

Business Exit Planning: A Comprehensive Guide for Private Company Owners

Admin User · January 27, 2026

Discover 6 effective ways to exit your private company, from selling to family transfer and ESOPs. Learn how to plan ahead, value your business and ensure a successful transition.

By Susan Mangiero

Bidding adieu to your business can be a head scratcher for private company owners. They must carefully determine how to phase out their involvement without adversely impacting their customers, shareholders and staff.

The issue of owners' readiness to quit their business is consequential given current demographics. Research conducted by the [Exit Planning Institute](#) shows that baby boomers own 51% of American enterprises. Of that total, only one out of every five older entrepreneurs has a viable plan to cash in on their equity.

Reasons why owners are ill-prepared include inertia and the complexity and cost of planning. Limited time is another reason. If you spend your days micromanaging instead of hiring a qualified team to whom you can delegate, you cannot explore, let alone evaluate, the optimal exit for you. Making matters worse, you often depress the value of your ownership stake when you are too involved with daily operations. As Rich Gunn, CPA and partner at BPM LLP explains, "No business should be overly dependent on the business owner and/or key employees."

Ways to Exit Your Business

Effectively transitioning from a busy work life to a comfortable retirement, whatever that means for you, requires the help of an expert, notably someone who understands accounting, corporate finance and tax rules. An exit planning professional can help guide

you to the solution that makes sense for your situation. Absent a one-size-fits-all path, these six approaches merit consideration, but always in the context of what you need, personally and professionally, to quit your business.

1. You can **sell your business outright** for cash to a competitor or an industry peer that seeks to cross sell its products to your customer or an individual who is tired of being a salaried employee and wants to be the one in charge. The type of buyer is one factor in deciding how to exit. A small to midsize competitor may have to pay you in increments over time, forcing you to wait for your money. An individual buyer or consortium of buyers may ask you to consult with them for one or two years, thereby delaying your retirement. A behemoth buyer may decide to jettison parts of your existing customer base or terminate loyal employees, something you don't want to happen.

2. **Transfer equity to family members** if you want to preserve the legacy of your closely held business or provide an economic opportunity for your relatives or both. A problem arises if your children or other family members don't want to be involved or are incapable of assuming responsibilities as new owners.

3. **Secure external capital** from a private equity firm to hopefully increase profitability so you can sell later at a higher price. This is an option if your company has solid growth potential, and you are flexible to sell your business when the private equity asks you to either sell or merge with another organization.

4. **Negotiate a sales price** with the franchisor if you are a franchisee. Depending on the terms of your franchise agreement, you may be able to transfer your economic interest to a third party.

5. **Create an Employee Stock Ownership Plan (ESOP).** The [National Center for Employee Ownership](#) reports a 2022 total of 6,548 ESOPs in the United States with assets exceeding \$1.8 trillion. Manufacturing and professional, scientific and technical services companies rank highest for the industries that utilize ESOPs.

6. **Liquidate company assets.** You may not receive sufficient proceeds to retire in style if your business equipment or your intellectual property is obsolete. On the other hand, life changes such as divorce, illness or loss of a co-owner could necessitate the need for you to raise cash as quickly as possible.

Give Yourself the Gift of Planning Ahead

Carefully preparing for your work exit requires you to take actions in advance of the target date when you want to trade in your coat and tie for golf shoes or a sailing cap. At a minimum, consider hiring or firing managers as your company grows, setting up an estate plan, engaging an appraiser, lining up potential buyers for durable assets or equity and meeting with accounting and tax specialists.

Ivy Slater, CEO of Ivy Success, Inc., and a former printing company owner, recommends a five-year withdrawal plan window. She begins every engagement with a detailed discussion about her client's vision of post-work pursuits. The next step entails calculating the costs required to support travel, weddings, college and other desired endeavors.

Like Gunn, Slater urges every owner to assemble a team of skilled leaders that can keep their business humming along when the owner is away, temporarily, or permanently. She explains, "If you are on a three-week adventure or sadly experience an unexpected family emergency, you need to know someone else is in charge of processing payroll, meeting with prospects and overseeing the day-to-day operations." Slater continues, "Some of my clients gradually retire by working less. They take a sabbatical or embark on a safari for a month. Either way, they depend on capable leaders to bolster the value of the owner's equity by managing the company as smoothly as possible while the boss is away."

Gunn echoes the notion of a three-to-five-year planning horizon. He states, "Every day you are in business, you need to be planning your exit. You might be planning to retire at age 65 but realize, at age 40, your industry is evaporating due to technological advances or excess regulation. You must have a semblance of a contingency plan that can monetize your ownership interest." He tells his clients, "To increase the value of your business, do as much as you can, as early as you can, to fire yourself."

Tips For Retiring Business Owners

The economics associated with exiting your business can be as important as satisfying your personal objectives. Stay smart about your changing circumstances. Check out these five tips.

1. **Get a valuation.** To sell your business, you need to know its approximate worth. A [credentialed](#) and experienced appraiser can render an opinion of value for part or all of your business by analyzing economic conditions, industry trends and what drives your market share, cash flows and profitability.

2. **Document your processes.** To successfully delegate, everyone on your team must agree on, and then implement, compliance, HR, production and sales best practice processes. Gunn says, "An owner's involvement should ensure that every employee can implement quality policies and procedures. The goal is for the boss to walk away from the business and confidently tell a buyer he is getting a turnkey operation that functions without friction."

3. **Understand the accounting, legal and tax implications** of the exit plan options. As Gunn lays out, "Every exit plan has a different set of consequences for the

seller. Think about these consequences prior to a sale since they can impact the formation structure of a company.” Slater endorses doing one’s homework, adding “We don’t know what we don’t know. Recruit an outsider who can provide a steely-eyed perspective about the feasibility of a deal.”

4. **Take charge of your future.** Living life to the fullest goes well beyond dollars and cents. Slater is enthusiastic about solving problems, stating, “I love my clients. I help them create more options to explore. Importantly, exploration requires time. Don’t wait until you are boxed into a corner with limited choices.”

5. **Assess your readiness to exit.** Traditional retirement isn’t for everyone, especially when medical improvements can lengthen longevity. Certain individuals want to always work. Slater says, “Examine the full gamut of possibilities. If you are not emotionally ready to let go, ease into an exit from your business or make peace with your decision to remain actively engaged.”

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Susan Mangiero, PhD, CFA®, CFE, MBA, MFA is an award-winning financial journalist, ghostwriter, and content strategist with articles, books, and thought leadership work appearing in more than one hundred business outlets. Her past work includes trading derivatives on Wall Street, launching a knowledge-sharing digital platform for institutional investors, teaching investments to corporate and university audiences, and testifying as an expert witness about retirement plan governance, financial advisory methods, and investment best practices. Learn more about Susan Mangiero by visiting <https://www.linkedin.com/in/smangiero/>.
