

CREATING A TRANSFERABLE BUSINESS MEASURING + MANAGING OWNER DEPENDENCE

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Business owners who are thinking about the future will often wonder “who will own my business after me?” Owners who consider this issue need to ask a very important question in preparation for a future transition, i.e. “Is My Company Transferable?” In order to answer this question, it is recommended that you review your company to make a certain number of assessments as to whether or not your company is transferable. One of the most significant assessments that can be made in this regard is how dependent your company is on your individual efforts. Another way of putting this is ‘what is your owner dependence?’ This newsletter is written to help privately-held business owners begin the process of thinking through the future transferability of your business, starting with the replacement of your role(s) within the business and leading you down the path of Creating a Transferable Business™.

CREATING A TRANSFERABLE BUSINESS

In order to begin thinking about what would make your business attractive to a new owner, one must first consider what it means to own and run a Transferable Business. A transferable business is one that can be owned and run by someone other than you (and/or your partners) today. Many privately-held business owners do not have a transferable business because their individual efforts and contributions are indispensable to the successful running of the company. So the first key to Creating a Transferable Business™ is measuring and managing your level of involvement in the running of your business. While the formula to calculate your total involvement in your business is a bit complex, there are a few simple items that you can review to determine how involved you are in running your own business. Let's first take a look at the risks of your company having a high owner dependence score.

THE RISK OF HIGH OWNER DEPENDENCE

When it comes time to transfer ownership of your business to someone else, your level of involvement in the company is going to become a major issue that needs to be discussed and navigated. The primary issue should be obvious – if your company cannot run effectively without you, then you should not expect that a buyer of your business will simply take over the company without your active involvement into the future. And, when owner dependency is high and the owner's active involvement in the business is required for the business to operate, the riskiness of the business goes up and the overall value (including how and when an owner would get paid for the business transfer) tends to be reduced to account for this riskiness. In short, a high owner dependency makes for a difficult business to transfer.



CREATING, SELLING + DELIVERING PRODUCTS + SERVICES

While there are likely a great many important tasks that you perform in your company, one of the most significant is your involvement in the marketplace that you serve. Our experience shows that one of the most critical areas where owners provide leadership in their businesses is creation, distribution, and delivery in the company's products and services. One of the first sets of questions that an owner can ask themselves about how involved they are with their business includes the following items.

1. How involved are you in the creation of new products and services for your company?
2. How involved are you in the selling process for the existing and new products and services in your company?
3. How involved are you in the process of your company's delivery of its products and services?

If you are like most privately-held business owners, you have a high level of involvement in at least one (1), if not all three (3) of these 'market-facing' areas. Company founders are often the most knowledgeable of their company's products and also struggle with the transfer of this knowledge to others in the business. The process of Creating a Transferable Business™ begins with addressing this key issue.

OTHER AREAS OF OWNER DEPENDENCE

There is a secondary list of considerations that an owner can evaluate to further see how dependent their business is upon their efforts.

Additional areas that help to measure your direct involvement in the business include:

- Are key decisions at the company made primarily by you?
- Do you handle major accounts?
- Do you have written detailed systems and procedures for your business and a process to assure that they are followed?
- How often do you enter financial records into the system and/or run for office supplies?
- Do you have daily meetings with key managers to review objectives?

The answers to this relatively small sample set of questions can assist you in starting to think through your overall involvement in your business.

REDUCING OWNER DEPENDENCE

It has been said that 'you cannot manage that which you cannot measure'. In order to reduce owner dependency, it is important that you first measure how much your company has. Once that is complete, you can look to reduce that owner dependency and start down the path of Creating a Transferable Business™.

CONCLUDING THOUGHTS

While most privately-held businesses are run by their founders, it is important when considering a future transfer of ownership of the business that you evaluate your company's owner dependence. By taking stock of these important considerations, you put yourself in a better position to reduce the 'single-point-of-failure' risk within your business and you begin Creating a Transferable Business™ that you might be able to more easily cash in one day.

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