Transition triggers – What triggers might prompt Canada's private company owners to head for the exit?

A sampling of private company transactions by 2 Canadian banks[1] highlight the common triggers that are prompting business owners to plan for their exit now.

Trigger 1 - An unexpected buyer knocking on the door

An unexpected buyer can sometimes prompt a business owner to turn their mind to the sale of their business. This drives many questions concerning valuation, tax planning and whether there are potential successors to the business within the family.

Statistics[2] tell us that 70% of transitions of the family business from the first generation to the second generation fail. The underlying reasons for this high failure rate, apart from poor communication and lack of preparedness of the heirs, is that children of successful entrepreneurs may not share their parents' vision for the business or their entrepreneurial ambitions. So, it's not surprising that fewer of Canada's private businesses are being transitioned within the family.

The lack of a suitable successor is causing many business owners to look at selling to an outside buyer as their exit strategy. However, it sometimes takes the unexpected buyer knocking on the door to prompt the business owner to do this analysis and reach that conclusion.

Trigger 2 – The partial exit: "If I were only 10 years younger."

The hallmark of a successful entrepreneur is their keen ability to spot opportunities for growth. As owners age, a sense of the limitations of their capabilities and resources — financial, managerial, and emotional (their commitment factor), plus a lessening appetite for risk — can cause them to think that the best way to take the business to the next level is by using someone else's resources.

Some business owners have brought in capital partners, often in the form of private equity, to take some money off the table, while staying in the game. The ability to de-risk and secure their estate while still being able to participate in future growth opportunities can make this option extremely attractive. It's usually owners in their 50s who do a partial exit in this manner.

Trigger 3 - Management retention

The war for talent is about acquiring and keeping top talent. Private family-run businesses face particular challenges in attracting and keeping outside talent who see family-run businesses as having extra challenges.

Family legacy and loyalty often conflict with the needs of the business itself. To retain top managers, entrepreneurs sometimes offer ownership or participation in ownership to key non-family executives or management in an effort to retain the critical talent that will keep the business performing at its peak.

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[1] A sampling of transaction triggers for private company owners from 2 Canadian chartered banks.

[2] "Preparing Heirs", Williams and Preisser, The Williams Group, 2003.

Trigger 4 - "I'll let the next owner invest."

Financial resources are critically important for any business owner who wants to keep and grow their business. Competitive forces, technological advancement and the constant need to adapt to change all put pressure on the owner's capital.

Taking the business to the next level often requires capital the owner doesn't have or doesn't want to risk at this point in their lives. Handing the reins over to a better capitalized buyer is something many owners do when they realize that they may not have the necessary financial, managerial and emotional strength to propel the business forward. Typically, owners in their 60s sell 100% of their business to other companies already in the same industry who may have their own management teams.

Conclusion

There are certain common triggers that are driving today's entrepreneurs to find their exit. Often, when they take a good look at how their business is resourced, they are forced to acknowledge a lack of successor leadership, growth capital, management depth, and perhaps even their own emotional commitment to the business, or likely some combination. Assessing these resources as objectively as possible is key to making a rational decision about what's best for your business going forward.

Get started on your transition plan. Talk to a CIBC advisor today.

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