Succession Planning

Exploring Your Options

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| 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
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| 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
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| 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
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| 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
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| 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
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| 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
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| 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
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| 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
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| 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
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