

It's time for baby-boomer business owners to plan succession

The best option for all involved might be to sell the business to the employees.

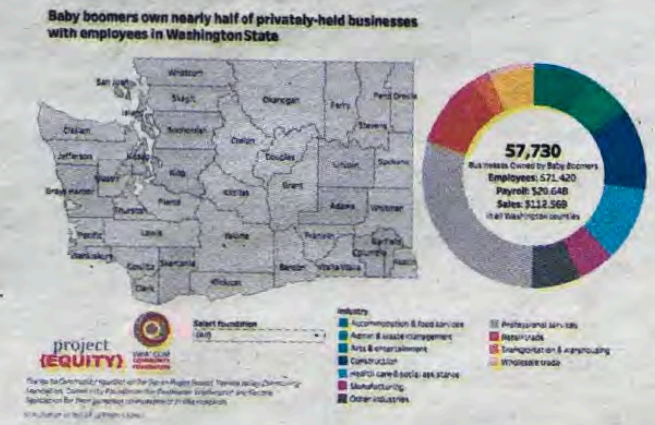
BY BROOKE STRICKLAND
For BBJ

Small business owners invest years of time, money and creativity into their enterprises to launch them keep them thriving. So when it comes time to retire, giving up a business could feel a bit like they're giving up a part of themselves.

The next great wave of retiring business owners, the baby boomers, otherwise known as the "silver tsunami," will affect Washington's business landscape in terms of workforce and healthcare.

But what will its impact be on small-business ownership?

According to Alison Lingane, co-founder of Project Equity, an organization that works with partners around the country to raise awareness about employee ownership as an exit strategy, said baby boomers own an estimated



2.34 million job-creating small businesses nationwide. So when these people retire in the next five to 15 years, the impact will be huge.

"Will the company be sold to private equity or large corporations and be consolidated into a larger corporation that operates without the perspective of the local community?" Lingane asks. "Will an out-of-area buyer step in and operate it as an 'absentee owner'? Or will the business owner just start to slow down, and slow down the business in lock step, ultimately closing its doors? This means the assets of the business are

ultimately lost, including its value, its revenue, tax base, jobs and, of course, local community presence."

Project Equity has partnered with Whatcom Community Foundation to help quantify the potential impact of the silver tsunami on Washington communities. With support from other local community foundations, they completed a study that determined there were approximately 60,000 businesses in Washington owned by baby boomers. They have brought in local economic development professionals, higher education experts and

local government officials to talk with business owners about their succession plans and inform them about the option of converting their company to employee ownership — whether it's through employee stock plans, employee ownership trusts or worker-owned cooperatives.

By working to educate business owners about the benefits of the employee-owned options, they are hoping to minimize the negative impact on the business landscape and on communities around the state.

"Business owners looking to retire used to turn first to family to take the reins," Lingane said.

"Today only about 15% of businesses pass on to the second generation," she said. "Employee ownership is a succession strategy that most business owners don't know about but which brings many of the same benefits of family succession: The business stays rooted in the local community into the next generation, its legacy stays intact, and the retiring

owner receives market value for their business to support their retirement."

"Often employee ownership also provides significant tax benefits both to the selling business owner and to the employee-owned business, making this type of sale even more beneficial," Lingane adds. "With more and more businesses needing to look for buyers, employee ownership helps business owners 'find a buyer right under their nose,' in the form of their employees."

Mauri Ingram, president and CEO of Whatcom Community Foundation, agrees about the importance of having a succession plan in place. "It's never too early," she said. "Most businesses don't have a succession plan. That represents a risk to the business itself as well as to the owner, the employees and, depending on the scale of the business, to the local economy. Without a plan, unexpected health issues and other circumstances can destabilize otherwise healthy businesses."

Lingane agrees and recommends that business owners who aren't retiring now start thinking about their succession plan and start planning — at least five years before they want to retire.

That will ensure their legacy can live on and their financial and personal goals can be met.

It also gives them the opportunity to be a part of the future vision of the company, even after they leave.

Lingane also urges non-business owners to help minimize the silver tsunami impact by talking about the issue.

"We all know business owners, and given the scale of baby boomer business ownership, most people probably know many business owners who are nearing retirement. Encouraging those business owners to be planful about their retirement, and to learn about employee ownership — especially if they don't have family lined up to take over — can go a long way to helping maintain a thriving small business community."