Sixteen Steps to Get Out of A Business

Planning how you exit your business is just as important as planning how you start it. This comes as a shock to many business owners. But you need to think of this as a key element of long range planning for your business. The goal is to maximize the value of your company before converting it to cash and minimize the amount of time consumed.

One needs to think of getting out of business as a process. The length of time required to complete the process is directly related to the complexity of the business and the circumstances underlying this decision to get out of business. I suggest that to accomplish the goal of “maximizing the value of your business”, the process needs to include the following:

1. **Reach Agreement and Obtain Authorization from Owners to Dissolve Your Business Entity.** Agreement and authorization to dissolve a business must be established under some acceptable, governing set of rules, such as the bylaws or partnership agreement. It is best to settle disputes quickly and document any terms and conditions that apply.

2. **Designate a Leader & Organize a Team.** Authority and roles should be clarified. The owner may be the only team member for a home-based business. For a large entity, however, the team may consist of the executive management team and important functional managers whose expertise is not represented: finance, human resources, legal. This group should be as small as possible for efficiency and large enough to include the expertise required to cover the basic planning issues.

3. **Engage Professionals & Consultants as Team Members.** For most small businesses, this group consists of the firm’s legal counsel, CPA, and a business broker or valuation expert. Professional expertise and advice in these areas will contribute to a smooth process and improve the outcome. Perform a thorough review of business and identify problem areas. Establish and maintain a problem list to focus on. Determine the condition of the firm’s records. Review transactions. Problems extend the timeframe and cost money.

4. **Prepare a List of Assets and Perform a Physical Inventory.** The inventory is very important input to several activities. It is used to establish the value of the business, make decisions, and manage disposition of assets, and it becomes the basis for tax calculations and tax returns. Perform a valuation of the business. It is difficult to make prudent decisions without knowing the market value of the business and its assets.

5. **Prepare a Detailed Plan and Assign Responsibilities.** Develop a Schedule for Implementation. A schedule provides the ability to measure progress, estimate completion of critical steps, and project the end of the process. The schedule is also extremely useful for managing cash flow during this uncertain time.

6. **Release Announcements & Notices.** This step is about timing and legal notice. At some point,
interested parties must know what is happening: market, competitors, customers, vendors and suppliers, professional service providers, consultants, trade groups, employees, media, creditors, and contractors. The notice should designate an official point of contact for questions or inquiries.

7. **Implement the Plan.** This is where momentum and activity builds. Things happen very quickly. Without the planning steps, an important degree of control is lost. When that happens, net value is usually decreased in some substantial way.

8. **Conclude or Transfer Contract Obligations.** This process may require approval from contracting parties, and involve negotiation of final terms. Office, car, and equipment leases need to be reviewed, addressed, and terminated. The timing of termination dates for insurance contracts and benefit plans are very important to all involved.

9. **Close Operations.** The timing of this step is important. There is a time when manufacturing or production must cease, retail sales must end, and human resources are pared down. Each affect cash flow and net value dramatically. Security and maintenance services may be an important consideration from this point on.

10. **Dispose of and Transfer Assets.** This is an important tax event. Insurance coverage can be reduced or eliminated. Settle accounts payable and debt obligations.

11. **Prepare Final Financial Statements & Tax Returns.** Final financial statements for the business are important to establish the tax implications for assets, gains, and losses conveyed to the owners or other involved parties.

12. **File Articles of Dissolution.** State licensing departments require a formal filing to terminate the legal and tax status of the business. Examples are articles of dissolution, certificates of withdrawal, and cancellation certificates. This process also results in a review of tax liabilities and issuance of a tax clearance notice or certificate.

13. **To develop a checklist, retrace your steps taken during startup.** Generally, some action is required with all federal and state registration, taxing, and licensing agencies contacted to start the business. Final submittal of payroll, unemployment, industrial insurance, and other business tax returns must indicate that the business status is closed or changed.


15. **Close Bank Account.**

16. **Store Business Records.** Most sources agree that these records should be kept for at least seven years.

In conclusion, the process for getting out of business successfully requires the same amount of planning as going into business. While the process should be easier, it is likely to be less enjoyable and more stressful. The best advice for business owners is to think about the future during the early stages of getting into business. Remember that you can learn more about managing your small business, by contacting SCORE, America’s free and confidential source of small business mentoring and coaching.

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