



# 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 Baby Boomers and about 2,400,000 are owned by GenX'ers. 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. Human nature being what it is, we expect the percentage of GenX'ers who want to own a business to also rise to 4.5% as they get older. None of that is especially surprising – until you think about it a bit more. *And then it becomes alarming.* It becomes alarming because that rise in GenX owners from 3.0% to 4.5% represents only 1/3 of the Boomer businesses that will be for sale.

***The result is that 2/3 of all Boomer businesses won't find an individual buyer!***

But what about strategic acquisition and private equity money? There's lots of money looking for a home, right?

There are always companies looking to acquire or merge with businesses that complement or expand their core business. After all, the acquisition is considered "strategic" because it expands their market share, affords economies of scale, or adds products and services that dovetail with or complete their current offerings. But only the most profitable, highest regarded, or fastest growing businesses will be strong candidates for a strategic acquisition at full market value. The reality is (and always has been) that most companies will not be good candidates for strategic acquisition.

When it comes to private equity, pretty much all private equity investors are looking for opportunities with high profit growth potential. And as we know, most businesses are more about steady growth and consistent profits. They just don't pencil out for that big, private equity payday.

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Historically, between M&A deals and Private Equity deals, only about 15-25% actually close. Even if we're optimistic and assume 25% of the available businesses can attract private equity money or a strategic buyer, **it leaves a full 50% of boomer businesses without a buyer or acquirer!** (75% of the 2/3 noted above)

If owners REALLY want to sell their company to an outsider, they should work with an experienced Transition Specialist, M&A Advisor, Investment Banker, or Business Broker. It will maximize their chances of getting sold. In addition, they should get preliminary **Quality of Earnings** and **Quality of Leadership** reports done. These reports will highlight any weaknesses that need to be addressed before going to market, thereby increasing their chances of attracting a buyer and closing a deal.

So, where does that leave owners who can't find a buyer or attract money? Here are the five options open to them:

## **"FIRE SALE" ACQUISITION**

Businesses whose profitability and growth are weak or who aren't quite a perfect fit 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 businesses on the market, the only incentive to complete a deal will be to lower their asking price – sometime significantly.

## **FIND A SUCCESSOR**

One of the better options for many businesses will be to recruit and develop a successor, and then sell the company to them at full price. Some banks may be willing to fund a portion of the buyout, but the majority of internal sales will be paid (in part or in full) out of future cash flow. Consequently, it is critical to find a successor as soon as possible and 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.

## **KEEP THE BUSINESS**

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.

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## **CREATE AN ESOP OR AN MBO**

In the absence of a strong successor, an option that will also yield full market value is to set up an Employee Stock Ownership Plan (ESOP) or a Management Buyout plan. This approach can increase employee loyalty and productivity, ensure business continuity, and gain some tax advantages. These solutions can be effective, but require one or two years of planning, along with the training and development of the people who will be directing the organization. Additionally, it can be expensive to establish an ESOP and is therefore not a practical option for most companies.

## **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 the business and sell off the assets. Obviously, this is the least desirable outcome. The owner will receive pennies on the dollar and the livelihood of all the employees and their families will come to an end.

We believe all too many businesses will be facing this stark reality if they don't put plans in place at least two to three years in advance of 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 generally going to be to recruit and develop a strong successor.

If you'd like help recruiting, assessing,  
and/or developing a successor for your  
business, please contact us.  
It's what we specialize in.

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