

WE SUSTAIN LIFE

Pass It On: Business Transition Training

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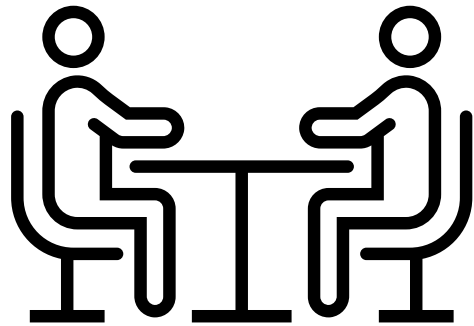
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THE OHIO STATE UNIVERSITY

COLLEGE OF FOOD, AGRICULTURAL,
AND ENVIRONMENTAL SCIENCES

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Please note...



This presentation is provided for educational purposes only. It is not legal advice. It is not a substitute for the potential need to consult with a competent attorney in the appropriate jurisdiction.

Nationally, an estimated 2 million businesses are owned by “baby boomers.”

(Palmieri & Cooper, 2021)

Baby Boomer Owned Businesses Nationally

1 Employ 25 million people

2 \$5 trillion in sales

3 \$950 billion in payroll







(Palmieri & Cooper, 2021)

Baby Boomer Owned Businesses in Ohio



- 1 94,000 firms
- 2 2.6 million employees
- 3 \$118 billion in payroll
- 4 \$690 billion in sales

(Palmieri & Cooper, 2021)

	Northeast	Southeast	Central	Northwest	West	Southwest
 Firms	43 Thousand	8 Thousand	18 Thousand	12 Thousand	11 Thousand	15 Thousand
 Employees	967 Thousand	135 Thousand	493 Thousand	272 Thousand	272 Thousand	432 Thousand
 Payroll	\$43 Billion	\$5 Billion	\$24 Billion	\$11 Billion	\$12 Billion	\$21 Billion
 Sales	\$229 Billion	\$35 Billion	\$153 Billion	\$81 Billion	\$69 Billion	\$124 Billion

(Palmieri & Cooper, 2021, p. 9)

Noble County, Ohio



- **14,202 population (2022)**
- **4,555 people in the labor force**
- **6,717 people “retiring soon”**
- **607 companies employing workers**
- **87% of businesses have less than 20 employees**

(“Noble County, OH” 2022)

The Reality

35%

Have a formal plan

15%

Actually pass a business to family

30%

Of family businesses make it through the 2nd generation

10-15% of business make it through the 3rd generation and 3-5% through the 4th generation

(LinkedIn, 2022; All Strategy 2021)

A succession plan is a crafted roadmap for smooth transitions of leadership and ownership.

(Leadership Dynamics, 2023)

Why Succession Planning?

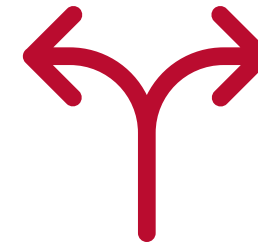
- We all need a path to guide our legacy
- Having a plan in place helps navigate the when and who



When? TODAY!

Why Succession Planning?

- Flexibility for the selling owner
- Tax and financial planning
- Maximizing the value of the business



(Wilmington Trust Corporation, 2017)

What is your *WHY*?

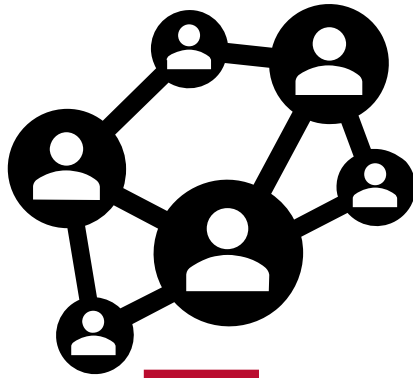


- **What was your reasoning for starting your business?**
- **What is your reasoning for thinking about transitioning?**
- **Who do you want to continue your legacy?**

Methods for Transition

- **Co-owner:** Selling your shares or ownership interests to a co-owner.
- **Family:** Passing ownership interests to a family member.
- **Key employee:** Selling your business to a key employee.
- **Outside party:** Selling your business to an entrepreneur outside your organization.
- **Worker or Employee Owned:** Transitioning your business to a model where the employees own the operation.

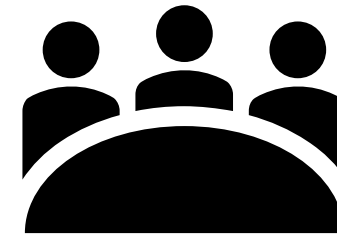
Employee Ownership



Worker Cooperatives



**Employee Stock
Ownership Plans
(ESOPs)**



**Employee Ownership
Trusts (EOTs)**

(Palmieri & Cooper, 2021)

Worker Cooperatives

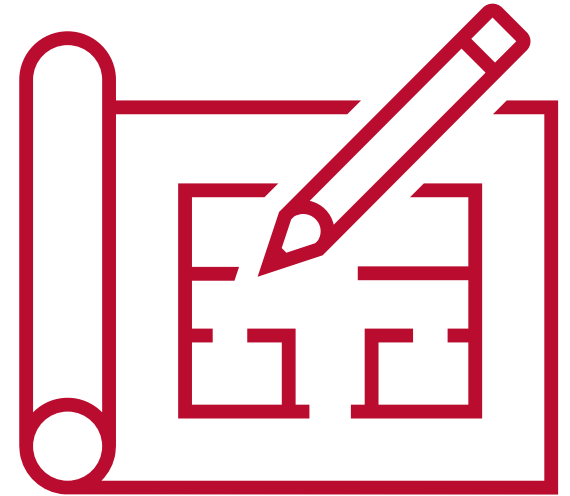


- Generally small with median size of 6 workers
- Exist in industries from retail to childcare, home care, professional services, etc.
- Average wage \$19.67/hr (2019)

(“2021 State of the Sector: Worker Cooperatives in the U.S.” 2022; “2019 Worker Cooperatives in the United States”)

Creating a Plan

- Timeline
- Who is the successor(s)?
 - Will the current owner stay on as a worker? Liaison?
- Standard operating procedures, business and marketing plans
- Potential risks
- Business valuation and finances



Business Valuation



Simple Business Valuation Calculator:

<https://fitsmallbusiness.com/business-valuation-calculator/>

- **What is the current value of the business?**
 - Tangible & Intangible Assets
- **How will you determine the selling price?**
 - Sales Agreement
- **What's the lowest price you will accept?**
- **Do you want a payment in full for your business or are you ok with installment payments?**

(Fit Small Business, 2019)

“Readiness” factors for conversion to worker-ownership

“Prerequisites”

- Commitment to the worker co-op model by the transitioning owner and employees
- Business in a strong and sustainable financial position

“Develop Along the Way”

- Culture of participation and transparency
- Program or emphasis on training, advising, and support for employees and transitioning owners
- Financing strategies that create a viable path

“Other Helpful Factors”

- Engagement by transitioning owner throughout the conversion process
- Phasing the conversion process in stages to lower risk and decrease the cost of capital
- Securing a third-party financial valuation for the business before agreeing on a price

(Lingane & Rieger, 2015)

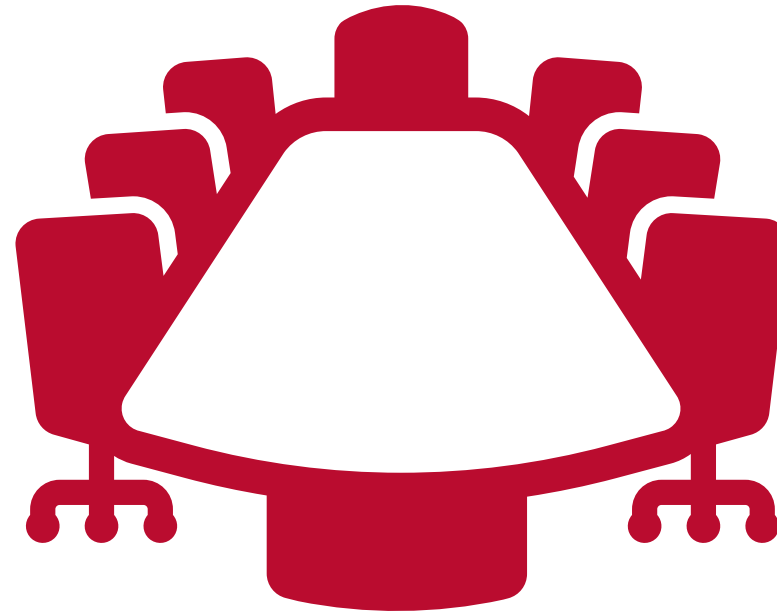
Employee Morale and Training Considerations

- **Maintain a level of transparency**
- **Be up front and honest with your team**
- **Identify skills**
- **Ask staff what their goals are**
- **Offer retention incentives**



Build and Consult a Team of Advisors

- **Tax experts**
- **Lawyers**
- **Accountants**
- **Personal Wealth Manager**
- **Valuation Expert**
- **Insurance Expert**
- **Family Counselor**
- **Bankers**

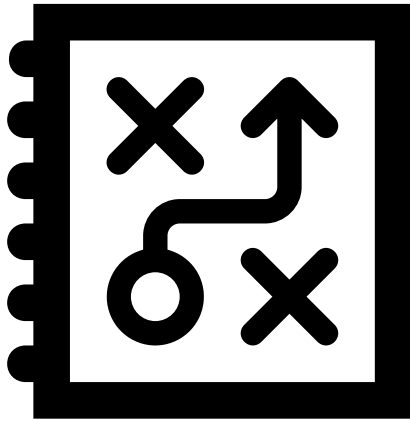


(Wilmington Trust Corporation, 2017)

Topics to Consider with your Advisors

- How is your business structured? How could the business be structured following the transition?
- What's your business's value?
- Is your business financially sound? How can you improve the value of your business to prepare for transition?
- How can you coordinate your transition plan with your retirement plan?
- Developing your long-term personal and business goals

Next Steps



- Build a team
- Update/create current business and marketing plans, financial documents, and inventory
- Determine valuation of business
- Maintain transparency with team
- Determine selling options
- *Timeline

Resources

Small Business Owners

- General Small Business Development Center: <https://clients.ohiosbdc.ohio.gov/>
- Ohio State University South Centers: <https://southcenters.osu.edu/small-business>

Resources

Worker Cooperatives and Employee Ownership

- National Center for Employee Ownership <https://www.nceo.org/>
- Project Equity <https://www.project-equity.org/>
- Democracy at Work Institute <https://institute.coop/>
- Ohio Employee Ownership Center <https://www.ocockent.org/>
- U.S. Federation of Worker Cooperatives <http://www.usworker.coop>
- The Working World <https://www.theworkingworld.org/us/>
- Sustainable Economies Law Center <https://www.theselc.org/>

Contact Us!

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