STRATEGY # 1

LIQUIDATION

SIX EXIT STRATEGIES
FOR SMALL BUSINESS

This is the close up shop and sell all the assets exit strategy. For small businesses, especially those that are dependent on the performance of a single individual, liquidation is sometimes the only option as there's really nothing else to sell. If you're in this position, you may want to spend some time retooling your business so that it could be operated by someone else – making it a business someone might want to buy.

Advantages

- Simplicity;
- The business can be wound up very quickly (depending on the sale of assets).

Disadvantages

- Liquidation has the lowest return on investment to the owner(s) - the only money from a liquidation sale is from the disposal of **assets**, such as land, equipment, or **inventory** - any goodwill value from client lists or other business relationships (which may be substantial) is lost.
- Second hand business asset values for items such as machinery and equipment can be very low, even in a non-depressed market.
- Creditors (if any) have first claim on funds from asset sales.

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STRATEGY # 2

LIQUIDATION OVER TIME

In this scenario the owner(s) extracts most or all of the profits out of the business over time (before eventually selling or closing the business), rather than reinvesting them in the company for expansion. This is typically done by taking out large salary draws or dividends over a number of years before eventually winding up the business, and is suitable for owner(s) who wish to maximise their current lifestyle rather than aggressively expand their business.

Advantages

- Lifestyle - maximising cash withdrawal on an ongoing basis for personal use (rather than waiting for an eventual windfall from selling the company).

Disadvantages

- Extracting the profits reduces the growth potential and eventual sale value of the business.
- Other shareholders (if any) are likely to object unless they are similarly compensated.
- Salary is taxed as personal income, whereas profits remaining in the company increase the value of the business and will be taxed as capital gains when the business is sold.

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STRATEGY # 3

KEEP YOUR BUSINESS IN THE FAMILY

The dream of many small business owners. Keeping your business in the family ensures that your legacy lives on and provides a living for your heirs. Succession Planning is a complex proposition with many different personalities and egos in play. This needs to be handled with delicacy and sensitivity for all involved.

Advantages

- Can make for a smooth transition by grooming a family successor.
- May allow for you to keep a hand in the business in an advisory (or other) capacity.

Disadvantages

- Developing a family succession plan can be enormously difficult and lead to infighting among family members over ownership and/or participation in the business.
- Family members may not have the skills (or interest) to take over the business.
- Clients may not approve of new management or changes in company direction.

For more on these issues and tips for successfully passing your business on to family, see Family Business Succession Planning.

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STRATEGY # 4

SELL YOUR BUSINESS TO MANAGERS AND/OR EMPLOYEES

Current employees and/or managers may be interested in buying your business.

Advantages

- The business can thrive as employees will get an established business that they are familiar with and are enthusiastic about.
- Arranging a long-term buyout by **employees** can increase loyalty and greatly motivate staff to work hard to make the business succeed.
- May allow for you to keep a share of the business and stay on in an advisory (or other) capacity.

Disadvantages

- Employees may not be suitably qualified to take over the business.
- Clients may not approve of new management or changes in company direction.

One way of setting up this exit strategy is through an Employee Share Ownership Plan (ESOP), a stock equity plan for employees that lets them acquire ownership in a company.

However, an employee buyout doesn't have to involve a stock equity plan - it might be as simple as having one of your current employees take over the business with a straight purchase.

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STRATEGY # 5

SELL THE BUSINESS IN THE OPEN MARKET

This is the most popular option for small businesses. At a certain point in time, often when he or she is ready to retire, the small business owner puts the business up for sale for a certain price - and hopefully walks away with the amount of money she wanted to get for it.

Advantages

- A profitable business should be attractive to buyers and sell quickly.
- Assets and goodwill can be incorporated when valuing the business for sale, maximising the return to the owner(s).

Disadvantages

- A marginally profitable business can be very difficult to sell - according to BizBuySell, only 20% of all businesses listed for sale actually sell. Finding a buyer on the open market can be a long process.
- Businesses can be difficult to value and the selling price may be much lower than expected.

If this is your exit strategy, you should spend some time grooming your business for sale, making it as attractive as possible to potential buyers.

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STRATEGY # 6

SELL TO ANOTHER BUSINESS

Positioning your small business to be a desirable acquisition can be very profitable. Businesses buy other businesses for all kinds of reasons, such as using a new acquisition as a quick path to expansion, realising synergies from complementary business activities, or simply buying out (and getting rid of) the competition.

Advantages

- For the above reasons, a competing business may be highly motivated to purchase your business, making for a quick sale and maximum profit.

Disadvantages

- If the purchaser's only motivation is to reduce the competition, they may fold your business after purchase. Any existing employees may lose their jobs.
- A competitor may only pretend to be interested in purchasing your business in order to get access to your customer list and financial information.

The trick to success with this exit strategy is to target your potential acquirer(s) in advance and position your company accordingly. And of course, convincing your acquirer that your small business is worth what you want for it.

The best exit strategy is the one that best fits your small business and your personal goals.

Decide first what you want to walk away with. If it's just money, an exit strategy such as selling on the open market or to another business may be the best option. If your legacy and seeing the small business you built continue are important to you, then family succession or selling to employees might be best for you.

Whichever exit strategy you choose, you need to start working on it. Planning in advance gives you the time to do it right – and maximise your returns.

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