

# Succession Planning

## Exploring Your Options

Approach/Option	Description	Pros	Cons
<b>Dissolve the business and sell assets</b>	Many business owners choose to quietly wind down their business, sell any tangible or intangible assets where possible, and move on.	<ul style="list-style-type: none"> <li>• Dissolving is relatively easy</li> <li>• Owner can end involvement with the business at any time.</li> <li>• Potential successors may be disappointed</li> </ul>	<ul style="list-style-type: none"> <li>• Usually no legacy</li> <li>• Assets may be difficult to sell independently</li> <li>• No goodwill or future cash flows considered in sale</li> </ul>
<b>Sell to key employees/managers</b>	Under this scenario, the business owner identifies one or more employees and negotiates a purchase and sale agreement with them.	<ul style="list-style-type: none"> <li>• Greater chance of successful transition, since employees know the business well</li> <li>• Built-in target market</li> <li>• Can often sell faster and more seamlessly</li> <li>• Generally less post-sale involvement/coaching required (since employees know the business well)</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiating with one or more employees can be difficult while also running the business</li> <li>• Can be complicated if some employees are interested and others aren't</li> <li>• Employees may not be the highest bidder (less return)</li> <li>• Failed negotiations can be disastrous for the operation</li> </ul>
<b>Form a worker cooperative</b>	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.	<ul style="list-style-type: none"> <li>• Greatest chance of longevity</li> <li>• Business model is good for all employees (social good)</li> <li>• Increases employee engagement</li> <li>• Many employees = larger pool of capital to buy the business</li> <li>• Employees tend to be heavily invested (financially + emotionally)</li> </ul>	<ul style="list-style-type: none"> <li>• Requires lengthy negotiations</li> <li>• By-laws and additional legal requirements</li> <li>• Democratic decision-making model can slow business progress</li> <li>• No outsized return on investment for any individual</li> </ul>
<b>Sell to an outside buyer you know</b>	Some business owners opt to sell their business to a friend, an acquaintance, a supplier, or someone else they have an existing relationship with.	<ul style="list-style-type: none"> <li>• Buyer and seller tend to be more open earlier in the process</li> <li>• May be easier to ensure confidentiality</li> <li>• Better able to assess buyer's ability to manage the business</li> </ul>	<ul style="list-style-type: none"> <li>• Can strain personal relationship if negotiations go awry</li> <li>• Can strain personal relationship if buyer is unsuccessful after takeover</li> </ul>

<b>Sell to an outside buyer you don't know</b>	<p>Selling to the highest bidder (or whoever can act the quickest) is an attractive option for many business owners.</p>	<ul style="list-style-type: none"> <li>• Best chance to maximize return on investment</li> <li>• Casts a wide net (quicker sale?)</li> <li>• Can find a prospective buyer faster</li> <li>• Can be less difficult negotiating with an unknown party</li> </ul>	<ul style="list-style-type: none"> <li>• Takes time to build trust</li> <li>• More difficult to ensure confidentiality</li> <li>• May be required to stay on after takeover to coach successor</li> <li>• Tougher to protect employees' jobs</li> </ul>
<b>Sell to a competitor</b>	<p>This is the first place many business owners look to, once they have determined that selling the business is their best move.</p>	<ul style="list-style-type: none"> <li>• Easily identifiable target market</li> <li>• Often have the capital to get a deal done quickly</li> <li>• Competitor knows the business (higher chance of successful transition)</li> </ul>	<ul style="list-style-type: none"> <li>• Forced to disclose intentions and financials to the competition (may be bad strategically)</li> <li>• Little chance for legacy</li> <li>• May cause friction for employees</li> </ul>
<b>Merge with another business</b>	<p>Similar to selling to a competitor, but with a view towards building a much larger and more prominent enterprise.</p>	<ul style="list-style-type: none"> <li>• Produces more value in total than either firm can produce on its own</li> <li>• Can create major growth opportunities</li> <li>• Cost effective way to fuel expansion</li> </ul>	<ul style="list-style-type: none"> <li>• Mergers notoriously difficult to negotiate, and time consuming</li> <li>• Can be very stressful for employees</li> <li>• Multiple decision-makers can muddy the process</li> </ul>
<b>Pass business on to children/family</b>	<p>An extremely common approach to succession planning for small and medium-sized enterprises, and multi-generational businesses.</p>	<ul style="list-style-type: none"> <li>• Pride of keeping the business in the family</li> <li>• Provides high value jobs and investment opportunity to beloved family members</li> <li>• Saves effort of having to look for outside buyers</li> <li>• Children can be groomed over many years</li> <li>• Tax advantages</li> <li>• Business retains its values</li> </ul>	<ul style="list-style-type: none"> <li>• Children may not be interested (or worse, may feel pressure to be interested)</li> <li>• High risk of fractured personal relationships</li> <li>• One child may feel cheated</li> <li>• Emotions, not logic, can drive decisions</li> <li>• Almost impossible to make a 'clean break' from the business</li> <li>• Children may not have the skills</li> </ul>
<b>Keep business as a cash cow</b>	<p>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).</p>	<ul style="list-style-type: none"> <li>• If well executed, returns continue to roll in</li> <li>• You retain ownership of the business, so you can step back in if you decide to</li> <li>• No complicated negotiations</li> </ul>	<ul style="list-style-type: none"> <li>• Business may flounder without your everyday presence</li> <li>• Manager may not be as motivated to grow the business</li> <li>• You still have liability and risk</li> </ul>