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Boom times: Baby boomers nearing retirement should prepare if they plan to sell business

By James Dornbrook – Staff Writer

Waiting until the last minute to prepare is not a wise idea if you're planning to sell or transfer your business to the next generation.

This is the message from business consultants throughout the Kansas City area, who expect a wave of people to transfer business ownership during the next decade.

They expect this because the oldest of the baby boomers, people born between 1946 and 1964, turn 60 this year.

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"Certainly those of us in the business of helping company owners sell or exit the business see an undeniable trend forming with baby boomers," said Pat Trysla, managing director of Frontier Partners in Mission. "But we are advising clients to be ready early and look at the big picture. The most important question they should be asking is when to sell."

Trysla said owners shouldn't wait until they don't have as many options, such as being forced to exit because of illness or just not being able to keep up. Owners should plan ahead and have several contingencies available.

"It makes sense for a baby boomer to have a plan that entails not only looking at your company, but looking at external factors such as the economy, sector trends and buyer trends," Trysla said. "The time to sell might be when they are 55 instead of 65 because they might miss out on a favorable market."

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Bill Fromm, 63, founded Barkley Evergreen in 1964 and began looking early for ownership transfer options. He took advantage of a favorable market in the mid-1990s to sell the business.

"I had been in the business for roughly 40 years and just felt I needed to diversify my net worth," he said. "I felt I was ready to not have a significant majority of my assets tied up in one thing."

Fromm said his first move was to hire an attorney and a business appraiser, so he could begin exploring his options.

When owners are selling their business, they basically have three options: transferring it to a relative, selling to an outside party or selling to employees through an Incentive Stock Option Plan, or ISOP.

Fromm chose an ISOP because it has several tax benefits.

"I didn't have to pay any capital gains tax on the sale," he said. "I started the business from scratch and had zero basis in stock, so I would have had a pretty big tax bill if I would have sold to a third party."

Fromm said another advantage to an ISOP is being able to reward the employees who helped build the business.

ISOPs do have disadvantages, Fromm said. Although he had no initial taxes, the money had to be reinvested in U.S.-based securities, and when he sells these, he will have to pay the taxes. Also, an ISOP is more cumbersome to manage than a typical corporation, and the company also has fewer options for resale because the buyer has to pay cash to shareholders.

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Frontier Partners' Trysla said sellers also should consider hiring a good management staff if the owner is doing a lot of the work to give buyers assurances of continuity. Sellers also should be prepared to be required to stay on for a six-month to three-year transition period after the sale because this is usually a requirement.

"A big thing to remember is you may have to hold on to your business for a few years to reach that optimal time to sell," Trysla said. "So planning ahead is always a good idea."

Buying out boomers

When the predicted run of sales of baby boomer-owned companies hits the market, what about the other side of the transaction? Here are 10 things business buyers consider:

1. Cash flow and profitability.
2. Strong management to help with the transition.
3. Accurate and trustworthy accounting.
4. Long-term contracts that show revenue consistency.
5. Prudent cost-control provisions.
6. The economic health of the industry in general.
7. Growth potential.
8. Availability of cheap financing.
9. Length of lease or liabilities with property ownership.
10. Comfort level in dealing with the sellers.