Preparing to Exit Your Small Business

For many small business owners, the thought of transitioning out of their business may be years away, if ever. In fact, in a recent Wells Fargo survey, more than half of small business owners said that if money were no object, they would continue working full or part-time in their current business. But even if your plans to retire or transition your business are distant, planning for your company's future now will help ensure long-term success.

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Creating a business succession plan is critically important and should be part of the overall business planning process. Yet surprisingly, a majority of small business owners haven't taken the time yet to create one. According to the Wells Fargo/Gallup Small Business Index, a quarterly survey of small business owners in the U.S., 70 percent of business owners said they do not have a formal, written plan in place to outline what they'll do with their business when they retire or are unable to work.

Creating a succession plan requires thoughtful planning. Here's what you should include:

Identify your goals.

Set your business objectives, and review them annually, keeping in mind your long-term vision for your company. This can include your personal financial goals, as well as how your management team and employees will operate the business. You should also consider what role you want to play in the company upon retirement. As a business owner, you will want to carefully consider whether you want to sell your business or

transition ownership to a successor.

Analyze the business.

Many factors, including company performance, market conditions and the industry can impact a company’s worth. In your plan, you should include industry and economic research that will influence your transition.

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Conduct a business valuation.

It’s important to have a preliminary estimate of what your business is worth. This is especially critical to have when either choosing your successor or making a decision to sell the company.

Include transition options.

In your succession plan, it’s important to consider several alternatives, which could include transferring the business to family members, a partial transition where you maintain some level of involvement, or selling it to a third party. By evaluating options, you can determine the best course of action for your eventual transition.

Consider financing options.

Sources of funding can determine exit planning options. Consider how financing will impact your transition plan and your timeline.

Implementation and timeline.

In most cases, a business owner will need to work with a team of professionals to implement a transition plan. Depending on the size and type of business, it’s a good idea to meet regularly with a CPA, an attorney, an investment banker, business appraiser, business broker and/or other specialists to help develop and carry out the strategy. In your succession plan, roles and responsibilities, as well as timelines for activities should be included.

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By spending time planning now for how you will transition out of your business, you can ensure a smoother exit. Although many small business owners may not yet be ready to think about retirement and leaving their business, now is the time to plan for the future.