

ON YOUR OWN

# Passing the torch

## A company can thrive long after the owner leaves with the right preparation

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In our country's free enterprise system, there can be no greater accomplishment than building a business that creates solid, meaningful jobs. But unfortunately, this lifetime of great accomplishment has to end. Inevitably the time comes when ownership of the business must change. Will you be ready? Will the business survive?

Starting a business, finding a market, funding it, growing it and stabilizing it is tough work. Most business founders spend their entire working life adjusting, refocusing and building their enterprise. Many self-employed business people find that their personal identity becomes completely intertwined with that of their business.

### Weighing the options

Many entrepreneurs dream of turning their business over to their offspring. If that is your wish, then planning for the transfer of ownership cannot start soon enough. When will the transfer begin? How will ownership be divided and transferred? Who will have what responsibilities? What happens if your son or daughter changes their mind about the business? These questions require much thought but, in fact, are the easier ones to answer. More difficult are other issues, such as what happens if your new partner, your daughter, goes through a difficult divorce? How could the business be impacted?

Obviously, the need for an experienced lawyer and knowledgeable accountant is critical. Some sobering statistics should also be considered. The Small Business Administration reports that only 30% of family-owned businesses survive to the next generation and only 50% of those make it to the third generation. Still, if it is your dream to keep the business in the family, start the planning process as soon as possible. A good first step is a visit to the website of the Institute for Family-Owned Businesses [www.fambusiness.org](http://www.fambusiness.org).

Another option is to transfer ownership to your employees. This is a noble concept but also a time-consuming and rather expensive proposition. Many business owners forego this option for the simple reason that they often find themselves as the primary funding source for the new ownership. On the plus side, the new owners know everything about the business and how it operates from day one. The opportunity for continued success is strong. Still, this is a legally intensive way of transferring ownership and all of the ramifications need to be studied.

The ESOP (employee stock ownership plan) Association specializes in the mechanics of such stock transfers and can be found on the web at [www.esopassociation.org](http://www.esopassociation.org).

The most common way to transfer business ownership is to sell the company to an outside party. This is the most popular option for a variety of reasons. It could be that the business owner does not have suitable family members waiting in the wings. It could be that the owner lacks the time or resources to move forward with an ESOP. The owner may be counting on significant cash from the sale of the business in order to fund retirement. Or the owner is just burned out and wants a clean separation from the enterprise that he or she has built.

### **Bring in an expert**

A business owner choosing this option should retain a professional intermediary to facilitate the sale. In most cases, strict confidentiality must be maintained. It is also important to sellers that intimate details concerning the company be exposed only to those who can make an acquisition. An experienced intermediary should be able to maintain confidentiality while introducing the business to qualified acquirers.

A properly managed sale by a mergers and acquisition specialist or business broker should result in the seller realizing greater gain from the transaction. Professional intermediaries understand how a business will be received in the marketplace and know how to identify the best possible acquirer. They also play an important role on the seller's behalf during negotiations on price and terms. Perhaps most importantly, the business should be positioned to continue well into the future with the right buyer brought to the table.

Your exit will eventually come. Those who prepare in advance will recognize the best results. Those who do not and instead wait for a health problem or worse to crop up rarely maximize the return on their personal investment. Business owners spend a lifetime building their companies — don't be caught by surprise. With proper planning, a business should survive long after the founder has left the building.

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