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Selling Your Business to Outsiders Yields Better Results, Right?

We talk to business owners every day who plan to exit their companies via a sale to a third party because they think they'll get more cash up front than if they sell the company to insiders. Are they right?

In most cases, we say, "no," and here's why:

Third Party Sales Involve Risk
1. Sales to third parties are less risky than sales to insiders only if a business can be sold for all cash, or if there's simply no time to implement a carefully designed sale to an insider.
Some investment bankers suggest that unless a company meets the following criteria, it's unlikely to sell to a third party-for, substantially, all cash. It:

- has more than $1 million (or even $2 million) in Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA);
- is in an attractive market sector;
- has strong fundamentals; and
- enjoys a unique competitive advantage;

2. Selling to a third party requires a third party wanting to buy. In a difficult M&A market, being in an attractive market sector is more important than ever. "Hot" or "niche" industries include: power, alternative energy, health care, medical services, and healthy-living products. Companies engaged in construction, retail, real estate, automotive and consumer products will find it difficult, if not impossible, to attract a buyer in today's marketplace.

Most companies don't meet the criteria above and find today's M&A market decidedly cool; if not stone cold. Realistic owners quickly realize that there simply are no third parties interested in their companies.

3. Waiting involves risk. We suspect that some owners hold to the belief that there's little risk in waiting for a third party buyer because it provides an excuse to "avoid the hassle" of planning. However, what if a qualified buyer doesn't show up? What happens if, when you are ready to sell the M&A market is dormant; or your industry niche has fallen out of favor; or your business and/or the economy is in decline or worse?
Why subject your future financial security to these uncertainties? Why not assume control of your exit-your life, really-by creating an exit strategy that allows you to:

- choose your buyer,
- name your sale price,
- control ownership until you are fully paid, and
- shift the burden of the company's future performance from you to the buyer?

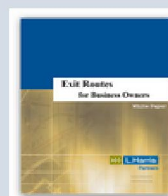
Insider Sales Require Time to Plan
While sales to insiders require work on the owner's part, sales to third parties can require just as much work and be just as time consuming. Once owners understand third party sales, they usually agree-especially if their companies are too small to attract qualified third party buyers-that transferring to insiders is a far better course than liquidation.

The Objection to Insider Transfers
The most common objection to an insider transfer is that insiders don't have money to begin buying your company.
That's true-today. But they can and will if your company has good cash flow and a good management team that desires ownership, and you have ample time to design a tax-sensitive transfer plan and to implement that plan.

Insider Sales Yield Cash
Owners can often get as much cash, often with no additional risk, from an insider transfer as they can from a third party sale if they have time to work with their advisors to design and to implement a plan.If owners use time wisely, there's no reason that the insider transfer cannot yield as much cash as the third party sale.

50%

Did you know that approximately 50% of business owners anticipate a third-party sale?



There are actually 8 ways to exit your business. Do you know what they are and which one is best for your business? We invite you to download our free Exit Routes for Business Owners white paper to learn the advantages and disadvantages of each.

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