FrankelZacharia LLC

Certified Public Accountants

Preparing for Transition? Make a Successful Ownership Transition by Knowing Your Options

You've started and established your business, despite everything that was against you. But that doesn't mean that it's time to sit back and take it easy! Succession planning for your business can be handled as quickly as the day you start your business, but it should start at least five years before you want to leave it. If you put off your exit strategy until you're ready to get out, you may have seriously limited your options, including who you can sell to, the value you'll receive and how successful the transition goes. You can also expect that your succession plan will need to be adapted because of circumstances that are beyond your control, and similar changes. This can include issues such as health, life changes, key employee departures, market conditions, interest in your company by intended successors and similar problems. Though every entrepreneur has heard stories from people who sold their small company for a huge sum of money, they tend to be the exception, not the rule. There are six options you'll typically find available when you're ready to leave your business.

Six Options for Transferring Business Ownership Successfully

1. Pass ownership onto family

You've built a legacy and now you're ready to pass it on to a younger sibling or the next generation of your family. This is often an entrepreneur's dream, providing for their family for generations into the future. However, it may not be your kids' dream, and they could have no interest in taking over. Though you have the option of providing them with the business as a gift, it does not deliver much or any value to you at the time, which can limit your retirement income if you haven't made other arrangements.

2. Sell to key employee(s)

Your next option is selling your company to a key employee who is already experienced with your business However, many employees will have limits to their financial resources or may not have the business acumen to be a good entrepreneur. You'll spend some time training the employee and may have to finance the deal personally or through your business, due to difficulty with bank financing. Is the risk one you're willing to take on or will your company's balance sheet work well with the debt and distributions needed for this type of transfer?

3. Sell to an outside individual

Though selling to an outside party can provide you with a great value, the opportunities to do so may be limited, especially in industries that are not seeing rapid growth. They may also come from a small pool, limiting your sales options, or they could have limits on their financial resources, making it difficult to raise the capital needed to buy.

4. Take a merger to another company

Though merging with a competitor or selling to a private equity group can also provide good value, you'll also find limited opportunities, unless your company has something the other business wants, such as territory, key employees, customer relationships or technology. At the same time, private equity firms want recurring revenue streams such as service contracts.

5. Add an employee stock ownership plan (ESOP)

To gain good value while keeping your business going, an ESOP facilitates your plans but can have issues with bonding. As an ESOP, the owners are not always willing to give a personal guarantee, and there is the question of who is running the company. Is your management team flexible enough to work in this type of culture?

6. Sell your assets and liquidate

Though this is often the easiest way to get out of a business, it also provides the lowest value for the owner. This involves selling off equipment, assets and real estate, collecting your receivables, paying off any liabilities and similar options. Because people know that you're doing these things to get out of the business, you're unlikely to make a lot of money in the process.

Whatever option you go with, the selling price needs to make it easy for the seller and buyer to have success. Gifting or a combination with a sale for family, grantor-retained annuity trusts and intentionally defective grantor trusts can be solid tools to minimize impact, as are company loans, bonuses, deferred compensation plans and distributions.

We Can Help

As your most valuable asset, your company needs to be transferred to the right individual or partners while still delivering a solid value for your equity in the company. Our experienced team of business advisors is more than happy to work with you to create a solid plan for the succession of your business.

CLOSE:

If you have any questions about transferring ownership of your business, please contact Frankel Zacharia, LLC at 402.496.9100.