

Options to Transition Your Business

After many years of dashing off to the work, a business owner may reach an age where he or she may begin to think about scaling back. Often times, just getting out of the business isn't an option, because she has too many years left before retirement, yet she may begin to think about other ways that she might spent her time other than working.

As baby boomers age, more and more business owners will face this issue. For a few select people who have done the proper planning, there will be an opportunity to have your cake and eat it too. A chance to still be part of the company, watch it grow and yet take extended time away. It may take some creative thinking, but it is possible.

First, however, let's look at the traditional ways to leave a business. They include:

- Selling the company to someone
- Transitioning the company to the next generation
- Creating an ESOP
- Closing the business

There are positives and negatives for each of these traditional paths.

In today's market there are more businesses on the market than ever before, and fewer buyers – since younger people are not stepping up to the plate. As a result, there is less chance of selling the business in the next 10 years. Banks and lending institutions, burned by the Great Recession, have made funding harder to obtain, and are providing fewer chances of leveraging assets in the business.

Other baby boomers may not have the desire to expand their businesses, also resulting in fewer potential buyers in lateral positions to the business.

Those businesses that are profitable will be more attractive to a new buyer, will sell at a lesser multiple and will result in buyers more willing to carry people for a longer period of time. They need to know that you are selling a company – not just a job. Buyers who are eager to purchase the business will be willing to pay more cash up front, or over a shorter period of time.

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First, you need a family member who wants to be in business – your business. That’s easy to say, but many times a young person wants nothing to do with mom or dad’s business. Second, the young person must have the skill set to acquire and run the business. The business may become part of an estate or business transfer. With this transition procedure, you may have to leave your equity in the company, or take it out over time, with a greater risk of losing it. It is sometimes hard for two generations to get along and agree on management decisions.

An employee stock ownership plan, or ESOP, won’t work for every business. Its applicability is limited by a company’s size and profitability. However, it can provide excellent tax breaks and the opportunity to get cash for the business. To be successful, you need a strong manager.

As baby boomers age over the next decade, we will see many businesses closing their doors, especially in situations where the business ends a large production job.

There are unseen costs when closing a business. Owners face the emotional toll of letting long-term employees go, as well as selling assets, often at a loss.

A new philosophy for a business transition allows owners to remain with the business for a period of time while reducing their hours and responsibility. Like some of the other options for transitioning your business, the feasibility of becoming an absentee owner will depend on the profitability of the company and whether the right personnel are in place to manage the business when you aren’t there. It also requires the business owner to relinquish at least some of the control of the business.