

Key Family Wealth – Business Advisory Services (BAS)

# Navigating the Transition Maze: How Business Advisory Services Can Fill a Critical Gap for Middle Market Companies

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Middle market businesses often find themselves in a challenging position when it comes to transition planning. Many find there's a marked lack of service offerings for business owners at the lower end of the middle market. Business Advisory Services (BAS) at KeyBank is designed to bridge this gap, offering specialized guidance to companies with sales between \$5 million and \$150 million.

A startling statistic underscores the challenges faced by business owners in this value range seeking to transition their companies. Industry research suggests that among US companies with \$5 million to \$150 million in annual revenue planning an exit by 2030, roughly 17 out of 18 owners won't achieve their target price without careful planning.

BAS works to change this outcome, providing expert guidance to help owners maximize value and achieve their transition goals.

Joel T. Redmond, the new head of Key Wealth's Business Advisory Services, understands the unique challenges faced by middle market businesses.

He says these companies often lack access to the same level of service offerings available to larger corporations. The BAS team is uniquely poised to help these owners answer the biggest questions out there.

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## Understanding business transitions: More than a sale

A big misconception business owners have is that their only transition options are to sell outright or liquidate. In reality, the BAS team emphasizes that there are dozens of different transition paths available. Some more common ones include:

- **Selling to employees** through an Employee Stock Ownership Plan (ESOP) or a management buyout.
- **Transferring ownership** to family members.
- **Partnering with private equity** while retaining a minority stake.
- **Donating shares** to charitable vehicles to maximize tax benefits.

BAS helps business owners explore these options and determine the best fit for their financial and personal goals.

## The three types of business owners

BAS typically works with three types of business owners: explorers, analyzers, and implementers. Each type of owner has their own set of characteristics and challenges.

### Explorers

These business owners are in the initial stages of considering a transition. They have many questions and are looking to understand the different options available to them.

The first question often asked by explorers is, “What’s on the menu?” BAS helps these owners understand the various transition options available, from selling to employees to establishing a family trust.

“A lot of business owners tend to think they only have one or two options,” Redmond says. “‘Either I stay, grind it out, and squeeze it for all I can, or I have a clean break.’ There are many, many more options than these ones.”

BAS helps explorers expand their understanding of these options and identify the best path for their unique circumstances.

### Analyzers

These business owners have a more concrete idea of their transition goals. They are further along in the process and may be evaluating multiple offers or considering different growth strategies. They need help analyzing the pros and cons of each option and making the best decision for their businesses.

The analyzers might have an offer in hand, or they might already have a suitor.

BAS helps analyzers weigh the pros and cons of each option, providing insights into the financial and tax implications of different paths.

By offering a comprehensive analysis and expert guidance, BAS empowers analyzers to make informed decisions that align with their long-term goals.

### Implementers

These business owners have already decided on a transition path and need help implementing it. They may need assistance with tax planning, legal documentation, or other aspects of the transition process.

The implementers are owners who know what they want to do.

These business owners have a clear vision for their transition and need expert assistance to execute it effectively. BAS collaborates with implementers and their tax and legal advisors to ensure all aspects of the transition are handled seamlessly.

The BAS team doesn’t give prescriptive advice to these owners. Instead, BAS acts as a sounding board and generator of ideas, working in tandem with the business owner’s existing advisors to achieve the best possible outcome.

By providing this level of support, BAS enables implementers to focus on the big picture, knowing that the details of their transition are in capable hands.

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## Building value before a transition

Many business owners only start planning a transition when they receive an offer. However, the best time to start is three to five years in advance. BAS helps owners build business value by:

- **Improving financial reporting** – Upgrading from compiled to reviewed or audited financial statements
- **Strategizing tax structures** – Evaluating options like changing equity type or using the 1202 stock exclusion for tax savings
- **Enhancing operational efficiencies** – Identifying areas that could boost valuation before a sale

The tax savings that BAS can help business owners achieve are directly proportional to the amount of time the team has before a transaction. With enough planning, the BAS Team can sometimes help owners reduce taxes on sale by five, ten, or even fifteen percent or more.

## The BAS approach

No matter where a business owner falls on this spectrum, BAS offers a structured approach to help them achieve their transition goals.

- 1. Owner orientation:** This is the first milestone in the BAS process. It involves a deep-dive interview process to understand the business owner's goals, values, and priorities. This helps BAS determine the best transfer channels for the business, which could include selling to employees, family members, co-owners, or a third party.
- 2. Transition planning commentary:** Once the transfer channels have been identified, BAS conducts an analysis to show the business owner the economic implications of each option. This includes factors such as personal net worth, personal spending, and tax implications.
- 3. Implementation:** Once the business owner has decided on a transition path, BAS works with them to implement it. This includes coordinating with the business owner's tax and legal advisors to ensure a smooth and successful transition.

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## Key takeaways

Transitioning a business is a significant undertaking, but it doesn't have to be overwhelming. With the help of KeyBank's Business Advisory Services, business owners can approach the process with confidence, knowing they have the support and guidance they need to achieve their goals.

A recap of some of the benefits BAS offers to business owners:

- **Reduced taxes:** BAS has a proven track record of helping business owners reduce their tax liability on the sale of their businesses.
- **Increased value:** BAS can help business owners identify and implement strategies to increase the value of their businesses before a sale.
- **Trusted expertise:** BAS can provide business owners with a sense of confidence, knowing they have an experienced advisor to guide them through the complexities of a business transition.

Whether you're an explorer, an analyzer, or an implementer, BAS can help business owners navigate the complexities of a business transition and ensure a successful outcome.

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For more information, [please call your relationship manager.](#)

The Key Family Wealth BAS team is dedicated to providing guidance and support to privately held business owners like you. Specifically, the BAS team helps owners prepare for an eventual business transition with strategies and advice on how to maximize the after-tax value of a business transition.



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