APPENDIX

Common Ownership Transfer Options for Child Care Businesses

It's important for business owners to understand all available options when selling their business to a new owner. In the child care industry, options for ownership transfer include:

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1 Financing

	Sale to large child care company or chain	Sale to an owner-operator	Sale to a director, lead teacher, or group of employees (management buyout)	Internal transfer to family members	Sale to staff as an employee-owned business (cooperative)
1 Financing	National companies, large regional chains, and private equity firms are typically the only buyers who can purchase centers with a 100% cash offer. This limits risk to selling owners by allowing them to completely cash out of the business at the time of sale.	Few owner-operators will be able to fully finance the purchase of a center, resulting in the need for a combination of seller financing and bank financing. Owner-operators typically rely on small business lenders for bank financing, and these lenders factor in the buyer's creditworthiness. Sellers considering financing a sale to an owner-operator must use special caution when selling to an operator who does not have previous experience owning a child care center.	Low wages in the child care field make it challenging for most managers to access the funds to purchase a center outright. Most management buyouts will require a combination of seller financing and bank financing. A manager's desire to purchase the business does not necessarily mean they are financially able to do so. Small business lenders will factor in the buyer's creditworthiness as they consider financing the business transfer.	Family transfers may require seller financing, especially if your family member is not an experienced business owner. You might also feel like you should take on more risk with the financing because you are transferring within the family. Bank financing is typically available if your family member has a strong credit history or a proven track record of business success.	This is an unfamiliar option to traditional banks and requires financing from mission-aligned Community Development Financial Institutions (CDFIs) that lend to employee-owned businesses. These CDFIs underwrite loans using some of the same standards as traditional banks, but they do not look at the creditworthiness of individual employees.

What is seller financing?

85% of all business sales include seller financing, which means the buyer pays the seller in installments over time from the profits of the business, as opposed to the full price in cash at the time of sale. Seller financing increases risk for the selling owner, since the business must generate profits in order to pay back the loan. However, by receiving interest payments in addition to the sale price of the business, seller financing can be a way to maximize total profits from the sale of your business.

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2 Likelihood of finding a buyer	Each chain has a strategy for the size, location, client base, and type of center they like to acquire. Generally, larger centers with modern, well-maintained facilities and a demonstrated track record of profitability are good candidates for large chain acquisition. It can be helpful to work with a broker who specializes in these acquisitions.	Owner-operators make up the majority of buyers in the industry and are often found using your existing social networks. Although it can be sensitive, connecting with local competitors looking for a second location is often a productive way to find a buyer. It can also be helpful to work with a local broker to identify potential buyers.	This option requires a lot of trust to talk to your staff about exiting your business and their financial capacity to take over. If your key managers are also approaching retirement age, this may impact their ability and capacity to purchase your business. Planning ahead for this exit option by training a motivated and entrepreneurial staff member to become your successor can be very valuable.	While family transfers are decreasing in frequency, this option is another common way to exit your business. However, it is important not to assume family members will buy your business. Plan ahead by having open and honest conversations with your family members to see if your goals align.	Because the risk of business ownership is spread out among a group of people, it can feel easier for employees to say yes to taking over the business. Because of the way financing works, this option is less dependent on the financial ability of employees and more dependent on their desire to take over the business. Because this is an unfamiliar option, it requires support and training to help employees decide whether this is an option they want to pursue.
3 Value	In general, selling to someone you don't know can generate the highest selling price, since setting the price remains an objective process and strategic buyers might be willing to pay more for the business because of the advantages they see in owning it. If you use a broker to sell your business, they typically charge a commission of about 10% of the sale price.	In general, selling to someone you don't know can generate the highest selling price. If you end up identifying a buyer who you have an existing relationship with, you might feel pressure to negotiate on price. If you provide any seller financing on the deal, you'll receive interest payments on top of principal payments, which increases the total amount of money you receive for the business.	Because you're selling to a buyer who you have a relationship with, you might feel pressure to negotiate on price. Additionally, these buyers might have insider information to negotiate on price. If you provide any seller financing on the deal, you'll receive interest payments on top of principal payments.	Because you're selling to a family member, you might feel pressure to heavily discount or even gift away the business. You might also feel pressure to reduce the interest rate on any seller financing, thus reducing the total amount of money you receive for the business.	Owners can get a fair price for the business because the sale price will be determined by a financial valuation of the business. Because you're selling to a group of buyers who you have a relationship with, you might feel pressure to be flexible on price.

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4 Timeline for transferring ownership	Because these buyers are selective about the types of centers they acquire, it can take longer to find a buyer. But once you've identified a buyer, you can exit on a faster timeline.	Once you've identified a buyer, you can often exit on a faster timeline.	Because this option requires management to take over your responsibilities, the timeline depends on how much succession planning you've done. This option can also happen gradually, at a pace that suits your needs.	Because this option requires family members to take over your responsibilities, the timeline depends on whether your family is already involved or familiar with the business. This option can also happen gradually, at a pace that suits your needs.	Because this option requires employees take over your responsibilities, the timeline depends on how much leadership development and training you've done.
5 Owner involvement post-transaction	Because this option does not require seller financing, it typically results in you having no control or connection to the business post-sale.	Your involvement post-sale depends on whether you've provided any seller-financing and your financial dependency on the future success of the business. Your willingness to stay involved with the business can increase the likelihood of finding a buyer and securing financing.	Your involvement post-sale depends on whether you've provided any seller financing and your financial dependency on the future success of the business. Because you have a relationship with the buyer, they might turn to you for advice and support, regardless of your formal relationship to the business post-sale.	Keeping the business in the family means that the business will likely continue to be a part of your life. Having family ties to the new owner(s) can make it challenging to establish boundaries regarding your continued involvement.	Your involvement post-sale depends on whether you've provided any seller-financing and your financial dependency on the future success of the business. Ideally, you'd stay connected to the business as a consultant or board member to support employees in successfully taking over the company.

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6 Culture of company	This option creates uncertainty for the future culture and "feel" of your center. These buyers typically centralize curriculum, administration, and other business functions, which can result in culture changes or even employee layoffs.	This option creates uncertainty for the future culture and "feel" of your center. New owner-operators can continue the business as is, or bring different skills and energy that results in culture changes.	These buyers can preserve the center's legacy and values by maintaining what is working well with the center's operations and culture. Because they know how the business works and have relationships with families and staff, this option can create stability during the transition. While this option rewards the employee who takes over the business for their years of service, it can create unfavorable dynamics with other employees.	By keeping the business in your family, you can preserve your legacy and the "family-owned" feel of your business. If the new owner has been closely involved with the business, they'll know how the business works and have relationships with families and staff, which creates stability during the transition. This option can create unfavorable dynamics in the company if family members are not already leaders in the business.	This option can preserve the center's legacy and values by maintaining what is working well with the center's operations and culture. Employees already have relationships with each other and with families, which creates stability during the transition. This option also rewards employees for years of service. As employees approach their work with the insight of both a worker and an owner, they often come up with innovative ideas and solutions.
Major sticking point	These buyers are selective about the centers they consider, often looking for programs that offer top rated care, up-to-date facilities, and a demonstrated track record of profitability, which limits the number of centers for which this option is a possibility.	This option comes with a lot of uncertainty. The owner-operator's experience leading a child care center, the changes they implement, and how they're received by families and staff will all likely impact the transition.	Because many center managers do not have the savings or creditworthiness to purchase the business, this option can be challenging, regardless of a manager's desire to take over the center. Pursuing this option requires having open conversations with key managers about their financial capacity to purchase the business.	Mixing business and family can be complicated, and family members might not have the same understanding of what the transfer entails. Pursuing this option requires having honest conversations with family members about your vision and goals.	Cooperatives are not well known, and so employees might need additional training and support to pursue this option and learn how to successfully run a child care center.