

TAKING MEASUREMENT OF YOUR MANAGEMENT TEAM

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Business owners who are thinking about the future will often ask the question “who will own my business after me?” On the path to answering this questions, these owners need to consider a very important question, namely – “Is My Company Transferable?”

In a series of newsletters that we have written, we discussed the process of Creating a Transferable Business™. This process begins with developing an exit mindset as well as getting an initial assessment of owner dependence within a company.

A critical next step in Creating a Transferable Business™ is to look



your business. When you look at your support, or your management team, do you see future owners or, at least a group of folks that a buyer of your business would value holding onto. Or, alternatively, do you see a collection of people who merely assist with the day-to-day running of your business.

In either scenario, do you wonder how and when you can begin the conversation with these managers about your plans for the future, letting them know how and where they are likely to fit in? These are the questions and issues that are covered in today's newsletter to further the process of having you think through the transferability of your business and to ideally begin the process of Creating a Transferable Business™.

YOUR MANAGEMENT TEAM

A transferable business is one that can be owned and run by someone other than you (and/or your partners) today. Most successful businesses have thrived because of the people that they hire to assist the



owner with running the business. These people are critical to the day-to-day running and growing of the business. However, when it comes time to consider transferring the ownership of the business to someone else, many owners wonder whether or not the current management team would be suitable buyers and / or whether or not these managers would have their personal and business goals met if the company were sold to someone else.

MANAGEMENT TEAMS AS FUTURE OWNERS

When a business owner starts to look at their management team as future owners of the business, a number of considerations often arise. Owners initially wonder if the managers have the ability to run and lead the company into the future. On the heels of that thought, most owners also wonder 'where in the world would my managers come up with the money to buy the business from me?'

Addressing the first issue regarding future leadership, owners are well served asking whether or not the existing managers can become true leaders of the business. It can be a challenge for owners to objectively think this way because many leadership traits cannot easily be seen when considering the tasks that the owner performs. The transition from management

to leadership, and then onto ownership should be structured, organized, and set against a schedule that include specific milestones being achieved.

Addressing the second issue of financing the sale of the business, it is most often the case that an internal buyout of the business is funded by future cash flows of the company. In this case, the owner will be paid their 'sale price' over a period of years following the transfer. In the worst case scenario, if the business flounders and payments cannot be made, then the owners gets to take back the business. The key to structuring an internal buyout is remembering that the payments to the owner are not deductible to the corporation. As a result, it is common for this type of transaction to be subject to upwards of 60% overall taxes without proper planning.

WILL YOUR MANAGERS STAY WITH A NEW BUYER?

If you are considering a sale to an outside buyer, one of the key issues that you need to address is whether or not your management team will remain with the next owner. It is not uncommon for an owner to feel very alone in the process of planning an exit because of the inability to communicate these ideas to the managers who are closest to you, the owner.

In order to help owners address these issues earlier in the process, it is recommended that you think through the benefits that having a



new owner will have for your existing management team. For example, a new owner of your business may create career opportunities for your key people that may not be available under your ownership. Once these potential benefits are understood, we further recommend that owners choose those managers closest to them to begin having the exit planning conversation with them.

COMMUNICATING A FUTURE TRANSITION TO YOUR MANAGEMENT TEAM

Most business owners are uncomfortable at first with having these sensitive conversations about a change in ownership with their key people. However, once owners think through the fact that these managers are thinking about the aging owner and about their own careers, it becomes a little bit easier to have the managers understand that one of the most important elements of a business transfer is that the business continues on successfully in order to provide for all of the company's

constituents. Once these basic points are considered, owners often have an easier time with these sensitive conversations. The process of Creating a Transferable Business™ often includes bringing certain key employees and managers into the conversation early in the process so that they can feel a part of the process and, perhaps be incentivized in the direction of the ultimate exit.

MANAGEMENT INCENTIVE PLANS

Having the right people in the right places is key to an effective management team. However, it is also important that the proper incentive plans are put in place in the process of Creating a Transferable Business™. The right incentive plans will encourage the behavior that you seek from your management team. When mixed with a proper communications strategy, it becomes a powerful conversation and important steps towards Creating a Transferable Business™.

CONCLUDING THOUGHTS

This newsletter is written to help you with the process of Creating a Transferable Business™ by focusing your attention on your management team and how you can align interests and communicate your plans to make for a seamless transition. We hope this newsletter generates some thinking about working with the people who are the key to the running of your business so that you can begin Creating a Transferable Business™ today.

Are you ready for next steps? Click to complete our Business Readiness Survey and connect with our team.

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