Business Succession Options

Planning your business exit strategy can make all the difference.

JENNIFER OSGOOD, PRESIDENT, WAGNER WEALTH MANAGEMENT

If you're a business owner, you've likely poured your heart and soul into your business, and it's hard to imagine how it will go on without you. However, odds are that the business you've worked so hard to create will be owned by someone else in the future. You will either give up the helm voluntarily when you retire or involuntarily due to an unexpected event.

Succession planning is not a one-time event but a continuous process that starts with your goals and builds over time. Business owners may be too busy dealing with everyday business needs to devote time to the multifaceted issues of succession planning. Nevertheless, having a solid exit strategy for your business is critical for the well-being of your family, partners, and employees.

Every succession plan has its own complexities, but here are a few of the most common business exit strategies.

FAMILY SUCCESSION

Family succession is one of the oldest and most traditional forms of passing down a business. The most significant benefit to naming an heir is the opportunity to keep the business in the family. Family members often share the same values and vision, which can lead to a smoother transition. It also allows the founder to mentor the successor and pass on valuable knowledge over time. Additionally, passing your business to an heir can help establish generational wealth in your family, assuming your heir passes it to one of their children (and so on).

However, family succession can be emotionally complex and may lead to conflicts, especially if there are multiple heirs with competing interests. Without proper planning and foresight, this method of succession can lead to business decline or even failure. For this reason, it is always recommended to discuss the details of a succession plan with the entire family.

MANAGEMENT BUYOUT (MBO)

In a management buyout (MBO), the business is sold to its current management team. This approach works well when the management team is experienced, loyal, and deeply familiar with the operations of the business. An MBO provides continuity for customers and employees and allows the business to retain its existing culture and strategy.

One of the biggest challenges of an MBO is financing the buyout, as management teams may need to secure external funding or loans to complete the sale.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

An employee stock ownership plan (ESOP) involves selling the business, or a portion of it, to its employees through a trust. Over time, employees become beneficial owners, usually through a retirement benefit plan.

The rationale behind establishing an ESOP is to increase employee motivation and retention, since workers have a direct stake in the company's success.

However, it is important to note that establishing and maintaining an ESOP is often very costly and complicated. Working closely with outside financial and legal experts is almost a necessity. Before establishing an ESOP, business owners should thoroughly evaluate their business plan and performance to ensure this method fits their overall objectives.

EXTERNAL SALE OR MERGER

Selling the business to an outside party or merging with another company is a common strategy, especially when there is no internal successor, or the goal is to maximize financial return.

This method can bring in substantial capital and often ensures the business continues under new, competent leadership. It may also allow for expansion and access to new markets, technologies, or resources.

It is important to note that the sale or merger process can be lengthy and may lead to cultural clashes or restructuring. Employees and customers may also react negatively to sudden changes in ownership or direction. Additionally, finding the right buyer who aligns with the business's values can be difficult.

LIQUIDATION

Not all businesses are meant to be passed on. If the business is no longer viable or the owner is unable to continue, liquidation may be the best option. This means selling machinery or goods, informing customers, and winding down any activities. Liquidation has financial and legal implications, so it is important to consult with a financial advisor and attorney before starting the dissolution process.

When and how you exit your business will be among the most important decisions you make as a business owner. While there is no exact right time to start business succession planning, it's safe to say that earlier is better. A trusted wealth advisor can be a starting point for the guidance you need and direct you toward other professionals who can help you through the process. Creating a solid business exit strategy is the key to preserving the strong business you've worked hard to build.

Is there a wealth planning topic you would like to learn more about? Email us at wagner@wwmadvisors.com, and you may see your questions answered here.

Wagner Wealth Management has offices in Greenville, Anderson, and Oconee counties. Call us at 864-236-4706 or visit www.wagnerwealthmanagement.com to learn more about our firm.

Securities offered through Arkadios Capital. Member FINRA/SIPC. Advisory services through Wealth Management Advisors, LLC. Arkadios Capital and Wealth Management Advisors, LLC, are not affiliated through any ownership.

Crockett
Pediatric Dentistry, P.A.

Let us take care of your precious smiles!

Mary W. Crockett, D.M.D
Board Certified Pediatric Dentist

102 South Venture Drive
Greenville, SC 29615
(near intersection of Pelham Road & Patewood Drive)

864-234-9800
www.crockettpediatricdentistry.com