

Selling To Insiders

Benefits, Challenges and A Plan

Alan Creedy



Benefits & Challenges

Virtually half of small business owners would prefer to sell their business to family or staff. But the practical and emotional complexities of selling to insiders can often seem more challenging than a straight third party sale. In reality, both have nuances that are equally stressful.

It is important you know there are no challenges **that can't be overcome** with careful planning and preparation.

Benefits

Flexibility – Selling to insiders can give you significantly greater flexibility in structure and planning. There are also some tax mechanisms available to help minimize the tax bite. Many sellers are concerned about losing a steady stream of income for the future and insider transactions can employ some options that will resolve that issue.

Time – If you are not yet ready to leave the business a transfer can be structured to take place over 5 to 10 years. Delayed departures give you time to slow down and prepare yourself for *“life after the sale.”* It also gives you time to properly develop your successors in a staged phase - out / phase - in strategy.

Taxes – Insider transactions offer a variety of strategies that help minimize and sometimes even avoid taxes.

Legacy Goals -

- ✓ Work with children during and after the sale
- ✓ Provide a way for children and / or employees to enjoy benefits of ownership
- ✓ Leave a legacy

- ✓ Preserve independent ownership
- ✓ Perpetuate the company mission and culture
- ✓ Allow retiring owner to be involved on his or her terms

Known Successor – Ensuring that the community will continue to be served as you would want.

Challenges

Financial Security – Almost universally successors have no money. As a consequence, any structure will require a combination of bank and seller financing. Two things to remember:

1. You should not give up control until your payment is fully secure.
2. It may be to your financial and tax advantage to help finance some of the deal but probably not all of it.

Time – If your goal is to be out of the business within a year it is unlikely you will be paid out in less than several years.

Taxes – Taking advantage of tax breaks requires planning, coordination and time.

Family dysfunction

- ✓ If your kids don't get along at home they are unlikely to be able to function at work
- ✓ Can worsen intra - family discord
 - Active Vs. inactive children
- ✓ Requires clearly designated roles, responsibilities, authority **AND** mutual respect
- ✓ Process can be emotional

Questionable Successor -

- ✓ Do they share your vision?
- ✓ Are they capable?
- ✓ Will others accept their leadership?

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Clarity & Collaboration

If you have been in funeral service any length of time you are likely aware of family or staff transitions that got sticky. Emotions, taking sides and, ultimately, disappointments can happen.

There are two sides to any transfer:

1. Practical, technical and pragmatic
2. Emotional, dramatic and, sometimes, confrontational

While present in both staff and family transitions, the latter can be intense among family members

Collaborative Planning

Like the families you serve, most complications occur from lack of open discussion. When mom or dad have failed to express their wishes about their funeral service, sibling relationships that weren't cordial to begin with are often stretched to the breaking point. So it is with the transition of the family business. Unresolved family issues can and do derail many a great opportunity. An owner sometimes sells to an outsider just to keep relative peace in the family. By selling to an outsider *"everyone is equally disappointed."*

The interview:

Regardless of whether you plan on selling to insiders or to outsiders my process begins with an in depth interview with the current owners and, preferably, their spouses. This interview has a two-fold purpose:

1. Begin to gather critical background data for assessment and valuation.
2. Help each owner and spouse definitively express his or her personal ambitions, goals and desires.

Often this interview is the first time people have openly expressed what they really want. Thinking about it and saying it can have different impacts.

The Assessment:

This critical step involves both a valuation of the business worth and an assessment of the condition of assets. Depending on the strategy, it can be productive for this assessment to include staff and / or children. If it does, it is normally toward the end of the process to avoid awkward situations.

If and when a staff / child assessment is necessary, there are several steps:

1. Determining whether they are interested in ownership

- a. Owners are often surprised that children and, more frequently, employees are not interested
2. Determining skills and abilities and, if needed, developing a plan to develop readiness.
 - a. About half the time this may involve formal assessment tools like Caliper, DISC or Myers Briggs

Developing a plan:

Owners and successors begin to collaborate on a plan to preserve and build value together:

1. Develop shared vision
 - a. Of reality
 - b. Of the future
 - c. Of goals and aspirations
2. Identify specific individual roles, responsibilities, expectations and accountability
3. Choose a plan of transition
 - a. Time
 - b. Milestones
 - c. Financing

Multiple Successors

In my experience multiple successors and, especially, co - leadership requires at least the following:

- ✓ Acknowledgment that there may be more than one successor candidate
 - Clear, fair criteria for selection
 - Tenure or age rank does not guarantee leadership
- ✓ Co-Leadership is possible only when:
 - There is both a clear understanding that disagreements are normal and there is an equally clear mechanism for resolution
 - There is recognition and respect for different gifts and talents
 - There is a way to break ties
 - Roles, responsibilities are clearly defined.
- ✓ If necessary, there is a clear plan for successor development with defined methods and expectations
- ✓ Conflict is normal and needs a place at the table. Resolving conflict leads to competitive advantage...ignoring it leads to disadvantage.



Alan Creedy has a degree in Psychology with a Certificate in Public Accounting who began his career as a “trouble-shooter” for a diversified holding company with interests in banking, equipment leasing, light manufacturing, insurance, business-to-business and business-to-government enterprises. He learned to quickly analyze core problems, develop and prioritize solutions and implement strategies for quick turnaround.

He began his career in DeathCare thirty-five years ago as President of the financially distressed OGR Service Corporation, the for-profit arm of The Order of The Golden Rule. After five years and the successful rebirth of the company he accepted an invitation to become President of Brown-Wynne Funeral homes and cemeteries. There he built upon the already successful legacy of a highly respected company; ultimately orchestrating the sale of the company in 1990 for 10.5 times EBITDA.

During this period he and Mr. Wynne acquired J.J. Fallon Company, the 28th largest retail florist in the FTD network. He reoriented the company strategy and created new growth and value, and, at the same time, he developed an innovative method of controlling cost-of-goods sold that enabled the company to significantly increase profitability. After the turnaround the company was sold to a private equity firm.

After the sale of Brown-Wynne, Mr. Creedy became president of Trust 100, a company he helped found in 1985. As president he built the company to become one of the largest preneed marketing companies in the nation. He sold the company in 2008

Since the sale of Trust 100 Mr. Creedy has built a successful consulting practice focused on the DeathCare industry. He is an acknowledged expert in funeral operations, finance, staff and cultural development and leadership. He is also an expert in preneed marketing and sales

He is a frequent contributor to industry trade journals and convention speaker and recently served as Chairman of the Funeral Service Foundation.

His Islands of Excellence© Leadership Development Programs and Blue Ocean Tours have helped independent funeral professionals across North America make positive and profitable changes to their business.

Certificates and Accreditations:

Certificate in Public Accounting University of Illinois 1978

Certificate to administer and interpret the Benchmark Leadership Assessment
Center for Creative Leadership 2008

Completed training for administering Visual Explorer tools for leading group discussion on sensitive topics
Center for Creative Leadership 2009

Accredited by Human Synergistics International to administer and interpret:
Organizational Culture Inventory
Organizational Effectiveness Inventory
Leadership Impact assessment
Management impact assessment
Life Styles Inventory

Certified Exit Planner - Business Enterprise Institute 2015



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