

10 Keys to Selling Your Business to Insiders



If you plan to pass ownership of your business to your children, key employees or to other co-owners, here are ten things to keep in mind.

1) Time.

A transfer to insiders takes time; time to plan, time to implement, and to pay the departing owner. Typically, the more time you allow for the transfer of the company, the less risk they incur and more money you'll receive from the new owners.

For that reason, ask yourself: Am I willing to take time (typically 3-8 years) to execute and complete an insider transfer (while maintaining control)? If the answer is no, then it's probably best to consider other exit paths.

2) Defined Owner Objectives. If you're willing to devote the time necessary for this exit strategy, you must also define and or quantify your objectives. These could include:

- Financial security and independence
- Departure/retirement by a chosen date
- Keeping family legacy or company culture intact
- Rewarding key employees
- Taking the business to the next level-on someone else's dime.

In a well-designed transfer plan, these objectives are met *before control is transferred.*

3) Cash Flow. Healthy cash flow is critical to any sale. No buyer, (outside third party or insider) wants to buy a company with anemic cash flow. In a transfer to insiders, however, cash flow assumes gargantuan importance because initially it is the major, if not sole, source of your sale proceeds.

4) Growth in Business Value. Like healthy cash flow, buyers look (and pay top dollar) for companies that have the potential to grow in value. In transfers to insiders, only if cash flow continues to grow does the ownership transfer generally occur. For this reason, it is vitally important that owners contemplating an insider transfer install and cultivate Value Drivers before and during their exit transition.

5) Capable management desiring ownership. Having a motivated management team in place and capable of replacing you is incredibly valuable to any buyer. In a transfer to insiders, such management is essential. The new management group must be willing to sign personally for any acquisition financing or ongoing company debt. Owners often assume that their management teams want to own their companies, and they do...but sometimes only until they realize that they have to pay for ownership.

7) Regulate an incremental transfer of ownership. One of the most important advantages of a well-designed insider transfer plan is that it gives you the ability to regulate how ownership is transferred, when it is transferred, and how much ownership is transferred. If company performance falters, employees stumble, or if you choose instead to sell to a third party, the well-designed insider exit plan keeps you in the driver's seat.

8) Increase Control = Decrease Risk. While business owners take risks every day, they don't relish risking their own and their families' future financial security. Therefore, we recommend strategies to keep voting and operational control in the hands of the owner and shift operational business risk from the owner's shoulders to that of the incoming owners. This allows you stay in control of your company until you receive the entire sale price.

9) Written Road Map with Deadlines. To succeed, you must put your transfer plan in a written document and communicate it clearly (and regularly) to the new owners. If the plan is not in writing, it simply is not credible and neither you, nor your employees, will take it seriously. More importantly, the written plan is the playbook for your exit. You'll use it to coordinate your actions with those of your advisors (thus reducing delay and cost). The plan should include a timeline and provide accountability—who will do what, when—for all participants.

10) Education (yours). You need to understand the ins and outs of insider transfers because, unlike sales to third parties, you will control your business and the exit process until you've gotten all of your dough.

For more information and guidance on exit planning, contact us.

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