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THE FRAGILE NATURE OF A BUSINESS EXIT

Many baby boomer business owners today are thinking about their retirement and the transition out of their privately held businesses. This newsletter was written to help business owners understand and address the various ways that privately-held businesses can be disrupted during the exit planning process and execution of that plan. Knowing the most common areas of fragility associated with the transition of a business can help protect against these vulnerabilities.

__From Business Infancy to Maturity__

Let's put this in a simple context that many can relate to – parenthood. Any infant needs an extreme amount of attention and caring from a parent or guardian. On its own, the infant is not equipped to survive. As a result of the dependency that the child has on its parent, the parent has an opportunity to raise this child in a manner and with standards that reflect that parent's belief system and sense of 'family'.

Once grown, it is the proud parent who watches their child blossom into adulthood. And, upon maturity, the child become less and less dependent upon parental guidance . . . so much so that it is typical for many teenage children to rebel against this authority.

Has your business matured to the point of rebellion? We will address this later in the newsletter but, if the answer is 'yes', that is a good sign because your exit may include less fragility because your business may not be very dependent upon you. That being said, there are still a lot of people who will be impacted by your [eventual] exit decision.

Everyone Depends on You Figuring This Out

For better or for worse, the people who surround a business owner have an expectation that the succession and planning for the business is already figured out. After all, as the business owner you have had to figure out a myriad of other issues to keep your business running.

Whether it is your employees, your customers, your vendors, your other shareholders, or your family members, all of these people could be impacted by whatever plan you set for your business transition. If you have not started to think about or plan for your business exit, these are many of the people that are likely to be let down because they likely have certain expectations for their own futures, many of which involved the going concern of your business.

These different groups all represent a certain level of fragility that is a part of your exit planning puzzle.

Key Employees

A wise business owner once said when asked about his exit that “there is a difference between leaving your business and employees and abandoning them.” This is an interesting perspective to begin thinking about the impact that your business exit plan may have on your key people.

We begin with key people because any successful business needs other people to run the company. These key people are usually younger than the owner and have responsibilities and families of their own. So how does a business owner begin the conversation with a key person about the multitude of changes that are likely to occur when that owner leaves the business?

While there is no one right answer to this question, it is important to first realize that the key people may or may not like the exit plan that you have in mind. And, if that is the case, the fragility of your business may be exposed very quickly.

Customers, Vendors and Banks

Beyond key people, your customers, vendors and your bank all work with you on a regular basis. Some rely on your personal word for the business to run well, others rely on your personal balance sheet and guarantees to extend the credit that they do. In any event, these additional parties are sensitive to changes in your business once you are no longer there – this adds to the overall level of fragility.

Your Family

If you are like most business owners, the company currently supplies the income upon which your family relies. And, if you have children in your business, this fragility can be multiplied because now there are careers of family members tied to your company. A solid exit plan recognizes these sensitivities and begins to map a plan to address them – not the least of which is your own, personal financial independence in retirement.

Owner Dependence

A key component of a successful exit is understanding that it is in the nature of planning an exit that an owner needs to become unnecessary to the business operations. In this regard, it is important to plan for your exit in a very counter-intuitive way.

What does this mean? In essence: your business success was very dependent upon your vigilant oversight – this was particularly true during the formative years of the business. However, during the mature stages of the business, a different type of fragility exists. Namely, it is the ability of the business to function without you, the owner. Therefore, we can safely say that business exits are a fragile endeavor, much in the way that your business's inception had a high degree of fragility.

Concluding Thoughts

Businesses and business exits can reveal fragility. In order to reduce the fragility of your business and to create a sustainable enterprise that addresses the needs and concerns of others, you must take action and set a plan for your eventual exit. Ignoring this problem does not make it go away. We hope that this newsletter was a helpful reminder of this fragility in your business and your business exit, and provided some ideas on how you can address it today.

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A DIVISION OF EVERGREEN WEALTH SOLUTIONS
www.egexits.com Ed@EGWealth.com
1000 Commerce Park Drive, Suite 416
Williamsport, PA 17701
Phone: 570.601.6960 | Fax: 570.651.9032