

Small-business sales are on the rise, with aging owners facing an emotional decision

Apr 28, 2023, 2:42pm PDT



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The decision to sell a business can be an emotional one.

Business mergers and acquisitions are on the rise, and that trend is likely to increase as more baby boomers are approaching retirement age.

But selling a business you created and ran for years is not easy.

The youngest of the baby boomers, most often defined as those born between the years 1946 and 1964, turn 60 next year. About 10,000 baby boomers turn 65 every day in the U.S., according to AARP.

Many entrepreneurs are driven people. They are hard-chargers, and many of their routines and their relationships revolve around their work. Work, especially for an owner, could be a big part of their identity.

Their business isn't just a job; it's personal.

"The emotional part of it is very big. They have not had a boss forever," said **Pat McClain**, co-founder and co-CEO of Allworth Financial in Folsom. The retirement planning firm has completed **28 acquisitions in five years**, many from business owners choosing to retire.

Selling a business is like dropping a kid off at college, McClain said.

"You know it is going to be okay. You know they will be fine. But it is going to be a big change. And you know your life is never going to be the same again."

If it's not retirement or succession planning that prompts the sale, it is the hassle of running the business that makes owners consider joining a larger company, he said.

The three types of sellers

There are three types of sellers, McClain said.

The first is the owner who is maxed out on their comfortable risk of reinvestment into the business. They sell to be able to grow their business into a larger organization.

Another kind of seller is the owner who is looking to exit in two to five years, and they want a succession plan of some kind.

The third type of seller is an owner burned out on running the business, McClain said.

"They love the work they do in the business, but they don't like running the business. They just want to get back to why they got into business in the first place, to meet with clients."

Those reasons for considering a sale are then balanced with the uncertainty of what selling it will mean to them, McClain said. "They wonder 'Will I have to punch a clock? Do I have to ask for permissions? What does my life look like after this transition?'"

McClain helps assuage owners by referring them to people who have sold their operations to Allworth and then have stayed on with the firm.

"I think the better a buyer can paint a picture of what the seller's life will look after the sale, the better it works out," he said.

The increasing trend of the sale of businesses affects a lot of people: The 4.2 million small businesses in California employ 48% of the state's workers, according to the Small Business Administration's Office of Advocacy. The SBA defines a small business as having fewer than 500 employees.

Small businesses' total payroll in California was \$415 billion in 2019, according to census data.

Between March 2020 and March 2021 in California, 180,829 businesses opened and 171,061 closed, according to the SBA.

In Sacramento, Placer, Yolo and El Dorado counties, some 1,081 businesses were listed for sale last year, according to research by BizBuySell, an online marketplace for businesses. That was up 19% from 2021 and up 36% from 2020.

"I am not surprised by the mergers. There is a big change in demographics," said **Sanjay Varshney**, a finance professor at California State University Sacramento, and founder and principal at Goldenstone Wealth Management in El Dorado Hills.

In addition to potential retirement, the economy is turning, and that could motivate owners to sell, Varshney said. "Interest rates are going up, and business can be more difficult in a rising rate environment."

Those rising rates also mean that it could be a better time to sell, rather than to wait and get a lower valuation for the business later.

While some owners consider a sale, there are always owners who hang on to their businesses until the end because they just can't let go, Varshney said.

"They never get the liquidity out of their business and then they die, and their kids get it all," he said. "They never have the chance to enjoy what they built."

Making the decision to move on

Bob Perry-Smith worked in accounting for more than 40 years. In 1984, he started his own firm, Perry-Smith LLP, which eventually became the area's largest locally based accounting firm.

By the time Perry-Smith was sold to Chicago-based **Crowe Horwath** LLP in 2011, it had annual revenue of about \$30 million and 146 employees, including 35 in San Francisco.

"It was not the plan to sell it," Perry-Smith said. "We had great partners and a great team."

Then, starting in 2010, Perry-Smith had four suitors lining up to buy the firm.

"All businesses have somewhat of a life cycle to them, and you have to reinvent them, and we did that," he said, adding that eventually "the offers became too good."

He decided that Crowe was a great firm with a good reputation.

Still, he said selling the firm with his name on it was a big change.

"Anyone who is part of a great group, you are just so invested in it," he said. "You miss the relationships with the team and the relationships with amazing clients."

He stayed on with **Crowe Horwath** for a year as an employee, and then consulted for a year before he retired from the firm.

"We anticipated there would be a pretty large cultural shift. No matter how good you are, and how good you think your way of doing business is, it becomes their way," he said.

He does wonder "where we'd be if we didn't sell it. We'd probably be a pretty big firm," he said. "We had become a regional firm. We had clients all over Northern California and in Oregon and Nevada."

One of Perry-Smith's industry specialties was auditing community and regional banks. When he left Crowe, he continued to do consulting work and he became a member of the board of directors of Presidio Bank in San Francisco. In 2014, he joined the board of Folsom-based Sierra Vista Bank, becoming chairman of the board in 2015. He was on both banks' boards until they sold. The two banks didn't compete in the same markets. He's now on the board of directors of Five Star Bank, and he will be chairman of the board starting in May.

"I'm still staying pretty busy," he said.

Outside of retirement, most owners decide to sell their business because they had fallen behind in technology or because the business grew so much that they ended up having to do a lot of administration, human resources and management work, said **Norm Hudson**, chairman of the board of Inszone Insurance Services, based in Rancho Cordova.

Hudson was a founder of Inszone and oversaw more than 50 acquisitions over nearly a decade as CEO of the company.

"That's the one thing I always started with when talking with a seller. I tell them this is going to be so much more of an emotional process than you think it will be," he said. "When we start talking, they are fed up with this or fed up with that, but when it comes down to the sale, it can be like giving up a child."

Some people want to sell the business to retire. And, in some cases, they may want to sell the business because they don't have the energy or the desire to run it anymore, he said.

"It's been interesting. In our experience, the sellers often stay on longer than they originally anticipated before the sale. They say they will give us a year, and then they just stay. Now they are just working with clients, and they begin to enjoy the job again," Hudson said.

Inszone brings small and medium-size independent insurance agencies into its operation, which in turn offers the small agencies' owners access to technology, compliance and back-office support so they can either be more efficient or so the owners can retire.

The retirement advisory firm Allworth has grown from 60 employees to 375 since it started its acquisitions in 2017. To get the money to grow the company, Allworth sold a majority interest to a private equity firm. Giving up control was an emotional experience, so McClain knows what sellers are experiencing.

"If you want to have more control over your life, you have to give up some control of your business," McClain said. "When you get larger, you have specialists in the business who can run things better than I do, and I have better control of my life."

Family businesses can be especially hard to sell, especially if they are intergenerational. Sometimes one of the kids expects to run the business, and that might not be the best choice for owners who have multiple children or for estate planning purposes.

People who are looking to sell are often looking for a 100% perfect fit, McClain said, adding that a perfect fit is extremely rare. "If you can get 80% or more, that's a good fit."



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