NEBRASKA BUSINESS DEVELOPMENT CENTER

Nebraska Grocery Industry Summit

Business Transition Summary And Resources

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What do we mean by business transition?

Business transition indicates a change
in small business ownership and operations.

A Business Sale

- *To a third party, key employee group, roll-up*

A Business Succession

- *Transferring the business to a new generation and family member*

A Closing Event

- *An organized liquidation of a fire sale*

What do we mean by business transition?

What types of business exits or transitions are there?

1. Strategic Sale

- *Synergistic sale to a larger company seeking growth, new markets, new product lines, reduced competition; shared benefits buyer-seller Possible for 20% of top businesses, key locations or markets.*

2. Key Employee Group

- *One or more existing employees developed into buyers; great opportunity*

3. Unidentified 3rd Party

- *You can't find them; you can only attract them to your business*

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4. Partner Sale

- *Sale to an existing or developed partner. The problem is most partners can be the same age or stage of life as the seller and not interested. Partner may also not be able to purchase due to other challenges.*

5. Identified 3rd Party

- *Seller makes list of possible industry, financial, other persons who may be a possible buyer or represent other possible buyers.*

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6. Business Broker

- *Common seller resource. May give preference to buyer vs. seller because of future opportunities. Seller only has one business to sell. Good brokers utilizes existing network. Warning sign is any up-front fee. Expect multiple price reductions, seller negotiations, 10% broker fee. Average time to sale 9-11 months; only 20% sell successfully. 80% delist.*

7. Realtor

- *A resource in smaller communities, but not a great one. Uses a shotgun approach to marketing. Everyone will know. Produces lower value result.*

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8. Succession

- *This is the wild card. Transition or sale can be at 100% fair market value because owners need sale proceeds for life after business. Or it may be fully gifted at no cost to the buyer or next generation. Or anything in between. May require longer planning-preparation stage than others.*

  Key issue – make SURE proposed successor REALLY WANTS IT, is prepared and not complying to owner wishes vs. their desire for their life. Communication. Communication. Future family relationships are more important than a business transition. Do not pass on a failing business model or market to your children or other family.

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9. Liquidation

- *An organized liquidation; a series of sales events followed by an auction event to finalize the sale of all assets. No goodwill value – only assets sell.*

10. ESOP

- *Not generally used due to the cost of setting up the ESOP, and the annual cost of maintaining it. It is considered an employee benefit program that is intended to develop key employees into the buyers of the business. There is still no guarantee of sale or transition success and many smaller ESOPs can fail if employees don't seek financing for purchase, or cannot obtain financing.*

Common Theme? Power of Negotiation.

The power of negotiation is the key factor in both price expressed as cash to the seller, and opportunity for success.

Power of Negotiation and Cash To The Seller Level

1. *Strategic Sale*
2. *Key Employee Group*
3. *Unidentified Buyer*
4. *Partner*
5. *Identified Buyer*
6. *Broker*
7. *Realtor*
8. *Succession*
9. *Liquidation*
10. *ESOP*

What Is The Process and Timeline?

First things first…

The process varies with each of the 10 proposed exit strategies,
but it always begins with an actual business valuation of the business; exit planning, tax planning, gifting, sale of minority interests, life after business planning, early negotiations, goal setting, other needs.

A full conclusion of value report; not a calculation of value or letterform.

You MUST know where you stand.

80% of sellers overvalue their business. 20% undervalue their business.

What Is The Process and Timeline?

It Varies.

Generally, a traditional exit would require around 3 years to plan and implement if successful. Or allow time to pursue multiple exit strategies.

There may be additional follow-on years after the sale required to wrap up the realization of all sale proceeds.

Quick out exits are possible for good businesses, but will result in lower values or "cash to the seller".

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