Why You Need a Small Business Exit Plan

By Donna Fuscaldo Published September 24, 2014

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Small businesses are the backbone of the economy, but for many baby boomer business owners they have an eye toward cashing out. According to a UBS study, over 50% of baby boomer business owners plan on selling within the next ten years, but nearly 90% of them don't have an exit plan.

"In order to ensure your personal and business goals are achieved you've got to have a plan in place pre-sale," says Brad Bernstein, senior vice president at UBS.

Whether you are looking to sell your business to fund your retirement or you are ready to enjoy your golden years not working, experts say there are a few steps to take pre-sale to make sure your finances are protected.

If you fall into the category of a business owner who is looking to sell to fund their retirement, one of the first things you want to do is consider your cash flow needs if you do sell, says Audra Lalley, managing director at investment firm Miracle Mile Advisors. You have to make sure the sale is going to provide enough money for your retirement and to do that, Lalley says do an analysis of the inflows and outflows of the business. After all, you don't want to sell your business for a certain price and then find out it's not enough for your retirement. Lalley says to also consider any major costs that will come up in retirement, whether it's a big trip or an upgrade to your home.

Regardless of why you are selling your business, it's a good idea to surround yourself with key advisors including a certified public accountant, an estate attorney, and a financial planner who have experience dealing with clients similar to you, says Bernstein. Valuing your small business is likely going to be a bit of a challenge, but it's necessary to do, particularly if you are relying on the sale money for your retirement.

"There are some fabulous businesses that are very well run for many years, but there aren't any buyers," says Lalley.

In a perfect world you will sell your business and get a windfall, but that windfall also means lots of taxes if you don't plan right. According to Bernstein, you can adopt gifting strategies to reduce the amount you owe Uncle Sam.

Let's say you have a biotech business that may get FDA approval. If you gift the business before it gets FDA approval it's worth less than waiting until after the approval comes in. Bernstein says there are many gifting tax strategies that you can employ to reduce your tax burden, depending on what stage your business is in. Getting your ducks in order pre-sale will also go a long way in making a sale easier. Bernstein says you want to have the last three years profit and loss statements of the company at the ready, as well as three years of your business' balance sheet.

While you probably want to wake up one day and say I'm going to sell my business and then have it sold a couple of months later, that isn't likely to happen. Instead, Michael Schwerdtfeger**,** managing director at Chapman Associates, says you should start planning for a sale as far as five years before.

"People have to think through the sale process and realize it isn't a matter of throwing someone the keys and walking away," says Schwerdtfeger. "In order for business owners to get the maximum they need to be able to transfer a valuable asset to the buyer."

That means a few years before you sell you should start to relinquish some of the control to other employees within the company. Selling a company that is reliant on the owner to be successful is going to be a lot harder to accomplish than selling a company that can run on its own. You also want to make sure key individuals in the company will stay on once the sale happens to make it a seamless transition for the buyer, says Schwerdtfeger.

“There are so many things business owners don’t know about the sales process or about creating value in their business that planning is important,” says Schwerdtfeger. “Planning three to five years in advance is well worth the time you’ll spend doing it.”