

The Gray Tsunami: How Retiring Business Owners Can Prepare for a Successful Sale

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There is a significant demographic shift headed our way known as the “gray tsunami,” as a very large portion of the American population will reach retirement age and eventually exit the workforce. In fact, we are at a peak time for retirement in America, known as Peak 65 where an average of 4.1 million Americans are projected to turn 65 each year between 2024 and 2027. To put it in perspective, that is about 11,000 people per day.

This wave of older adults leaving the workplace stands to have a great impact across the business world as owners pivot to fill these roles left by retiring employees. But it will also have great implications for family-owned businesses as owners reach retirement age and must decide the best course for the future of their company when it is time to step down.

A recent Wells Fargo Wealth & Investment Management survey indicates that 52% of business owners do not want their children to run and inherit their business. So, for many, this will mean considering the sale of the business as they look to exit on their own terms. By engaging in advanced planning, entrepreneurs can capitalize on this generational shift, creating a strategic opportunity to ensure their financial security and preserve their life's work and legacy.

Below, we look at some key considerations for baby boomer business owners as they plan for the next chapter in their lives and the potential sale of their family-owned enterprise.

Finding the Right Buyer

When you have spent your life building your business from the ground up, finding the right buyer when it is time to sell is critical. This means not only finding a buyer that will offer the right price to establish financial security in retirement, but also a buyer who will preserve the values and culture you have established.

Finding this perfect buyer means having clearly defined goals for the future of the company. Outline the non-negotiable aspects of the company you want to preserve. This could be anything from retaining your employees to protecting customer relationships. Some owners wish to remain in an advisory capacity during the transition period to ensure continuity, others might want to make sure their business stays family owned.

There are numerous types of buyers to consider, each with their own implications for the sale and future of the company. Again, the type of buyer you choose will correlate directly with the goals laid out from the beginning.

For those focused more on maximizing value and less on legacy preservation, a strategic buyer such as a competitor could be the best fit. This could involve the integration of the business into a larger organization, so preservation of the company's employees or culture could be at risk. A sale to a private equity (PE) firm is also an option, noting that the goal here is likely

not to hold the business long-term but rather to sell again in 5-7 years. A sale to a family office would likely be a longer-term play.

For those focused more on preserving the legacy of the company, selling to key employees or company leadership through a management buyout could be an option, or an Employee Stock Ownership Plan (ESOP) might be a consideration. As both would keep the business with current employees or leadership, maintaining the company culture and vision would be a priority.

These are all important points to consider as they help to identify what you are really looking for in a buyer. Owners must work closely with trusted advisors to thoroughly vet potential buyers to ensure they align with those goals, and then carefully craft a deal structure that will best protect their legacy.

Maximizing Business Value and Financial Security

Maximizing the value of your business well before any exit event is key to establishing financial security for retiring business owners. This means engaging in careful planning, financial optimization, and strategic positioning very early in the process.

It will be important to make sure every aspect of the business is streamlined and strengthened including financials, operations, employees, and suppliers. Conduct a comprehensive examination to determine if there are any areas that might need improvement to make the business the most attractive to potential buyers. Making necessary adjustments early on will help to create the best valuation and a smoother due diligence process. Setting the company up for future success by decreasing owner dependency and making sure there is strong leadership firmly in place is also important here.

Determining what you will need for your own financial security post-sale must also be top of mind. This should involve working with advisors on significant tax planning to ensure the sale will be structured in the most beneficial way to minimize your tax liabilities as the seller. It will also be important to have a strategy for wealth management to ensure the proceeds of the sale will work for you.

Legal Considerations

As with any transaction, the sale of a family-owned business also comes with many legal considerations that can have a lasting impact and must be addressed alongside your legal counsel to minimize risk. These can include but are not limited to the following issues:

- Structuring the sale in the manner that best reduces tax implications and minimizes liabilities for the seller.
- Planning to avoid excessive capital gains and estate taxes.
- Conducting due diligence preparation to verify that all information is accessible and in place and to resolve any outstanding issues.
- Ensuring liability protection and minimizing risks through avenues such as indemnification clauses and reps and warranties.
- Compliance with all regulatory and compliance requirements, which can become more complex based on some industries.

Conclusion

When a business owner makes the significant decision to sell, it will have long-lasting implications for the owner and the family overall. By working with advisors early on to carefully plan and prepare, baby boomers can enter retirement knowing they have not only maximized the value of their life's work, but also preserved the legacy they have established.