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Co-op Members Succession Planning

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There are thousands of cooperatives in the food, hardware, floor covering, industrial tools, building products and many other industries. Most of these cooperatives now have a high percentage of members that are between the ages of 60 and 80 who are seriously thinking about retirement ideas, transitioning the company to a new owner and protecting their employees and their communities. Developing a successful succession or exit plan is a topic that these members want to learn more about.

Over the last 40 years we have learned that about 25% to 30% of the current business owners will sell to one or more of their family members. About 15% to 20% will sell to key employees and another 20% to 25% will sell to another company owner in their same industry.

The succession/exit plan that is developed for your business depends upon which path you take when it's time to transition your company.

Getting Ready

It doesn't matter if you're transitioning the company to someone inside your family or outside your family, there are things that should be done to get the company ready.

First, over the next 3 to 5 years, try to increase your gross margin at least 1% per year. Also, each year, try to decrease your expenses 2% per year. The goal is to develop as much adjusted EBITDA as possible. Adjusted EBITDA is a technical term for usable cash flow that the company has to work with. If you're going to sell the company to someone else in your industry, you want to be able to show them that the company can generate excellent "usable cash flow." The higher the cash flow the higher the sales price. If you're going to be selling the company to someone in the family or key employees they're going to need the highest level of usable cash flow in order to purchase the company from you over the next 8 to 10 years. For example, you may have a company the grosses $1 million, but the usable cash flow may be $100,000 or $200,000. Every penny of that usable cash flow is important.

Second, over the next 3 to 5 years make sure that you've got the right people in the right job with the right training. Any potential buyer is going to need excellent well trained employees to take your company and make it grow for another 30 years.

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Third, over the next 3 to 5 years clean up the financial statements and make them more accurate. Do you have old inventory that should be removed from the shelves? Sell the old inventory at a big discount because the buyer is not going to purchase it from you. Is the accounts receivable accurate? If there is a "loan from stockholder" can it be paid off in the next few years? Basically, clean up the financial statement, get rid of all entries that are not necessary. Any potential buyer is going to look at the last 2-3 years' tax returns and financial statements and you want those to look as clean and accurate as possible.

Selling inside the family

If you're selling your company to one of your children, then they will probably not make a large down payment. A price for the company should be established by an outside appraisal firm, and a plan will be developed by your advisory team on how to transition the company to your children by using gifting and selling techniques. They will undoubtedly sign a promissory note for the bulk of the purchase price and pay you over time. During part of that transition it may be important for you to be a consultant to the company or perhaps, be on the board of directors. Coaching your family on how to run every aspect of the business is an important part of your transition plan.

Selling to someone in your industry

Selling your company to someone else in your industry usually means that once the price is agreed upon then a large amount of due diligence will take place and at the closing you will receive one large check. During the due diligence any potential buyer will want to discuss your usable cash flow, your profitability, all of your well trained employees, and every item listed on your financial statement. That's why cleaning it up the last 3 to 5 years is important.

Over the next 3 to 5 years, spend some time working "on" the company, rather than 'in" the company. Make your business, your employees and your facility great and all of that hard effort will translate into a better selling price.

Gary Pittsford, CFP®, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income projections. Castle's senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit www.Castle3.com, call 1-888-849-9559 or e-mail Gary directly at Gary@Castle3.com.