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Four ways to transition out of business ownership

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As a business owner myself, I understand how hard it is to maintain a balance in life. Recently, our family took a vacation and my wife, Carolyn, was adamant that I take a break from work and insisted that I avoid e-mail and texting while we were away. So Carolyn talked to my assistant and suggested that, no matter what happens at the office, I was not to receive any e-mail or texts. As soon as we got off the plane, I received an e-mail: "Tim, our first catastrophe has happened this morning. But I won't e-mail or text you about it."

Next to maintaining a healthy work-life balance, business owners struggle most with knowing what to do with the business after they are no longer able or willing to operate it. Last week, I began a conversation about business-transition planning. Today, I want to focus on the various options I introduced last week.

Family transition
Should you pass your business to your kids, or other younger family members? The first question to ask is whether your children – or any one of them – have the ability and desire to take over the business. This is going to take a conversation with the kids. It will also require assessing your kids to see if they possess the competencies required for success.

Just as importantly, you need to consider the long-term viability of your business. There may be no point in transitioning a dying business to the kids. What industry is your business in and is there a bright outlook for the industry? You might want to complete a SWOT (strengths, weaknesses, opportunities and threats) analysis to gain a better handle on the viability of the business.

If your business is difficult to sell, it may have more value to you and your family than what others might pay for it. In this case, a transition to family members might be the best option. You also need to consider your own financial security. Where is your future income going to come from? Have you set aside enough outside the business to look after your needs? If not, you may need to rely on the business to provide a continuing income. Are you comfortable transferring the business to the kids in that situation? And if the kids are going to take over, will you gift the business to them, or sell it to them? Most business owners simply gift the business, but there's a school of thought that, if the business is worth having, the kids should be willing to pay for it. Check out the book *Every Family's Business* by Tom Deans. He provides some good questions to consider when thinking about a gift or a sale to the kids.

Employee transition
Transferring the business to key employees can make sense if your kids lack the competency or desire to own and operate it. Perhaps the business is too big to risk in the hands of the next generation alone. A management buyout or other transition to employees generally involves a sale to those employees, often over time. An employee transition only works where you have capable and engaged employees interested in owning the business. This type of transition will provide you with cash over time.

Third-party sale

You might get your highest price for the business by selling to a third party. It could be a competitor, or another business that might gain synergies from your business. Your business has to be saleable, of course. You'd do well to work with an adviser who can help you to get the business ready for sale. This might involve making changes to the business to make it more attractive and maximize its value.

If your kids or key employees are not well-suited or interested in taking over ownership and management, selling to a third party might be the best option. And if the future of your business or industry is uncertain, selling to a third party who still sees value in the business may be best.

Wind it up
Some businesses are simply unable to operate without the current owner there. Perhaps the kids and employees are not practical options for a transition. Maybe you're in a dying industry, or the business is otherwise too hard to sell. Winding up the business may be the option of last resort for you.

With any option, you'll want to structure the arrangement to minimize tax by using your lifetime capital gains exemption if possible, and maybe the exemptions of family members as well. We've just scratched the surface on this topic. Speak to a business transition specialist for more.

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