

Want to Buy a Business? Your Timing is Right

A large-scale baby boomer exit will make for a buyer's market for businesses over the next several years.

By Matthew Mogul, November 5, 2007

Expect a glut of firms to go up for sale as thousands of baby boomers retire. With about 8,000 Americans turning 60 every day, more and more business owners are thinking about retiring. By 2009, an estimated 750,000 companies owned by boomers -- one in every six -- will be looking for buyers, up fifteen-fold from 2001.

Most firms will sell to strangers. Children today feel less pressure to run the family business, and even those that want to often find it tough to come up with the cash to pay off parents or other relatives who hold shares in the firm. Family in-fighting and prolonged legal spats also make family handoffs that much harder. Studies show that less than 15% of family businesses successfully make it down the third generation.

Owners without an exit strategy will likely sell at a discount, warns John Brown, founder of Business Enterprise Institute. With roughly 20 million more people in the boomer generation than the X Generation, there will be fewer potential buyers, so a good price will be harder to find. That's what makes advance thinking so important. **"Gigantic amounts of wealth are not going to be realized because of a lack of planning,"** says John Hrastar, president of InterSource, a consulting firm.

Expert advice is a must. Owners need to consult a battery of advisers, from attorneys to accountants to appraisers, at least a year or so ahead of any expected sale. Potential buyers, including rival businesses, private equity firms and venture capitalists, all have sophisticated experts on their side and owners will need to be able to keep up. An exit planning team will do everything from entertaining bids from potential suitors to making sure the sale is tax-advantageous to spotting and correcting hidden liabilities that could torpedo a sale.

One option that's growing more popular is selling to employees -- either a management buyout or employee stock ownership plan (ESOP). Both take time to set up but give owners the fulfillment that they're passing on their legacy. In management buyouts, owners must weed out ill-suited managers and groom and train the best personnel so the firm will succeed without them. In these cases, management will often buy into the business over a number of years.

An ESOP tends to be a good route for firms with stable earnings and revenue. But the plan gets way too costly for small firms -- those under \$1 million in yearly pre-tax profit -- due to associated upkeep costs like annual appraisals.

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