# Select the Right Exit Path - Sale to Third Party

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The market has indicated that 20 percent of businesses are for sale to a third party, but only one out of four actually sells. For businesses above $10 million per year; however, the odds improve to 50 percent.1 In a retirement situation, a sale to a third party too often becomes a bargain sale – most often the only alternative to liquidation. This option becomes necessary in many situations because owners fail to create a market for their stock through sale to family members, co-owners or employees.

The following are advantages to selling your business to a third party, as well the disadvantages associated with this type of exit plan. It is important to compare the advantages and disadvantages of this type of transfer scenario when choosing your target successor.

## Advantages

- If the business is properly prepared for sale, you can get cashed out. Many owners don't realize this. Unless you are truly a "Mom and Pop" business, you should get the majority of your money from the business at closing. Therefore, the fundamental advantage of the third-party sale is receiving immediate cash. This ensures that you attain your fundamental financial objectives and, perhaps, avoid risk as well.
- A second primary objective discussed in earlier articles – treating all children equally – also is easier to achieve because you can eventually just divide the money among them on an equal basis without having to worry about who is going to run the business, etc.
- Often an unanticipated advantage in selling to a third party is the ability to receive substantially more cash than your CPA or valuation specialist anticipated because the market is "hot."

## Disadvantages

- Regardless of what the buyer says, the personality and culture of your business will undergo a radical change. The buyer would not buy the business unless convinced that the company can be improved through change. Maintaining the culture of the business is normally best achieved by selling to someone other than an outside third party.
- If you do not receive the bulk of the purchase price in cash at closing, your risk can be substantial.

> The best way to avoid this risk is to get all the money you will need at closing so that anything you carry is "gravy."

Through proper planning, you typically can minimize the disadvantages associated with a sale to a third party and leverage the advantages associated with this type of exit path. There are distinct advantages and disadvantages of transferring the business to each category or potential purchaser: family member(s), co-owners, employees and outside third parties. Each method contains not only related characteristics, but also substantial and often dramatic differences. We have provided you with a good snapshot of what each scenario has to offer so that you can have a basic understanding of the common potential exit paths. It is important to note that each departure method has many detailed components and circumstances that you should discuss with your advisors before proceeding down any of the discussed exit paths.