FINANCIAL CONFIDENCE ADVISORS
850 - 1185 W. Georgia Street, Vancouver, BC V6E 4E6
P: 604-629-2853 www.FinancialConfidence.com

Business Successor Options

What Are Your Options for Business Succession?

OVERVIEW

Choosing your target successor is not an easy choice. In the business world today, owners must choose from a limited number of possible successors:

- A child or children (or other family members)
- A co-owner or co-owners
- A key employee or key employee group
- An unrelated third party

BENEFITS

Choosing the right successor is an important choice and you want to make sure whom ever you choose is the right fit for you and for your business. Below are the three options with pros and cons for the following successor targets:

- Transfer to children
- Sale to employees
- Third party sale

Pros and Cons for Business Successor Targets

OPTION 1	**TRANSFER TO CHILDREN ADVANTAGES** • Fulfills personal goals of keeping the business and family together. • Provides financial well-being for younger family members unable to earn comparable income from outside employment. • Allows owners to stay active in the business with their children. • Allows owners to control their departure date. • Enables owners to start with, "How much do I need or want?" rather than saying, "This is how much I am willing to give you."
	TRANSFER TO CHILDREN DISADVANTAGES • Great potential exists to increase family friction, discord and a feeling of unequal treatment among siblings. • Financial security is normally diminished, not enhanced; although with careful planning and implementation, financial security often can be achieved while transferring the business to children. • Because family is involved, the owner's control may be weakened. The real risk of transferring the business — because of family ties — to someone who can't or won't run it properly threatens the owner's financial security and the existence of the business
OPTION 2	**SALE TO EMPLOYEES ADVANTAGES** • Owner can structure the deal ahead of time to suit his or her particular needs and objectives. • With proper planning, possible to retain control until business is sold. • Pre-qualifies the buyer through on-the job training and observation. • Continues the "culture" or mission of the business. • Ensures that all of the employees who helped build the business won't lose their jobs and future with the company. • Steps taken to build value and train future owners will make the business more profitable, more stable and better managed.

	SALE TO EMPLOYEES DISADVANTAGES • No cash up front unless the owner has pre-funded, and even then, he or she has probably pre-funded with money that was the owner's anyway. • A greater risk may exist because the owner's buyout money typically comes from the future earnings of the business after he or she leaves it. • In some instances, if the business is worth more than $3-$5 million, it can be very difficult for the employees to be able to afford it. The owner may simply have too much money and financial independence at risk. • Employees are often employees because they don't have an owner mindset.
OPTION 3	**THIRD PARTY SALE ADVANTAGES** • If the business is properly prepared for sale, the owner can get cashed out at the closing, thereby receiving immediate cash. This ensures that owners attain their fundamental objective of financial security and, perhaps, avoid risk as well. • A second primary objective discussed earlier — treating all children equally — also is easier to achieve because the owner can eventually just divide the money among the children on an equal basis without having to worry about who is going to run the business. • Often an unanticipated advantage in selling to a third party is the ability to possibly receive substantially more cash than first anticipated because the market is "Hot."
	THIRD PARTY SALE DISADVANTAGES • Regardless of what the buyer says, the personality and culture of the owner's business will undergo a radical change. The buyer would not buy the business unless he or she is convinced that the company can be improved through change. Maintaining the culture of the business is normally best achieved by selling to someone other than an outside third party. • If the owner does not receive the bulk of the purchase price in cash at closing, the owner's risk is often substantial. The best way to avoid this risk is to structure a deal in which the owner receives all of the money he or she will need at closing so that anything else is gravy. • M&A market may not be ready when owner is; owner may not be ready to sell when M&A market is "Hot."

Call Us to Learn More About Business Succession

Keith Brown, CFP, CLU, CH.F.C, FEA, CExP™
Financial Confidence Advisors Inc
850 - 1185 W. Georgia Street
Vancouver, BC V6E 4E6
T: (604) 662-5500 • F: (604) 662-3208
Keith@FinancialConfidence.com
www.FinancialConfidence.com