning your exit. Whether you're thinking about stepping away next year or in the next decade, taking proactive steps now puts you in control of your business's future and your own financial security.

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