Succession Planning

Exploring Your Options

|  |  |  |  |
| --- | --- | --- | --- |
| Approach/Option | Description | Pros | Cons |
| Dissolve the business and sell assets | Many business owners choose to quietly wind down their business, sell any tangible or intangible assets where possible, and move on. | * Dissolving is relatively easy * Owner can end involvement with the business at any time. * Potential successors may be disappointed | * Usually no legacy * Assets may be difficult to sell independently * No goodwill or future cash flows considered in sale |
| Sell to key employees/managers | Under this scenario, the business owner identifies one or more employees and negotiates a purchase and sale agreement with them. | * Greater chance of successful transition, since employees know the business well * Built-in target market * Can often sell faster and more seamlessly * Generally less post-sale involvement/coaching required (since employees know the business well) | * Negotiating with one or more employees can be difficult while also running the business * Can be complicated if some employees are interested and others aren’t * Employees may not be the highest bidder (less return) * Failed negotiations can be disastrous for the operation |
| Form a worker cooperative | A worker co-operative is a distinct legal structure, where the owner sells to a group of employees. These employees democratically manage the company and actively recruit other employees to acquire an ownership stake. | * Greatest chance of longevity * Business model is good for all employees (social good) * Increases employee engagement * Many employees = larger pool of capital to buy the business * Employees tend to be heavily invested (financially + emotionally) | * Requires lengthy negotiations * By-laws and additional legal requirements * Democratic decision-making model can slow business progress * No outsized return on investment for any individual |
| Sell to an outside buyer you know | Some business owners opt to sell their business to a friend, an acquaintance, a supplier, or someone else they have an existing relationship with. | * Buyer and seller tend to be more open earlier in the process * May be easier to ensure confidentiality * Better able to assess buyer’s ability to manage the business | * Can strain personal relationship if negotiations go awry * Can strain personal relationship if buyer is unsuccessful after takeover |
| Sell to an outside buyer you don’t know | Selling to the highest bidder (or whoever can act the quickest) is an attractive option for many business owners. | * Best chance to maximize return on investment * Casts a wide net (quicker sale?) * Can find a prospective buyer faster * Can be less difficult negotiating with an unknown party | * Takes time to build trust * More difficult to ensure confidentiality * May be required to stay on after takeover to coach successor * Tougher to protect employees’ jobs |
| Sell to a competitor | This is the first place many business owners look to, once they have determined that selling the business is their best move. | * Easily identifiable target market * Often have the capital to get a deal done quickly * Competitor knows the business (higher chance of successful transition) | * Forced to disclose intentions and financials to the competition (may be bad strategically) * Little chance for legacy * May cause friction for employees |
| Merge with another business | Similar to selling to a competitor, but with a view towards building a much larger and more prominent enterprise. | * Produces more value in total than either firm can produce on its own * Can create major growth opportunities * Cost effective way to fuel expansion | * Mergers notoriously difficult to negotiate, and time consuming * Can be very stressful for employees * Multiple decision-makers can muddy the process |
| Pass business on to children/family | An extremely common approach to succession planning for small and medium-sized enterprises, and multi-generational businesses. | * Pride of keeping the business in the family * Provides high value jobs and investment opportunity to beloved family members * Saves effort of having to look for outside buyers * Children can be groomed over many years * Possible tax advantages * Business retains its values | * Children may not be interested (or worse, may feel pressure to be interested) * High risk of fractured personal relationships * One child may feel cheated * Emotions, not logic, can drive decisions * Almost impossible to make a ‘clean break’ from the business * Children may not have the skills |
| Keep business as a cash cow | Instead of selling the business, some business owners decide to hire a manager and take a hands-off role (while still reaping a return on investment). | * If well executed, returns continue to roll in * You retain ownership of the business, so you can step back in if you decide to * No complicated negotiations | * Business may flounder without your everyday presence * Manager may not be as motivated to grow the business * You still have liability and risk |