

Keeping Businesses Local During the Silver Tsunami:

Strategies for Sustainable Succession



Louisville Small Business
Development Center





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Introduction

Who Am I?

Why Am I Here?

The Silver Tsunami – What's at Stake?



- ✓ 2.4 million baby-boomer business owners
- ✓ Around **300,000 to 400,000** Baby Boomer business owners are expected to retire or sell their businesses **in 2025 alone**.
- ✓ Most studies suggest that **over 60%** of these owners hope/plan to retire around **2028**.

The Silver Tsunami – What's at Stake?



- ✓ 4–5 year average 2025–2029 **300K and 500K per year**, depending on the pace of exits.
- ✓ That means tens of thousands of communities could see their locally owned businesses vanish or get scooped up by outside investors *this year*.

The Silver Tsunami Timeline: 2.3M Business Transitions (2024-2030)

2.3M

Businesses in Transition

83%

No Succession Plan

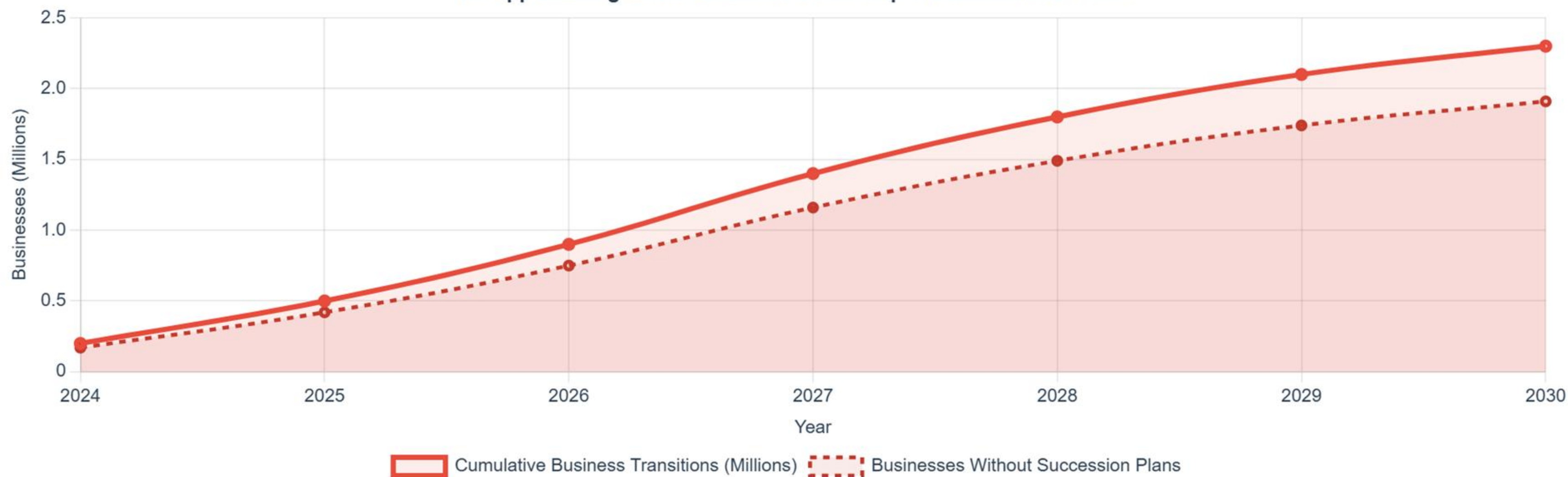
\$10T

Business Value at Stake

70%

Plan to Exit by 2034

The Approaching Crisis: Business Ownership Transitions 2024-2030



The Silver Tsunami – What's at Stake?



- Local businesses circulate **three times more money** within the local economy than chains.
- Small firms make up **99.9% of U.S. businesses**,
- employing nearly **half of the private workforce**.
- Without succession planning, many face closure or acquisition by distant corporations.

The Silver Tsunami – What's at Stake?



Core challenge – balancing owner exit needs
with community preservation

Why Do Owners Sell?

- Lack of succession planning
- Financial pressures and misconceptions about alternatives
- The lure of quick exits to large buyers or private equity



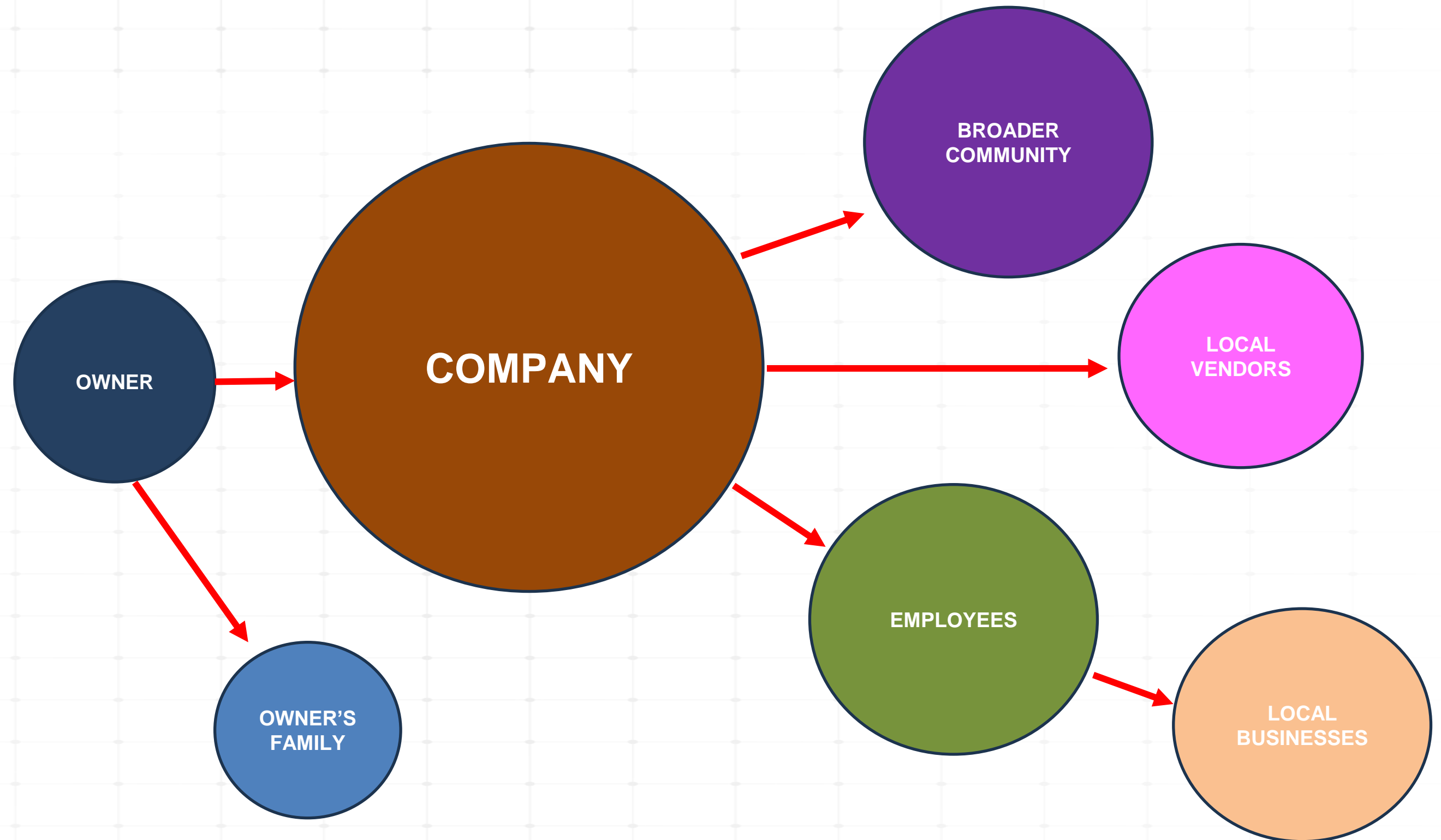
Selling to Private Equity (PE) or Roll-up Company



Selling to a Private Equity (PE) or Roll-up Company



**Private Equity
Firm**





Negative Effects on Business Owners

- Loss of Legacy and Control
- Disruption of Company Values and Culture
- Seller's Remorse and reputation Damage
- Contingent and Earn-Out Risks
- Potential Legal and Financial Exposure



Negative Effects on Employees

- Job Losses & Insecurity
- Wage Suppression and Benefit Reductions
- Deterioration of Working Conditions and Culture
- Negative Impacts on Health and Career Progression
- Lack of Job Creation and Career Mobility



Negative Effects on Local Vendors

- Disrupted Vendor Relationships
- Reduced Local Economic Multipliers
- Harsh Payment Terms and Practices



Negative Effects on the Community

- Loss of Community Engagement and Philanthropy
- Economic Contagion from Layoffs & Site Closures
- Bankruptcies and Business Failures
- Diminished Quality of Local Services
- Reduced Local Decision-making and Voice

Private Equity vs. Local Ownership: The Stark Difference

Outcome Metric	Private Equity	Local Ownership	Difference
Employment Change (2 years)	-13%	+8%	21% Better
Worker Compensation	-1.7%	+12%	13.7% Better
Local Vendor Spending	34%	78%	44% More
Community Donations	0.1% of revenue	2.8% of revenue	2700% More
Business Survival (10 years)	45%	85%	40% Higher

Impact Comparison: Private Equity vs. Local Ownership



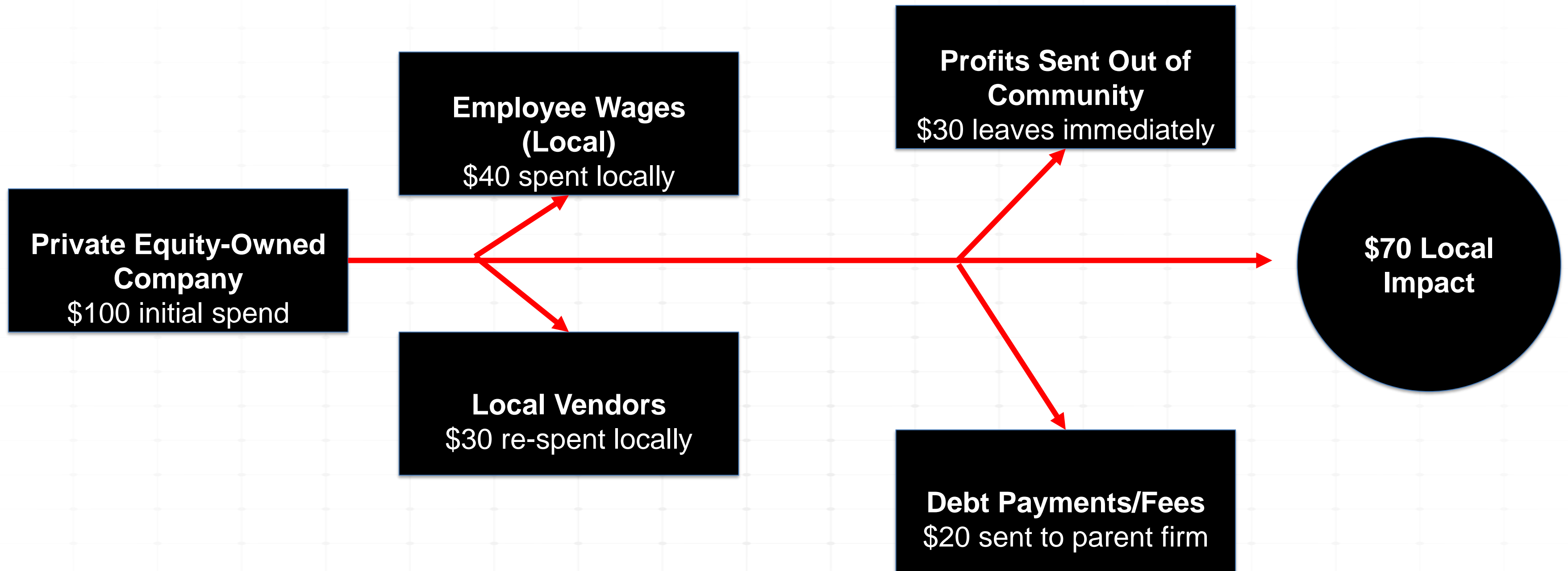
Source: Project Equity



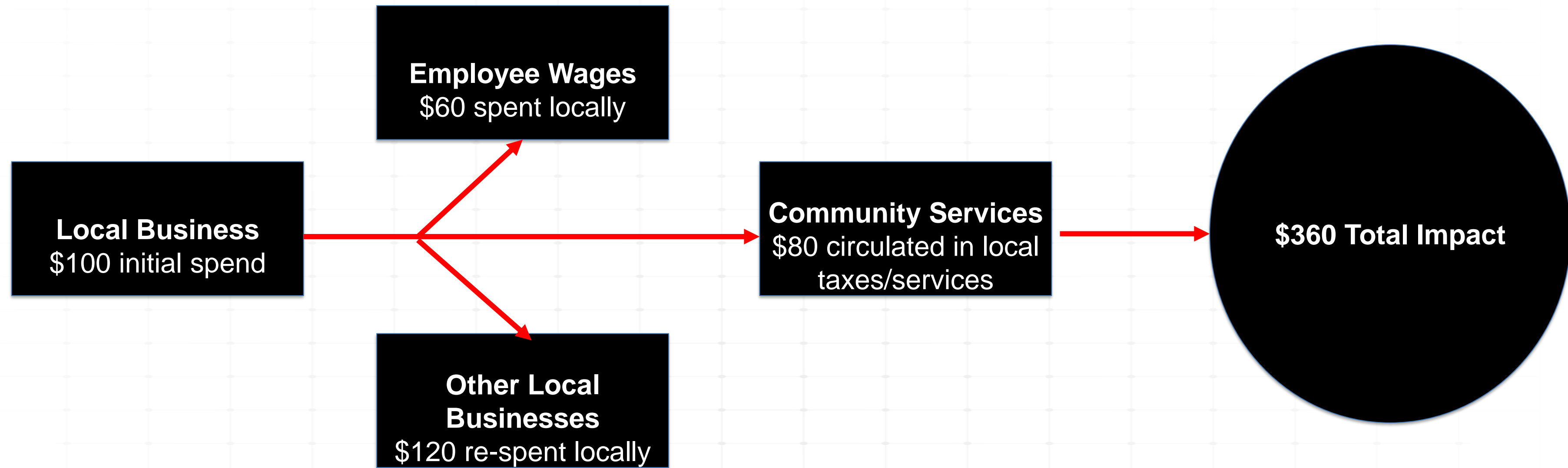
Additional Sector-Specific Risks

- Roll-Ups and Monopolization
 - Often eliminate local competition
 - Reduce service quality
 - Enable PE owner to extract value at expense of vendor, employees and customers
 - Prices rise as competition lessens

How \$100 Spent at a Private Equity-Owned Company Flows Through the Community



How \$100 Spent Locally Becomes \$360 in the Community



The Silver Tsunami – What's at Stake?



Core challenge – balancing owner exit needs with community preservation

What Can Be Done?



Planning an Exit Without Private Equity:

Employee Ownership Models

Employee Stock Option Plans (ESOP's) & Employee Ownership Trusts

- **ESOP** is a retirement plan that enables employees to become beneficial owners of stock in their company.
- **Purpose:** Used as a succession and exit strategy allowing business owners to sell part or all of their business to employees.
- **Structure:** The company sets up a trust to hold shares on behalf of employees; employees receive allocations based on salary and years of service.
- **Prevalence:** Most common in privately held companies but also found in some public companies.

Employee Stock Option Plans (ESOP's) & Employee Ownership Trusts

How Do ESOPs Work?

- **Establishing the ESOP:** The company sets up an ESOP trust financed through loans or company contributions.
- **Share Purchase:** The ESOP trust buys company shares from the owner, who receives cash and can exit immediately or gradually.
- **Share Allocation:** As the loan is repaid, shares are allocated to employee accounts, vesting over time.
- **Employee Benefit:** Upon leaving (retirement, termination), employees receive the value of their shares, typically paid in

Employee Stock Option Plans (ESOP's) & Employee Ownership Trusts

BENEFITS

- ✓ Employees become owners through retirement trusts
- ✓ Creates long-term stewardship
- ✓ Benefits wealth building, job retention, legacy preservation

Employee Stock Option Plans (ESOP's) & Employee Ownership Trusts

	Employees	Exiting Owner	Company Operation
Pros	- Meaningful stake in long-term success	- Liquidity opportunity	- Enhances employee motivation
	- Retirement savings and wealth-building	- Potential tax advantages	- Can support company continuity
	- Influence on company culture/voice	- Flexible exit timeline	- May attract and retain key talent
Cons	- Value depends on company performance	- May need to finance transaction	- Requires compliance, administration
	- Less say unless paired with governance rights	- Potential lower valuation than third-party sale	- Possible dilution of control
	- Limited diversification (all eggs in one basket)	- Earnout or seller note risks	- Debt burden can impact cash flow

Worker Cooperatives (Co-ops)

- Definition: Businesses democratically owned/managed by employees
- Key features: Collective decision-making, profit sharing, resilience
- Conversion steps: Legal, financial, and cultural adjustments
- Successfully converted co-ops

Entrepreneurship Through Acquisition (ETA)

- **Model:** Entrepreneurs acquire existing businesses rather than starting new ones.
- **Search Funds:** Raise capital to find and buy local businesses, focus on long-term stewardship rather than quick flips
- Prioritizes local management and sustainable growth
- University of Cincinnati's ETA program provide education and networking to support model

Business Succession Success Rates: Choose Your Path Wisely

Slide 1

Slide 2

Slide 3

90%

Employee Ownership
10-Year Survival

78%

ETA (Local Buyers)
Success Rate

65%

Traditional Small Business
3-Year Survival

45%

PE Acquisition
10-Year Survival

Business Succession Model Success Rates



The Choice is Clear: Local ownership models consistently outperform extractive alternatives

What Can We Do?



Policy & Ecosystem Support

- **Legacy Business Registries:** Identify at-risk businesses (modeled after San Francisco's program)
- **Financial Incentives:** Leverage grant funds for transition grants and technical assistance
- **Trusted Messengers:** Engage chambers of commerce, accountants, economic development department, unions to promote ownership models.

Policy & Ecosystem Support

- **Policy Advocacy:** Municipal program supporting succession planning & anti-displacement grants
- **Consumer Education:** Campaigns highlighting the “buy local” economic multiplier effect.
- **Community Retention Focus:** Prevent closures/outsider acquisition by keeping businesses locally rooted, circulating 3x more capital locally

Sector Specific Solutions

- **Manufacturing:** Partner with lenders to provide “patient capital” for acquisitions, emphasizing business continuity and supply-chain stability
- **Black-owned businesses:** Tailored outreach to preserve legacy and address wealth gaps with businesses identified as transition-ready

Real World Applications & Next Steps

- **Activate resources** : Project Equity, UC ETA, Local co-op centers
- Develop an actionable checklist for owners and communities
- Strengthen local economic development departments to prioritize retention & succession planning
- Create succession planning incentives & resources (50% have no plan)



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