
# What are Your Ownership Transition Alternatives?

By Ken Serwinski

There are several paths you can take when it comes time to transition ownership of your business. How do you determine which one is right for you? For an owner of a closely held business, few questions require as much soul-searching as the issue of whom to transition ownership to when it's time for you to retire. That's understandable, of course. For years, your business has consumed your days and sometimes your nights – can you count the number of times you were stuck at the office working late? Like one of your children, you want to protect your business, nourish it, help it grow and then give it the freedom to start a new life.

But in order to ensure your business will continue to thrive, you need to know your ownership transition alternatives and plan an exit strategy – sooner, rather than later. Too often, owners of closely held businesses fail to adequately plan for ownership transition – or plan too late. This limits the choices available, and the business owner may have to settle for a solution that is less perfect. By planning early, one has more options available and can begin taking steps to put a plan in place.

Several ownership transition alternatives exist:

- Transition of ownership to a family member
- Sale of the business to a third party (strategic buyers, financial buyers, whole or partial sale)
- Management buyout ("MBO")
- Sale to employees through an Employee Stock Ownership Plan ("ESOP")
- Leveraged recapitalization
- Combination of two or more of the above options

These alternatives move the ownership in very different ways; however each has its own possibilities and limitations. The alternative that is right for you can only be determined after careful analysis of several factors.

**Timing** – When do you plan to retire? This significantly affects which options are available to you.

**Financing** – What sources of financing are available? Does your successor have the cash to purchase the company?

**Leadership** – Do you have a strong management team in place – people who are capable of running the business after you're gone? Is your management infrastructure stable enough to entice an outside buyer?

**Third-party salability** – Does the nature of your business lend itself to an acquisition or third party sale?

**Level of uniqueness** – How unique is your business/ industry? Does its success depend on the talents of your managers or employees?

**Value expectations** – What do you think your company is worth? What is it really worth? Do you need immediate or long-term liquidity?

**Risk** – What is your risk comfort level? Do you expect the value of your company to increase (or decrease) over time?

A good exit strategy will take all of these factors (and more) into consideration. The right choice can only be made after carefully weighing the pros and cons of each alternative as well as addressing your company's overall capital structure to determine whether it can support each possibility. It is also important to remember that ownership transition alternatives are fluid; for example, a business owner might sell a portion of his or her business to management and a portion to an ESOP.

Your exit strategy isn't set in stone, either– it can develop and change over time. You can sell your business to an ESOP, but that doesn't preclude you from selling to a third-party at a later date if you receive an offer that you can't refuse.

Once you have a complete understanding of every alternative, you can make an informed decision that has the highest likelihood of achieving your personal and business goals. By planning well in advance, you'll not only have more options available to you, but you'll also have the flexibility to modify your exit strategy as needed – and as a result, the peace of mind of knowing that the future of your business is well taken care of.

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