Do you have a clear and robust exit plan? In the first of a series of articles—outlining the journey towards business owner liquidity—Glenn Bowman sets the stage and offers some preliminary insight for entrepreneurs looking to sell their business.

There's only so much blood, sweat, and tears any one person can put into a business. At some point, something—whether it be age, dwindling passion, a desire to start a new project, or pressing financial needs—will inspire you to exit your business. When that day arrives, you want to extract as much value as possible from the company you worked so hard to create—and to do that, you need a clear and robust exit plan.

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This kind of plan is important for a number of reasons. While every business owner's exit may be inevitable, its success is by no means guaranteed. A seamless exit—one that leaves you with enough liquidity to fund your retirement, your next business venture, your children's future, or whatever "next step" you have in store—is often years in the making. It's based on a carefully-crafted and well-executed strategy—one that considers your financial goals and objectives, the legacy you want to leave behind, and your ideal timeline. It also allows you to effectively pivot and adapt when the winds of change shift.

While crafting such a strategy may seem overwhelming, particularly when you're in the throes of entrepreneurship, it's well worth the extra effort. Not only can it help you focus your exit plan—and allow you to enhance the value of your business—but it gives you control over your future, and helps you determine what type of exit makes the most sense for you.

Identify your goals

The first step in determining your business's future—and your ultimate exit—is to take a good, long look at your individual and business goals. Understandably, this will involve asking some not-so-easy questions. For instance, do you want to sell the business to the highest bidder and use the profits to start the next phase of your life? Or are you also concerned about leaving behind a legacy—a successful business that will continue to provide a decent income for your successors? Will you retain partial ownership or will you cut ties completely? Do you want to see the business continue operations or are you okay with it being dissolved?

Beyond these goals, you'll also want to think about the timeline for your exit. If an illness is the reason for selling your business your timeline will be much shorter—and your exit strategy much different—than if you're planning to retire in 15 years. While it's impossible to anticipate every event that may prompt the sale of your business, it's best to give yourself as long a timeframe as possible to help the business reach its full potential before it's sold.

Determine your liquidity needs

With a firm understanding of your goals and timelines, you can now determine how much liquidity you'll need for your exit—and effectively plan for it. This can be done by leveraging tools such as cashflow forecasts or financial ratio analyses, as well as maintaining consistent and up-to-date records of your business's performance.

By paying closer attention to your financial data—and understanding which business activities are bringing in the most revenue—you'll be well positioned to identify and seize opportunities that will increase your business's exit value. For instance, if your exit is still many years away, it may be worth your while to round out your senior management team with more forward-thinking executives. While you may have to pay more for top talent, you'll likely recoup the costs through more revenue-generating projects and better financial performance—as well as through a higher sale price, since it will become clear that your business isn't solely dependent on you.

In a similar vein, if your exit date is quickly approaching, you may choose to pursue shorter-term income projects or activities that will bring in cash quickly with minimal effort. These could include anything from revamping your membership model—to incentivize members to sign on for a year, say, rather than monthly—or implementing automatic subscription renewals.

Pave a path forward

While it's true there are countless external factors that could negatively, and unforeseeably, impact your exit from your business, these can be at least partly negated with a sound exit strategy. By taking steps to iron out the details around control and ownership, legacy and succession, you'll have the information you need to determine the ideal financial structure or ownership profile that best supports your needs, and ultimately pave a path forward to achieve maximum value.

In the next article

Contrary to popular belief, a complete sale is just one of many exit options available to business owners. In the next installment, we will discuss the many options available.

Ready for part two of the series?

Glenn Bowman outlines what to consider when selling your business. Read article

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