



Succession Planning Strategy Guide

SELL TO BUSINESS PARTNERS OR MANAGEMENT

Selling the business to an insider may seem like an intuitive strategy. After all, the business can greatly benefit from having successors who share the same vision for the company and the experience to make it a reality. While the transaction may appear seamless to outsiders, there are a great number of details to be addressed related to defining the terms and process of the sale.

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The Pros & Cons of This Strategy

The first step to planning for any type of business exit strategy is to envision the future and all of the possible outcomes. Based on your own thoughtful evaluation, ask yourself how the many stakeholders inside and outside the business are likely to react before, during and after the transition. **Which strategy will best deliver your desired outcome?**

PRO Given that partners and management are already knowledgeable about the business and well known among stakeholders, transitioning ownership to them may help secure continuity for the business, and reduce the risk of operational shifts that could impact profitability or market share.

CON There may be disagreement about the future among you, business partners or management. Managing down potential conflicts, and subsequently risks to the business, requires a slow and thoughtful approach.



ASK YOURSELF: Will dynamics within the leadership team cause conflict?

PRO Assuming a buy-sell agreement is in place and that the buyer has had time to understand the subtle differences between their role and current ownership, selling to partners or management can be a smooth and fairly swift transition.

CON There may be financial complications depending on the structure of the sale. Should the buyer lack capital for the purchase, outside resources or insurance may need to be secured. In some cases, ownership may finance the sale, but that means undertaking risk.



ASK YOURSELF: Do you foresee challenges to securing the funds for purchasing the business?

Tips for This Strategy



PUT A PLAN ON PAPER.

Having an agreed-upon strategy well in advance of succession can minimize the chance of significant conflict. Typically referred to as a “buy-sell agreement,” this document will lay the groundwork for an eventual sale. The primary purpose of the agreement is to define the procedure for the transfer of ownership, price, terms and transition. In the case of multiple partners, the agreement may also restrict owners from selling their interests to outside investors without approval from the remaining owners.



VALUE OUTSIDE VALUATION.

Most owners and managers understand the value of the business and what factors may cause it to fluctuate. However, there are several outside factors that could impact the valuation of the business that may require an impartial and expert financial perspective. A formal business valuation will take into consideration how essential ownership and other players are to the business. It may also consider underlying assets, such as real estate, or focus on profits.



KNOW YOUR OPTIONS.

It may be difficult to execute a complete ownership transfer to partners or management as an up-front cash transaction. There are, however, other options depending on the structure of the terms, such as exploring private equity investors to help fund the transaction, transferring stock ownership of the business incrementally over time or funding a purchase at death with life insurance proceeds.



DON'T NEGOTIATE ALONE.

Selling to someone you've worked closely with over the years can create a false sense of accord. Even if the relationship between ownership and potential successors is amicable, and even if they are working from a clearly outlined buy-sell agreement, it is in everyone's best interest to hire an experienced acquisitions advisor to negotiate the buyout. Additional advisors will be needed to assist the seller with estate and retirement planning well ahead of the liquidity event, and may be needed to help the buyer secure funding. Your relationship team at Texas Capital Bank can make introductions to qualified professionals, or in some cases, provide these services directly.

READY TO GET STARTED?

Our succession planning experts are ready to help. Contact us today.