Every Owner Has a Plan Until...

Mike Tyson, the heavyweight boxer, was quoted as saying, "Everyone has a plan until they get punched in the mouth." Regardless of what you may think of him as a boxer or a person, it was a great observation.

It doesn't matter whether we're talking about boxing or business, the truth is that owners all have a plan for a transition until they get hit with a setback. Some will give up after being derailed, but others will take a step back, correct their course of action, and find a way to succeed. *Giving up on a course of action is not the same as giving up on a goal.*

Having a strong attachment to the process with which to achieve a goal often undermines our success.

Let's look at the typical transition options, the potential setbacks, and how to recover from a setback.

Typical Transition Options:

Generally, owners have two practical options - an External Sale (Exit) or an Internal Sale (Succession). (The other option is to close the doors and sell the assets.) An Exit is generally a sale to an Individual Buyer or it's some form of Strategic Acquisition (M&A/Investment Bank/Private Equity). In contrast, a Succession is a sale to a Family Member, a Key Executive, or via an ESOP (Employee Stock Ownership Plan). A number of these options can be the right path for an owner, depending on the nature of the business and the needs of the owner. The problem is that many times, things don't go as planned.

Potential derailers for a planned External Sale
Circumstances that can derail an Exit include:

- **Can't find a buyer or attract capital** – This can be due to a surplus of businesses for sale or to the nature of the business. The greater the surplus of sellers, the more selective buyers can afford to be. Additionally, the more dependent on the owner and his/her relationships, the less attractive the business.
- **Price too low** – This can also be due to a surplus of businesses for sale or it can be due to business valuation issues like customer concentration, weak leadership, market concentration, etc.
- **Unacceptable terms** – Sometimes buyers require an owner to stay active in the business for an extended period of time and or defer payment of monies pending performance.
- **Health issues** (yours or a family member) – Clearly, this situation is unexpected, and a sale would be undertaken under pressure, which would result in a loss of leverage.

Potential derailers for a planned Internal Sale
Circumstances that can derail a Succession include:

- **No qualified or interested successor** – Either the person you had in mind to take over the business doesn't want to, or you don't have confidence in the person who wants to take over.
- **More than one interested family member or executive** – You have more than one person who wants to be the successor and it creates conflict – sometimes significant conflict.
- **Too small for an ESOP** – You like the idea of creating an employee-owned company, but the cost is too high and/or there aren't enough savvy leaders to take charge.
- **Health issues** (yours or a family member) – Clearly, this situation is unexpected, and a transition would be required before a successor is ready.

How to Reduce the Chance of Your Plans Getting Derailed:

The best approach to planning a transition is to be proactive, well in advance of your anticipated departure. Start by pulling together a team of professionals sooner than later. Their expertise can help you choose the best exit strategy for your situation, identify and resolve potential issues, and refer you to people with any additional expertise if needed.

- Wealth Manager
- Tax Planning Attorney
- Successor Recruiting
- Successor Development
- Succession Attorney
- Private Equity Firm
- M&A Advisor
- Investment Banker
- Exit Planner
- Executive Coach
- Estate Planning Attorney
- Commercial Banker
- Business Broker

If your goal is an external sale, consider having a preliminary Quality of Earnings Report done along with a Quality of Leadership Report. These two reports will highlight any shortcomings and/or impediments in advance of a sale so they can be addressed before going to market. Additionally, consider selling sooner than later to avoid the surplus of Boomer-owned businesses coming to market and/or to avoid being forced to retire due to health issues.

If your goal is an internal sale, ensure you've identified your successor well in advance and make sure they want the role. (If there is no one, then start the process of recruiting a potential successor as soon as you can.) Once that's done, start working on developing that person. Develop their business savvy, their leadership effectiveness, their strategic thinking, and their owner mindset. If more than one successor will be involved, objectively assess them and decide how to split/share responsibilities.

How to Recover from a Setback on an External Sale:

Basically, there are two paths to recovering from a setback on an external sale. Start by attempting to make the business more attractive. If possible, address the issues that caused the business to be less attractive, caused it to be worth less than you hoped for, or caused the terms to be undesirable. If that can't be accomplished, then switch to an internal sales solution by choosing or finding a suitable successor and grooming them to take over.

How to Recover from a Setback on an Internal Sale:

If your plan to have a particular person take over the business fails, re-evaluate and assess alternative successors and/or start the process to recruit a successor from outside the company. Once you've chosen someone, begin grooming them to take over.

By the way, if you want to accelerate the development of your successor, consider bringing in a professional executive coach. Having an objective, confidential sounding board can help them gain new perspective and develop the skills they need to succeed.

Michael Beck International, Inc.
503-928-7685
www.ElicitingExcellence.com

Contact: Michael Beck, President
Direct: 503-928-7645
Email: mbeck@elicitingexcellence.com