Changing Lanes

Transition planning for entrepreneurs and family businesses

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with compliments from

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Guiding Family Business, from Now to Next

Harvesting a Bumper Crop

For many, producing home-grown fruits and vegetables is one of the most gratifying of life's experiences. Yet talk to any agricultural business owner and they will admit that whether you are growing potatoes, peppers, peaches or pears, producing a bumper crop requires time and effort.

While the growing season follows a natural cycle there are many additional steps that are critical to the project's success. The foundational step is to choose plants that are appropriate for the specific region and climate, ensuring the local soil and the range of temperature for that geographic area are compatible with the crops selected. However, these natural advantages are rarely sufficient for a truly great harvest. It is the nurturing that happens after the seeds are sown that determines the level of success.

While some of that nurturing comes from Mother Nature in the form of sunshine and moisture, a grower has to actively manage these elements to ensure the plants' needs are met. Supplementary watering, protection from extreme temperatures and additional nutrients for the soil and the plants are generally-accepted add-ons to the natural cycle.

The process for finding the right buyer for your business is very similar. To ensure you have maximum choice, it is important to cultivate multiple relationships. There are no shortcuts. You need to first prepare the soil (lay the groundwork) and then sew as many seeds as possible (connecting with both internal and external potential buyers) recognizing that you will no doubt have some pruning to do along the way. Like all young plants, these relationships will have to be nurtured and strengthened if they are to have enough stamina to stay the course.

As you build relationships with those who might ultimately buy your business, consider the ideas presented in this edition of Changing Lanes.

Inside....

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Who Might Buy Your Business?

In Hour 3 of the countdown, we discussed the need to be very clear about your objectives and preferred outcomes for the sale of your business so you will have a better idea of who might one day buy your company.

One of the goals of that process was to ensure you didn't put all your eggs in one basket by focusing on just one prospective buyer. Considering both internal buyers and those people from the outside who might see your business as a good investment will ensure you keep your options open and have more choice when it's time to exit. Some of the pros and cons are highlighted below but as your trusted advisors, we can help you investigate every option and identify ways to cultivate relationships with identified prospects.

Internal Buyers

- **A next generation or extended family member** will allow your legacy to live on but you need to ensure he/she has the financial and managerial abilities to take on the ownership and/or leadership roles.
- **Selecting a competent member of your management team** can save having to take the business to market but agreeing on terms and financing will likely require considerable effort.
- **An Employee Share/Stock Ownership Plan** (ESOP) is a worthy option if your goal is to protect your employees' future. Firms with worker-ownership often report higher productivity but it is a sale option that takes some time to put in place.

External Buyers

- **A direct competitor** or 'someone who already runs a business like mine' is a very popular response to the question "who might buy your business?" While a very viable option, you need to ensure the courtship is managed well and doesn't expose any vulnerabilities.
- **Manufacturers, distributors, customers** and others in the supply chain often aspire to increase their market influence through acquisition. While not as common, don't discount such a buyer as an option.
- **Investment groups or individuals** looking for attractive growth opportunities are worth checking into but be aware that they typically want a business that can continue to run under current management which might also include you!
- **Taking the company public** or bringing in a private equity firm are additional considerations if you are open to a gradual sale. Private equity funds are a way to take 'chips off the table' but you will still have to negotiate a sale when the investors are ready to divest of their shareholdings.

Contact us to discuss other advantages and disadvantages of the various options and a strategy to cultivate appropriate relationships.

Countdown to Decision Time

It's already after 8 p.m. and the clock just keeps ticking. Are you on schedule? Have you completed the preparations required to ensure you have the choice to sell your enterprise to someone inside the business or family, while still attracting that outside strategic or financial buyer? It's now time to assess your database of potential purchasers.

Hour Eight

Purpose

To plant the seed and build strategic relationships to create a database of people or organizations who qualify as suitable buyers or have connections to the right buyer.

Process

Establish strong business relationships through as many channels as possible well before you plan to sell and make sure it is clear that your business is always for sale.

Payoff

More options for the eventual sale of your enterprise either through multiple bidders or a contingency plan should any one channel not materialize.

Every Family's Business

William's father took his role as an entrepreneur very seriously. As founder of the third largest private insurance brokerage in the country, he believed it was standard operating principles / best practices to ensure the business was always ready for sale — to the highest bidder.

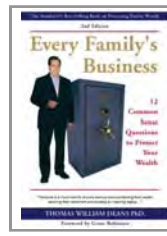
While William, now the company president, was annually purchasing shares in the company, the senior Mr. Cartwright was actively cultivating relationships with the firm's main competitors. Sure he wanted to protect his family's inheritance but that did not mean either William or his brother would be gifted the business. He had always made it very clear to the boys that if they wanted to own the company one day, they would have to top any outside bids. So he needed a contingency plan in the event G2 wasn't interested in buying him out.

Mr. Cartwright had always been intuitive about keeping his competitors close. He attended industry events and got to know and respect the other players on a social and personal level. They in turn gained an appreciation for the man behind the talent and how he ran his business.

The day came when William's answers during the annual family dialog changed. As had become routine, Mr. Cartwright Senior nodded YES he was willing to sell some stock. Then it was William's turn. To his surprise, his father showed no dismay when he announced that, for the first time in ten years, he did not feel it was a wise financial decision to reinvest in the company. As his brother still lacked any interest in taking over the company, the family agreed it was time to sell to a third party.

Having built solid business relationships with this day in mind, the senior Cartwright had no trouble attracting the attention of the number one and two firms. A merger with the number three firm would be a very strategic move for both as it would cement their leadership in the industry. William and his father negotiated with both prospects, communicating openly about the other party's interest. The result was a healthy competition and a much better return on investment for the Cartwrights when the deal was finalized.

For further details on the Cartwright philosophy and process, be sure to read Every Family's Business, a best-selling book by Thomas W. Deans, Ph.D. that helps families get clarity about when and how they will sell their business.



Meet Alex

Just before Alex Greene headed off in his RV for his annual golf trip with the guys, his trusted advisor posed what Alex considered a strange question: "What happens if your RV is in an accident and you guys don't make it back home… ever?"

"Strange question", replied Alex. "As you know, I've lots of life and even disability insurance. My wife Bobbi can easily pay our debts, including the mortgage and the cars, and even put the two kids through university." Then he laughed and added, "Unless of course one of them decides to become a lifetime student!"

"Sounds great, Alex, but what about the business? What about the 50 employees, not to mention the plant manager and the 5 office staff? What happens to them? These people have all contributed to your success over the past 20 years and depend on you for their bimonthly income."

Alex was quiet as, for the first time, he contemplated this question. He now fully understood his reality. One day, he would have to exit from this business. But how could he have more control over how and when that happened?

In fact, Alex spent the entire 4-day weekend musing with his buddies around what turned out to be a very compelling discussion. Samuel, the engineer in the group, was known by friends and associates alike as a great problem-solver. "Seems to me the options are easy – you either sell to your management group or employees, or to some outside third party," offered Sam. "Make that choice, pick a date and create a plan."

"So you think it's that simple do you Sam? Alex's adrenaline kicked in. This isn't some bridge or building that needs to be designed you know! This is my life's work, and the life and livelihood of nearly 60 people!"

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Sometimes Eggs Break

Developing multiple channels of prospects is just good business practice. Sometimes eggs break and if they are all in the one basket, you have no fall-back plan. That's exactly what happened to Steve.

Steve was very proactive in building value in his professional services firm. He created a niche practice and soon had considerable asset value which would eventually become his retirement fund. He then realized it would be a challenge to attract an outside buyer in his small town so settled on a strategy to groom prospects from within.

He hired two young, smart and ambitious associates and after time offered them the opportunity to become partners in the firm while explaining how the "buy-out" would work. The transition of responsibility and authority was to be a gradual process over a 5-year period. Around four years into the internal sale, Steve realized he had a problem. The two younger partners were not in alignment with his plan and were in fact undermining his authority. As a result, he had to unwind the plan at a huge cost of time and money – not to mention stress from the legal battle. His five-year exit plan had to begin again from scratch.

As you cultivate relationships with potential buyers ensure you always have a contingency plan. In addition, deploy as many of the following basic strategies as you can:

- Join trade or professional organizations, attend events and build open relationships with other players in your industry.
- Enrol in your local TEC, YPO, community service groups or any other organizations that attract entrepreneurs.
- Get to know the mergers and acquisition professionals in your marketplace; they may direct prospects your way.
- Ensure you have an internal sale option by grooming family or top managers for a leadership role. Be on the look out for top management talent if you don't currently have what you need in-house.
- Get advice on compensation packages that will help retain those managers who are ownership potential.
- Consider using life insurance in a reciprocal agreement with a similar-sized firm to act as each other's contingency buyer in the event of an involuntary sale.

Remember, the objective is to create as many channels as possible so you have more options when it's time to sell.

Meet Alex *continued*

"It *is* that simple," replied Sam. "Just like when I design that bridge or building, I start with the end in mind. And that is exactly what you need to do."

Things started to become clearer to Alex as the weekend progressed. Maybe it was his 52 years of wisdom starting to kick in, or maybe it was the after-dinner port! First thing Tuesday morning he was in his advisor's office again to talk about his plan to sell the business to the global leader in his industry. "Well, that's ambitious," thought the advisor. "So it's go big or go home?" he asked out loud.

That afternoon, Alex developed a plan to build his business up by 40% over the next 5 years. His plant operations manager was delighted to finally have permission to buy the new machinery he coveted.

Alex also recognized the need to start building a relationship with his prospective buyer and his next step turned out to be the most intuitive. He created a new position called *VP of North American Sales* and hired Kevin who was currently a sales manager for the undisputed leader in the industry. After arranging for a professional valuation of the business he struck a deal with his new VP of Sales. "When we sell the business in 5 years, you get 10% of the gain in value from today," promised Alex.

What is Alex up to? Tune in next time to find out!

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