



# Eliciting Excellence

Helping successors succeed  
and owners get paid™

Michael Beck International, Inc.  
Portland, OR USA

## Planning on Selling Your Business? Think Again...



Everyone's heard about how Baby Boomer business owners will be retiring and the wave of business successions/exits that will occur as a result of those retirements. But there's a problem that almost no one is discussing. Our research clearly shows that there aren't enough buyers for all those businesses. Here's why and what you can do about it.

The SBA reports that there are roughly 6,000,000 small employers in the U.S. Of those 6 million businesses, approximately 3,600,000 are owned

by people over 50 years old (Baby Boomers) and about 2,400,000 are owned by people 30-50 years old (GenX). Based on the US Census population statistics, this means about 4.5% of Boomers own a business and about 3.0% of GenX'ers own a business. Even if the inclination for GenX'ers to own a business (3.0%) rises to that of Boomers (4.5%), it means that there is going to be a significant lack of demand for all those Baby Boomer businesses coming on the market. It means that 2/3 of all Boomer businesses won't find a buyer! Where does that leave owners who can't find an individual buyer? Here are the six options open to them:

### STRATEGIC ACQUISITION

There are always companies looking to acquire or merge with businesses that complement or expand their core business. The purchase is considered "strategic" because it expands market share, affords economies of scale, or adds products and services that dovetail with or complete the current offerings of the acquiring company.

Considering the large number of businesses that will be hitting the market over the next 10-15 years, only the most profitable, highest regarded, or fastest growing businesses will be strong candidates for an acquisition at full market value.

### "FIRE SALE" ACQUISITION

Businesses that could be a candidate for a strategic acquisition but whose profits or growth curve are weak or aren't quite a perfect fit in their offerings for an acquiring company may still be candidates for acquisition. The problem, however, is that they won't be able to command their full market value. Because they're not as attractive to a strategic buyer and because there will be so many of them, the only incentive to complete the deal will be to lower their asking price – sometime significantly.

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## SELL TO A SUCCESSOR

One of the better options for many businesses will be to develop a successor and sell the company to them at full price. Their successor may be one or more family members, or one or more key executives within the organization. Some banks may be willing to fund the buyout, but as the number of businesses for sale increases, the majority of internal sales will be paid for out of future cash flows.

Therefore, it becomes critical to identify a successor as soon as possible, determine whether they actually want to own and run the business, and then ensure they are well-prepared to be an effective leader and a successful owner. It generally requires one to two years of development to hone someone's leadership capabilities, their strategic thinking, and their judgment. Without that development, you run the risk of the business not being able to make those buyout payments.

## DON'T SELL TO A SUCCESSOR

A variation of selling to a successor is to bring on a successor to run the company but not sell the stock. This option allows the owner to draw out the business' value from the company while still owning it, but without needing to run it on a day-to-day basis. It requires finding and developing a strong successor, and then rewarding him or her for good performance.

## CREATE AN ESOP

In the absence of a strong successor, an option that will also yield full market value is to set up an Employee Stock Option Plan (ESOP). This approach can increase employee loyalty and productivity, ensure business continuity, and gain some tax advantages. An ESOP can be effective, but it requires one or two years of planning, along with the training and development of the people who will be directing the organization.

## CLOSE THE BUSINESS

If a business can't find an individual buyer, is not a candidate for acquisition, has no successor and isn't able to structure an ESOP, the only course of action will be to close down the business and sell off the assets. Obviously, this is the least desirable outcome. We believe all too many businesses will be facing this stark reality if they don't put plans in place at least two or three years prior to a planned retirement.

## THE BOTTOM LINE

The bottom line is that if your businesses isn't in high demand and you'd like to sell it for a reasonably strong price, the best course of action is going to be either developing a strong successor or structuring an ESOP.

If you'd like help assessing potential successors and developing them, please contact us. We specialize in successor development. If you'd like help setting up an ESOP, we can help you find a qualified professional. [www.ElicitingExcellence.com](http://www.ElicitingExcellence.com)

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